COMPASS GROUP

Full year results announcement for the year ended 30 September 2019

	Underlying[1] results			Statutory results		
	2019	2018[2]	Change	2019	2018[2]	Change
Revenue	£25.15 billion	£23.80 billion[3]	6.4%[4]	£24.88 billion	£22.87 billion	8.8%
Operating profit	£1.88 billion	£1.80 billion[3]	4.7%[3]	£1.60 billion	£1.69 billion	(5.4)%
Operating margin	7.4%	7.4%				
Earnings per share	85.2 pence	80.4 pence[3]	6.0%[3]	70.0 pence	71.3 pence	(1.8)%
Free cash flow	£1.25 billion	£1.14 billion	9.3%			
Annual dividend per share	40.0 pence	37.7 pence	6.1%	40.0 pence	37.7 pence	6.1%

[1] Reconciliation of statutory to underlying results can be found on pages 39 to 40.
[2] Prior year comparatives have been restated upon adoption of IFRS 15.
[3] Measured on a constant currency basis.
[4] Organic revenue growth.

Compass reports strong results with organic revenue growth of 6.4%, driving earnings and dividend growth of 6%

Strong organic revenue growth of 6.4%, above target range of 4-6%

- Excellent performance in North America with broad based organic revenue growth of 7.7%
- Europe growth of 4.1% with strong performances in UK Defence and Sports & Leisure offsetting Business & Industry volume weakness
- Rest of World growth of 4.3% driven by strong performances in Turkey, India and Spanish-speaking LATAM

Operating profit of £1.9 billion; up £84 million or 4.7% on constant currency basis

- Operating margin was maintained at 7.4%

Strong balance sheet, earnings and dividend growth

- Free cash flow increase of 9.3% to £1.2 billion resulting in net debt to EBITDA ratio of 1.3x
- Full year dividend up 6.1% in line with constant currency earnings per share

Executing our strategy and focusing on our core food business

- Continued to strengthen and simplify our portfolio. Completed several acquisitions and disposals for net cash cost of £377 million, and agreed the proposed acquisition of Fazer Food Services in the Nordics for €475 million
- Good momentum behind our strategic priorities of Performance, People and Purpose

Positioning for the future

- The outlook for the Group remains strong. We expect 2020 organic growth around the mid-point of our 4-6% guidance range whilst maintaining our strong margin
- Against the backdrop of a deteriorating macro environment in Europe we are taking prompt action to adjust our cost base. These actions, which have also been extended to certain Rest of World markets, result in non-underlying cash charges of around £160 million over 2019 and 2020, and a non-cash charge of £140 million

Statutory results

- Statutory operating profit decreased by 5.4% as a result of the impact of the cost action programme offset by higher profits and foreign exchange benefit. Statutory earnings per share decreased by 1.8%

Chief Executive's Statement

Dominic Blakemore, Group Chief Executive, said:

"Compass has had another strong year. Organic revenue growth was 6.4%, ahead of our target range, thanks to excellent growth in North America and an improving performance in Rest of World. There was good growth in our European business with strong performances in UK Defence and Sports & Leisure offsetting weak volumes in Business & Industry. The Group margin during 2019 was maintained despite this more challenging trading environment in Europe.

We are making good strategic progress through disciplined focus on our Performance, People and Purpose priorities and have continued to reshape our portfolio. Disposal proceeds have been reinvested in bolt-on acquisitions to further strengthen our food service offer and subsector approach, and in June we announced the proposed acquisition of Fazer Food Services, a leading food service business in the Nordics, which is a strong strategic fit with Compass.

Despite this good performance, we are not immune to the macro environment. Deteriorating business and consumer confidence in Europe has impacted our Business & Industry volumes, new business activity and margin. Given these trends, we are taking prompt action in Europe and certain Rest of World markets to adjust our cost base. As well as offsetting short-term margin pressures, by taking this action from a position of strength, we will be better placed to capitalise on future growth opportunities.

Our expectations for the Group in 2020 are positive although we remain cautious on the macro environment in Europe. The pipeline of new contracts in North America is strong and Rest of World is growing well, although we are seeing some hesitation in decision making in Europe. Thanks to the Group's geographic and sectoral diversity, we are nevertheless confident of continued progress. As such we expect organic growth to be around the mid-point of our 4-6% range whilst maintaining our strong margin[1] as we mitigate the expected volume pressures through our cost actions.

In the longer term, we remain excited about the significant structural growth opportunities globally, the potential for further revenue and profit growth, combined with further returns to shareholders."

Results presentation today

The results presentation for investors and analysts is being held today, Tuesday 26 November 2019, at 9.00 a.m. A live webcast of the results presentation will be broadcast today at 9.00 a.m., accessible via the Company's website, www.compass-group.com. At the end of the presentation you will be able to participate in a question and answer session by dialling:

UK Toll Number:	+44 330 336 9105
UK Toll-Free Number:	0800 358 6377
US Toll Number:	+1 323 794 2093
US Toll-Free Number:	+1 866 548 4713
Participant PIN Code:	8629187#

Financial calendar

Ex-dividend date for 2019 final dividend	16 January 2020
Record date for 2019 final dividend	17 January 2020
Last day for DRIP elections	3 February 2020
Q1 Trading Update / Annual General Meeting	6 February 2020
2019 final dividend date for payment	24 February 2020
Half year results	13 May 2020

Enquiries

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[1] Pre IFRS 16 'Leases'. IFRS 16 will be adopted by the Group on 1 October 2019.

Chief Executive's Statement (continued)

Basis of preparation

Throughout this preliminary results announcement, and consistent with prior years, underlying and other alternative performance measures are used to describe the Group's performance. These are not recognised under International Financial Reporting Standards (IFRS) or other generally accepted accounting principles (GAAP).

The Executive Committee of the Group manages and assesses the performance of the business on these measures and believes they are more representative of ongoing trading, facilitate meaningful year on year comparisons, and hence provide more useful information to shareholders. Underlying measures are defined in the glossary of terms on pages 43 and 44.

A summary of the adjustments from statutory results to underlying results is shown in note 10 on pages 39 and 40 and further detailed in the consolidated income statement (page 22), reconciliation of free cash flow (page 28), note 3 segmental reporting (page 34) and note 11 organic revenue and organic profit (page 41).

Group overview

Revenue for the Group grew by 6.4% on an organic basis, as we continue to expand within the £200 billion global food services market. New business wins were 7.9% driven by strong MAP 1 (client sales and marketing) performance in all regions. Our retention rate was maintained at 94.8% as a result of our ongoing focus and investment in service and quality. Like for like revenue grew by 3.7% reflecting sensible price increases and strong volume growth in Sports & Leisure, partially offset by weak Business & Industry volumes in Europe. On a statutory basis, revenue increased by 8.8%, including the positive impact from foreign currency translation.

Underlying operating profit increased by 4.7% (£84 million) on a constant currency basis. Operating profit margin remained at 7.4% despite the more challenging trading environment in Europe. We continue to work hard to drive efficiencies across the business to offset cost pressures including the higher mobilisation costs from increased new business wins. We have maintained our focus on MAP 3 (cost of food) with ongoing initiatives such as supplier and product rationalisation, improved menu planning and food waste reduction programmes.

Optimising MAP 4 (labour and in unit costs) and MAP 5 (above unit overheads) with initiatives around better labour scheduling, workforce management, work design, training and retention have become ever more important, particularly in markets such as Europe and the USA where labour inflation persists. On a statutory basis, operating profit decreased by 5.4% as the impact of cost action charges offset higher profits and benefits of foreign exchange.

As a result of the business' continued strong earnings growth and cash flow generation, we propose an annual dividend of 40.0 pence per share, up 6.1% on the prior year.

Taking appropriate cost actions

We are seeing good performances across most of the Group, however we are not immune to macroeconomic challenges. Although our European business is in good shape, delivering organic revenue growth of 4.1%, as previously indicated we have been seeing pressures in the region, particularly in some of our largest markets. These pressures have been increasing during the year, impacting volumes in our Business & Industry sector, and consequently are having a significant impact on our European margin. Consumer confidence continues to decline and a number of key clients, notably in manufacturing, automotive and financial services, have reduced their headcount in recent months.

Given this trading backdrop, we are taking prompt action to ensure we have the right sized labour model for the future. This will protect the profitability of the business and further strengthen our strong operational position, enabling us to continue to capitalise on the attractive growth opportunities we see in Europe. Although the vast majority of these actions are focused on Europe, they have also been extended to a limited number of countries in Rest of World.

These cost actions will result in a total non-underlying charge for the Group of around £300 million, of which £190 million has been incurred in FY19, with the remainder expected to be incurred in FY20. Approximately £160 million of the total charge is cash, with £29 million having been spent in FY19. This mostly relates to removing some MAP 4 (in unit labour) and some MAP 5 (overhead) costs, and has around a two year payback. The FY19 charge also includes a one-off non-cash charge of £120 million in respect of a change in the expected profitability of some of those contracts that have been affected by the recent deterioration in business and consumer confidence and that are now considered to be structurally loss making and where asset impairments have been taken. The run-rate for annual savings resulting from the cost actions is expected to be c. £90 million as we exit this year and have already been factored into the 2020 guidance.

Chief Executive's Statement (continued)

Regional performances

North America – 62.4% Group revenue (2018[1]: 59.3%)

Regional financial summary	Underlying 2019	Underlying 2018[1]	Change Reported rates	Change Constant currency	Change Organic
Revenue	**£15,694m**	£13,718m	14.4%	8.5%	7.7%
Regional underlying operating profit	**£1,290m**	£1,123m	14.9%	9.0%	7.9%
Regional underlying operating margin	**8.2%**	8.2%	-		

[1] Prior year comparatives have been restated upon adoption of IFRS 15.

Our North American business, which now accounts for over 60% of Group revenue, delivered an excellent performance, with organic revenue growth of 7.7%. Growth was driven by good levels of new business and a strong retention rate across all sectors. As in previous years, around 40% of new business was from first time outsourcing, underlining the strong structural growth opportunities within our largest market. Like for like revenue growth benefited from pricing and positive trading volumes from our Sports & Leisure sector.

Strong growth in our Business & Industry sector was driven by continued good net new business and some like for like growth. New contract wins include the Canadian Imperial Bank of Commerce, American Airlines headquarters and Humana Inc.

Solid organic revenue growth in our Healthcare & Seniors sector reflected good levels of new business. New contract wins include the Atrium Health and Lexington Health Network, as well as significant additional business with Tenet Healthcare.

Our Education sector reported strong net new business including contract wins with New York University, Butler University and the Florence County Schools District.

Our Sports & Leisure sector delivered a good organic performance with an excellent retention rate and like for like volume growth. Contract wins include Allegiant Stadium, home to the Las Vegas Raiders, and the Lexington Convention Center.

Underlying operating profit of £1,290 million increased by 9.0% (£106 million) on a constant currency basis. Ongoing efficiency initiatives resulted in modest underlying margin progression for the year.

Chief Executive's Statement (continued)

Europe – 23.3% Group revenue (2018[1]: 24.9%)

	Underlying		Change		
Regional financial summary	**2019**	2018[1]	Reported rates	Constant currency	Organic
Revenue	**£5,854m**	£5,762m	1.6%	1.6%	4.1%
Regional underlying operating profit	**£368m**	£395m	(6.8)%	(6.6)%	(8.0)%
Regional underlying operating margin	**6.3%**	6.9%	(60)bps		

[1] Prior year comparatives have been restated upon adoption of IFRS 15.

Organic revenue growth in Europe was 4.1% for the full year, although growth slowed in the second half. This included strong growth from new business, notably the UK Defence contracts in the first half and Puy du Fou in France in the fourth quarter, in addition to strong trading in the Sports & Leisure sector. This was partially offset by lower volumes in Business & Industry across key markets where we have seen reduced participation and lower consumer spend.

Our new contract wins during the period include Landsec in the UK, Cercle National des Armées in Paris and Hôpitaux Robert Schuman in Luxembourg. Contract extensions include Chelsea Football Club in the UK.

Underlying operating profit declined on a constant currency basis by £26 million or 6.6%. The region delivered a good level of organic revenue growth overall, supported by a strong performance in Sports & Leisure, where increased revenues tend to have a lower drop through to profit. Our focus on efficiencies, pricing and portfolio management has only partially offset the weakness in Business & Industry volumes (which declined significantly in the fourth quarter), cost inflation, and the higher mobilisation costs (associated with the strong growth). In aggregate, the underlying operating margin declined by 60 basis points to 6.3%.

Chief Executive's Statement (continued)

Rest of World – 14.3% Group revenue (2018[1]: 15.8%)

Regional financial summary	Underlying 2019	Underlying 2018[1]	Change Reported rates	Change Constant currency	Change Organic
Revenue	**£3,604m**	£3,667m	(1.7)%	0.8%	4.3%
Regional underlying operating profit	**£285m**	£276m	3.3%	5.9%	7.4%
Regional underlying operating margin	**7.9%**	7.5%	40bps		

[1] Prior year comparatives have been restated upon adoption of IFRS 15.

Organic revenue in our Rest of World region grew by 4.3%, including a strong performance in Turkey, India, Spanish speaking LATAM and our Offshore & Remote business outside Australia, notably Kazakhstan.

The Business & Industry and Education sectors of the region continue to perform well and experienced good growth. New business wins include Bloomberg in Hong Kong, Mercedes Benz in Brazil and Bursa City Hospital in Turkey. We continue to retain contracts including Victoria Zoos in Australia, Mondelez in Argentina and Amazon in India.

As expected, our Offshore & Remote business returned to growth in the second half of the year as we lapped the large Australian construction project that moved to production towards the end of 2018. Across the region we have continued to win and retain contracts.

Underlying operating profit improved by 5.9% (£16 million) on a constant currency basis, with the underlying operating margin improving in part due to portfolio management and implementation of pricing, purchasing and productivity initiatives. We remain focused on best practice sharing and driving efficiencies across the business.

Chief Executive's Statement (continued)

Group strategy

Our refreshed strategy, announced 18 months ago, ensures that we further improve the long term quality and sustainability of our financial results.

We remain focused on food, our core competency. The global food services market is estimated to be more than £200 billion. We see a large and exciting structural growth opportunity, with only about 50% of the market currently outsourced, of which approximately one third is in the hands of small and regional players. We have a good track record in winning first time outsourcing contracts.

The large and disparate nature of the food services market makes it challenging to offer clients a one size fits all solution. Therefore, we segment the market into various sectors and subsectors using our portfolio of B2B brands. This allows us to get close to our clients, understand their needs and create different and exciting offers that meet their requirements and differentiate us from the competition.

We are the largest player in the global market. As we continue to grow and increase our scale, we further extend our competitive advantage and our position as the most efficient provider. This allows us to offer our clients and consumers the most exciting and innovative solutions, as well as the best value. The ability to innovate is important to ensure we meet our clients' and consumers' rapidly evolving tastes and needs, and our decentralised structure means we are well placed to pilot concepts in local markets before expanding across the Group where appropriate.

By stepping up the intensity with which we manage the business and with a disciplined focus on Performance, People and Purpose as our main strategic priorities, we are well placed to continue to create sustainable long term value for all of our stakeholders.

Performance

Portfolio

To continue to drive our performance we are actively managing our portfolio of businesses. Targeted and disciplined bolt-on acquisitions are an effective way to strengthen our capabilities, broaden our offering and increase our scale. M&A has also proven to be an extraordinary source of talent. During 2019 we invested £478 million, principally in North America. There remains a good pipeline of bolt-on opportunities across the Group.

We have continued to make progress on our disposal programme and during the year completed several disposals that bring cumulative revenues now disposed or exited to c. 3% of Group revenue at an average margin of c. 4%. As previously indicated, the overall programme of up to £1.2 billion revenues is expected to be margin neutral. The programme will complete during 2020.

MAP culture

For over 10 years, we have used our Management and Performance (MAP) framework to drive performance across the business. It is a simple framework that we all use to help us focus on a common set of business drivers, whether it is winning new business in the right sectors with the right terms (MAP 1), increasing our consumer participation and spend (MAP 2), reducing our food costs (MAP 3), our labour costs (MAP 4) or our overheads (MAP 5).

Under the refreshed strategy we are codifying best practices and developing tools and templates to help us execute with more intensity and consistency across the Group. Our areas of focus are pricing, purchasing and productivity. We have begun with our larger markets and are rolling out initiatives depending on the maturity of their functions. We will continue to use MAP to ensure we have a disciplined focus on execution.

These initiatives are often supported through technology and digital capability – both in terms of driving efficiencies and optimising performance and also in developing products and services which improve the consumer experience. Our digital strategy is implemented locally in the most cost effective and relevant way for each market. We are making investment into systems and processes that will ultimately unlock more efficiencies and leverage scale across the business in the long term.

Chief Executive's Statement (continued)

People

People are our biggest source of competitive advantage. They are the key to delivering excellent food service to our clients and consumers together with strong financial results. We are in the process of further enhancing our employee proposition to ensure we have an engaged, high performing, and fulfilled workforce that truly reflects the diversity of the societies we live in and the communities we serve.

Our objective is to create an exceptional people business that is inclusive, engaged and committed to developing our people and providing them with the safest and fairest environment in which to work. We are launching initiatives and improving our processes to ensure we can:

- attract and develop the best leaders,
- recruit, retain and develop the highest quality unit managers in the industry,
- have the best and most inclusive work places in the world with a fully engaged workforce, and
- have a diverse workforce that mirrors the communities in which we operate.

For example, in May we launched our unit manager development programme and to date around 2,000 unit managers have participated in the tailored offsite programme. We also launched the Compass Commitments of Respect, Growth and Teamwork - what people can expect when they are part of our business. In October, we conducted a global engagement survey to help us to identify areas where we need to take action to ensure people are experiencing our Commitments.

Purpose

Our purpose is first and foremost a social purpose, the foundation of which is a safety culture built around caring for our people and our consumers - delivering personal and food safety. We are integrating our sustainability strategy into the business focused on:

- increasing the role of health and wellbeing in our value proposition
- taking targeted actions where we can make the greatest environmental difference, and
- driving positive outcomes beyond our business to make the world a better place, such as our continued work with our suppliers to source products responsibly and our commitment to enrich local communities.

We already have a strong commitment to corporate responsibility. We are now building on this existing strength and working more proactively with our clients and consumers in those areas. For example, this year's Stop Food Waste Day, which Compass USA founded in 2017, extended across 38 countries with awareness about the campaign reaching 89 million people on social media.

Cash, Balance Sheet and Returns To Shareholders

Excellent cash flow generation, a strong balance sheet and returns to shareholders continue to be an integral part of our business model. Our priorities for how we use our cash remain unchanged. We will continue to: (i) invest in the business to support organic growth where we see opportunities with good returns; (ii) grow the dividend in line with underlying constant currency earnings per share; (iii) pursue M&A opportunities; our preference is for small to medium sized bolt-on acquisitions, where we look for returns greater than the cost of capital by the end of year two; (iv) maintain strong investment grade credit ratings by returning any surplus cash to shareholders to target net debt to EBITDA of around 1.5x[1].

[1] Pre IFRS 16 'Leases'. IFRS 16 will be adopted by the Group on 1 October 2019. The Group expects between £950 - £1,050 million of additional debt on its balance sheet on adoption.

Chief Executive's Statement (continued)

Summary and outlook

Compass has had another strong year. Organic revenue growth was 6.4%, ahead of our target range, thanks to excellent growth in North America and an improving performance in Rest of World. There was good growth in our European business with strong performances in UK Defence and Sports & Leisure offsetting weak volumes in Business & Industry. The Group margin during 2019 was maintained despite this more challenging trading environment in Europe.

We are making good strategic progress through disciplined focus on our Performance, People and Purpose priorities and have continued to reshape our portfolio. Disposal proceeds have been reinvested in bolt-on acquisitions to further strengthen our food service offer and subsector approach, and in June we announced the proposed acquisition of Fazer Food Services, a leading food service business in the Nordics, which is a strong strategic fit with Compass.

Despite this good performance, we are not immune to the macro environment. Deteriorating business and consumer confidence in Europe has impacted our Business & Industry volumes, new business activity and margin. Given these trends, we are taking prompt action in Europe and certain Rest of World markets to adjust our cost base. As well as offsetting short-term margin pressures, by taking this action from a position of strength, we will be better placed to capitalise on future growth opportunities.

Our expectations for the Group in 2020 are positive although we remain cautious on the macro environment in Europe. The pipeline of new contracts in North America is strong and Rest of World is growing well, although we are seeing some hesitation in decision making in Europe. Thanks to the Group's geographic and sectoral diversity, we are nevertheless confident of continued progress. As such we expect organic growth to be around the mid-point of our 4-6% range whilst maintaining our strong margin[1] as we mitigate the expected volume pressures through our cost actions.

In the longer term, we remain excited about the significant structural growth opportunities globally, the potential for further revenue and profit growth, combined with further returns to shareholders.

Dominic Blakemore
Group Chief Executive Officer
26 November 2019

[1] Pre IFRS 16 'Leases'. IFRS 16 will be adopted by the Group on 1 October 2019.

Business Review

2019 has been another strong year with organic revenue growth of 6.4%, underlying margin of 7.4% and an increase in underlying free cash flow of 9.3%.

Financial summary	2019 £m	2018[1] £m	Increase/ (decrease)
Revenue			
Underlying at constant currency	**25,152**	23,795	5.7%
Underlying at reported rates	**25,152**	23,147	8.7%
Statutory	**24,878**	22,872	8.8%
Organic growth	**6.4%**	5.5%	
Total operating profit			
Underlying at constant currency	**1,882**	1,798	4.7%
Underlying at reported rates	**1,882**	1,744	7.9%
Statutory	**1,601**	1,693	(5.4)%
Operating margin			
Underlying at reported rates	**7.4%**	7.4%	-
Profit before tax			
Underlying at constant currency	**1,772**	1,681	5.4%
Underlying at reported rates	**1,772**	1,630	8.7%
Statutory	**1,469**	1,523	(3.5)%
Basic earnings per share			
Underlying at constant currency	**85.2p**	80.4p	6.0%
Underlying at reported rates	**85.2p**	77.9p	9.4%
Statutory	**70.0p**	71.3p	(1.8)%
Free cash flow			
Underlying at reported rates	**1,247**	1,141	9.3%
Full year dividend per ordinary share	**40.0p**	37.7p	6.1%

[1] Prior year comparatives have been restated upon adoption of IFRS 15.

Definitions of underlying measures of performance can be found in the glossary on pages 43 and 44.

Business Review (continued)

Segmental performance

	Underlying revenue[1]		Underlying revenue growth[2]		
	2019 £m	2018[3] £m	Reported rates	Constant currency	Organic
North America	**15,694**	13,718	14.4%	8.5%	7.7%
Europe	**5,854**	5,762	1.6%	1.6%	4.1%
Rest of World	**3,604**	3,667	(1.7)%	0.8%	4.3%
Total	**25,152**	23,147	8.7%	5.7%	6.4%

	Underlying operating profit[1]		Underlying operating margin[1]	
	2019 £m	2018[3] £m	**2019**	2018[3]
North America	**1,290**	1,123	**8.2%**	8.2%
Europe	**368**	395	**6.3%**	6.9%
Rest of World	**285**	276	**7.9%**	7.5%
Unallocated overheads	**(80)**	(70)		
Total before associates	**1,863**	1,724	**7.4%**	7.4%
Associates	**19**	20		
Total	**1,882**	1,744		

Statutory and underlying results

	2019			**2018[3]**		
	Statutory £m	**Adjustments £m**	**Underlying £m**	**Statutory £m**	**Adjustments £m**	**Underlying £m**
Revenue	**24,878**	**274**	**25,152**	22,872	275	23,147
Operating profit	**1,601**	**281**	**1,882**	1,693	51	1,744
Net loss on sale and closure of businesses	**(7)**	**7**	**-**	(58)	58	-
Net finance costs	**(125)**	**15**	**(110)**	(112)	(2)	(114)
Profit before tax	**1,469**	**303**	**1,772**	1,523	107	1,630
Tax	**(351)**	**(62)**	**(413)**	(385)	(3)	(388)
Profit after tax	**1,118**	**241**	**1,359**	1,138	104	1,242
Non-controlling interest	**(8)**	**-**	**(8)**	(8)	-	(8)
Attributable profit	**1,110**	**241**	**1,351**	1,130	104	1,234
Average number of shares (millions)	**1,586**	**-**	**1,586**	1,584	-	1,584
Basic earnings per share (pence)	**70.0p**	**15.2p**	**85.2p**	71.3p	6.6p	77.9p
EBITDA			**2,459**			2,265
Gross capex			**853**			813
Free cash flow			**1,247**			1,141

[1] Definitions of underlying measures of performance can be found in the glossary on pages 43 and 44.
[2] Reconciliation between the different growth rates is provided in note 11.
[3] Prior year comparatives have been restated upon adoption of IFRS 15.

Further details of the adjustments can be found in the consolidated income statement, note 3 segmental reporting and note 10 statutory and underlying results.

Business Review (continued)

Adoption of new accounting standards

The Group has applied the new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments' in the current year. Comparatives for 2018 have been restated to reflect the impact of IFRS 15, resulting in a net increase in operating profit and decrease in revenue of less than 1%. The adoption of IFRS 9 has not had a material impact and the Group has adjusted opening retained earnings to reflect an additional provision for impairment of trade receivables using the expected credit loss model.

The Group will adopt IFRS 16 'Leases' from 1 October 2019. The Group's estimate of the financial impact of these changes on the consolidated balance sheet is the recognition of an additional lease liability between £950 million and £1,050 million. Under our chosen transition option, the results for the 2019 financial year will not be restated. The net impact of IFRS 16 on the consolidated income statement is expected to be immaterial.

Statutory results

Revenue

On a statutory basis, revenue was £24,878 million (2018[1]: £22,872 million), representing growth of 8.8%, mainly driven by organic growth and partially by foreign exchange benefits.

Operating profit

Operating profit was £1,601 million (2018[1]: £1,693 million), a decrease of 5.4% over the prior year as the impact of the cost action programme offset higher profits and foreign exchange benefits.

Statutory operating profit includes non-underlying items of £281 million (2018: £51 million). The most significant non-underlying items are explained further below; for a full list refer to note 10.

Deteriorating business and consumer confidence in Europe has impacted our Business & Industry volumes, new business activity and margin. Given these trends, we are taking prompt action in Europe and certain Rest of World markets to adjust our cost base. As a result, the Group's income statement includes a cost action programme charge of £190 million. Included within this amount, there is a one-off non-cash charge of £120 million in respect of a change in the expected profitability of some of those contracts that have been affected by the recent deterioration in business and consumer confidence and that are now considered to be structurally loss making and where asset impairments have been taken. Of the £190 million non-underlying charges, £29 million has been paid in the year to 30 September 2019.

Net loss on sale and closure of businesses

As a result of the strategic review of the business, the Group is in the process of selling or exiting its operations in a number of countries, sectors or businesses in order to simplify its portfolio. The Group has successfully completed the sale of several businesses, including its operations in South Africa, Vision Security Group in the UK, Sports & Leisure in Japan and part of its US laundries business. As a result, the Group has recognised a net gain of £50 million on the sale and closure of businesses (2018: £3 million loss), including price adjustments to disposals completed in prior years. This gain was offset by £57 million exit costs and asset write downs relating to committed or completed business exits (2018: £55 million).

As at the balance sheet date, the Group has further classified certain businesses as held for sale as these disposals are highly probable and expected to be completed within 12 months.

Finance costs

Net finance costs increased to £125 million (2018: £112 million), mainly due to the change in fair value of certain derivatives.

Tax charge

Profit before tax was £1,469 million (2018[1]: £1,523 million) giving rise to an income tax expense of £351 million (2018[1]: £385 million), equivalent to an effective tax rate of 23.9% (2018[1]: 25.3%).

Earnings per share

Basic earnings per share were 70.0 pence (2018[1]: 71.3 pence), a decrease of 1.8% as the impact of the cost action programme offset higher profits and foreign exchange benefits.

[1] Prior year comparatives have been restated upon adoption of IFRS 15.

Business Review (continued)

Underlying results

We track our performance against underlying and other alternative performance measures, which we believe best reflect our strategic priorities of growth, efficiency and shareholder returns.

A summary of adjustments from statutory results to underlying results is shown in note 10 on pages 39 and 40 and further detailed in the consolidated income statement (page 22), reconciliation of free cash flow (page 28), note 3 segmental reporting (page 34) and note 11 organic revenue and organic profit (page 41).

Revenue

On an organic basis, revenue increased by 6.4%. New business wins were 7.9%, driven by strong performance across the regions. Our retention rate was 94.8% as a result of our ongoing focus and investment in service and quality. Like for like revenue growth was 3.7%, reflecting sensible price increases and strong volume growth in Sports & Leisure, partially offset by weak Business & Industry volumes in Europe.

Operating profit

Underlying operating profit was £1,882 million (2018[1]: £1,744 million), an increase of 7.9%. If we restate 2018's profit at the 2019 average exchange rates, it would increase by £54 million to £1,798 million. On a constant currency basis, underlying operating profit has therefore increased by £84 million, or 4.7%.

Operating margin

With very strong revenue growth the operating profit margin remained unchanged from the prior year at 7.4% as we continue to work hard to drive efficiencies across the business through our MAP framework.

Finance costs

The underlying net finance cost was £110 million (2018: £114 million). For 2020, we expect an underlying net finance cost of around £110 million.

Tax charge

On an underlying basis, the tax charge was £413 million (2018[1]: £388 million), equivalent to an effective tax rate of 23.3% (2018[1]: 23.8%). The rate reduction primarily reflects the full year impact of the reduction in the US federal tax rate introduced by the Tax Cuts and Jobs Act, whilst the prior year comparative only includes nine months of benefit. The tax environment continues to be very uncertain, with more challenging tax authority positions and investigations globally. Our current expectations are that the 2020 effective tax rate will increase to around 24%.

Earnings per share

On a constant currency basis, the underlying basic earnings per share increased by 6.0% to 85.2 pence (2018[1]: 80.4 pence).

Shareholder returns

Dividends

Our dividend policy is to grow the dividend in line with growth in underlying constant currency earnings per share. In determining the level of dividend in any year in accordance with the policy, the Board also considers a number of other factors that influence the proposed dividend, which include but are not limited to:

- the level of available distributable reserves in the Parent Company
- future cash commitments and investment needs to sustain the long term growth prospects of the business
- potential strategic opportunities
- the level of dividend cover

Further surpluses, after considering the matters set out above, are distributed to shareholders over time by way of special dividend payments, share repurchases or a combination of both.

[1] Prior year comparatives have been restated upon adoption of IFRS 15.

Business Review (continued)

Compass Group PLC, the Parent Company of the Group, is a non-trading investment holding company which derives its distributable reserves from dividends paid by subsidiary companies. The level of distributable reserves in the Parent Company is reviewed annually and the Group aims to maintain distributable reserves that provide adequate cover for dividend payments. The distributable reserves of the Parent Company include the balance on the profit and loss account reserve, which at 30 September 2019 amounted to £1,252 million.

The Group is currently in a strong position to continue to fund its dividend, which continues to be well covered by cash generated by the business. Details of the Group's going concern assessment can be found on page 17.

The ability of the Board to maintain its future dividend policy will be influenced by a number of the principal risks identified on pages 18 to 21 that could adversely impact the performance of the Group, although we believe we have the ability to mitigate those risks as outlined on pages 19 to 21.

It is proposed that a final dividend of 26.9 pence per share be paid on 24 February 2020 to shareholders on the register on 17 January 2020. This will result in a total dividend for the year of 40.0 pence per share (2018: 37.7 pence per share), a year on year increase of 6.1%. The dividend is covered 2.1 times on an underlying earnings basis and 2.0 times on a cash basis.

The final dividend of 26.9 pence will be paid gross and a Dividend Reinvestment Plan (DRIP) will be available. The last date for receipt of elections for the DRIP will be 3 February 2020.

Share buyback programme

The Group did not buy any shares during the period under the share buyback programme (2018: £nil). The directors' authority to purchase the Company's shares in the market was renewed by the shareholders at the Company's Annual General Meeting held on 7 February 2019.

Share price

The market price of the Group's ordinary shares at the close of the financial year was 2,093.00 pence per share (2018: 1,706.00 pence per share).

Underlying free cash flow

Underlying free cash flow totalled £1,247 million (2018: £1,141 million), an increase of 9.3%, which includes the benefit of approximately 3.8% from currency translation. Underlying free cash flow conversion was 66% (2018[1]: 65%).

Gross capital expenditure of £853 million (2018: £813 million) is equivalent to 3.4% (2018[1]: 3.5%) of underlying revenues. We continue to deliver strong returns on our capital expenditure across all regions. In 2020, we expect capital expenditure to be up to 3.5% of revenue.

The working capital inflow, excluding provisions and pensions, was £59 million (2018[1]: £126 million inflow). This inflow was better than expected due to favourable timing.

The outflow related to post employment benefit obligations net of service costs was £15 million (2018: £8 million). Following the completion of the triennial valuation of the Compass Group Pension Plan (UK), which continues to have a funding surplus, we expect a total outflow for the Group of around £20 million in 2020.

The net interest outflow was £107 million (2018: £95 million).

The underlying cash tax rate was 19% (2018[1]: 20%).

Acquisitions

The total cash spent on acquisitions in the year, net of cash acquired, was £478 million (2018: £452 million), comprising £449 million of bolt-on acquisitions and investments in associates, £33 million of contingent consideration relating to prior years' acquisitions offset by £4 million of cash acquired net of acquisition transaction costs.

The Group made several bolt-on acquisitions during the year, including the purchase of Client Rewards for an initial consideration of £164 million ($209 million). Client Rewards is an Iowa based company, that provides procurement and supply chain management services.

[1] Prior year comparatives have been restated upon adoption of IFRS 15.

Business Review (continued)

Disposals

As a result of the strategic review of the business, the Group is in the process of selling or exiting its operations in a number of countries, sectors or businesses in order to simplify its portfolio. The Group has successfully completed the sale of several businesses, including its operations in South Africa, Vision Security Group in the UK, Sports & Leisure in Japan and part of its US laundries business. As at the balance sheet date, the Group has further classified certain businesses as held for sale as these disposals are highly probable and are expected to be completed within 12 months.

The Group received £101 million (2018: £39 million) in respect of disposal proceeds net of exit costs.

Financial position

Net debt

The ratio of net debt to market capitalisation of £33,273 million as at 30 September 2019 was 9.8% (2018: 12.5%). Net debt decreased slightly to £3,272 million (2018: £3,383 million). The ratio of net debt to EBITDA was 1.3x. This is lower than our target as we are waiting for EU competition clearance for the proposed acquisition of Fazer Food Services. Our leverage policy is to maintain strong investment grade credit ratings, returning any surplus cash to shareholders to target net debt to EBITDA of around 1.5x[2].

The Group generated £1,247 million of underlying free cash flow (2018: £1,141 million), including investing £806 million in net capital expenditure, and spent £377 million on acquisitions net of disposal proceeds. £403 million was paid in respect of the final dividend for the financial year 2018 and £208 million was paid for the interim 2019 dividend.

The remaining £148 million movement in net debt related predominantly to foreign currency translation and other non-cash movements.

Return on capital employed

Return on capital employed was 19.5% (2018[1]: 20.2%) based on net underlying operating profit after tax at the underlying effective tax rate of 23.3% (2018[1]: 23.8%). This decrease reflects the short term impact of the recent acquisition activity of the Group. The average capital employed was £7,380 million (2018[1]: £6,539 million).

Post employment benefit obligations

The Group has continued to review and monitor its pension obligations throughout the period, working closely with the trustees and members of all schemes around the Group to ensure proper and prudent assumptions are used and adequate provisions and contributions are made.

During the year we completed the triennial actuarial valuation for the Compass Group Pension Plan (UK). This valuation showed a net surplus of £142 million on the scheme's funding basis. As a result, there is no requirement to agree a recovery plan with the trustees.

The Lloyds Banking Group's High Court hearing on Guaranteed Minimum Pension (GMP) equalisation was published on 26 October 2018. As a result, and based on actuarial advice, the Group has recognised £12 million of pre-tax past service costs in the consolidated income statement. This non-cash charge has been excluded from the Group's underlying operating profit.

The Compass Group Pension Plan (UK) surplus of £448 million (2018: £346 million) and the £259 million (2018: £224 million) deficit in the rest of the Group's defined benefit pension schemes reflect the results of the triennial valuation of the UK plan and the actuarial gains and losses that have occurred since the prior year IAS 19 actuarial valuation.

The total pensions charge for defined benefit contribution schemes in the year was £126 million (2018: £110 million) and £33 million (2018: £24 million) for defined benefit schemes.

[1] Prior year comparatives have been restated upon adoption of IFRS 15.
[2] Pre IFRS 16 'Leases'. IFRS 16 will be adopted by the Group on 1 October 2019. The Group expects between £950 - £1,050 million of additional debt on its balance sheet on adoption.

Business Review (continued)

Financial management

The Group manages its liquidity, foreign currency exposure and interest rate in accordance with the policies set out below.

The Group's financial instruments comprise cash, borrowings, receivables and payables that are used to finance the Group's operations. The Group also uses derivatives, principally interest rate swaps, forward currency contracts and cross currency swaps, 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 manage the Group's financial risks. The Board approves any changes to the policies.

Liquidity risk

The Group finances its operations through cash generated by the business and borrowings from a number of sources including the bank, the public and the private placement markets. The Group has developed long term relationships with a number of financial counterparties with the balance sheet strength and credit quality to provide credit facilities as required. The Group seeks to avoid a concentration of debt maturities in any one period to spread its refinancing risk.

In August 2019 the Group completed the refinancing of its Syndicated Revolving Credit Facility (SRCF). The new £2 billion SRCF matures in August 2024 and replaces the £1 billion SRCF and £690 million bilateral loans due to mature in June 2021 and December 2020 respectively. The new SRCF contains no financial covenants.

The maturity profile of the Group's principal borrowings at 30 September 2019 shows that the average period to maturity is 5.4 years (2018: 5.4 years). The Group's undrawn committed bank facilities at 30 September 2019 were £2,000 million (2018: £1,690 million).

Foreign currency risk

The Group's policy is to balance its principal projected cash flows by currency to actual or effective borrowings in the same currency. As currency cash flows are generated, they are used to service and repay debt in the same currency. Where necessary, to implement this policy, forward currency contracts and cross currency swaps are taken out which, when applied to the actual currency borrowings, convert these to the required currency.

The borrowings in each currency can give rise to foreign exchange differences on translation into sterling. Where 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 consolidated statement of comprehensive income rather than in the consolidated income statement.

Non-sterling 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 Group is only partially protected from the impact of such differences through the matching of cash flows to currency borrowings.

Interest rate risk

As set out 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 the interest rates on at least 80% of the Group's projected debt are fixed for one year. For the second and third year, interest rates are fixed within ranges of 30%-70% and 0%-40% respectively.

Group tax policy

As a Group, we are committed to creating long term shareholder value through the responsible, sustainable and efficient delivery of our key business objectives. This will enable us to grow the business and make significant investments in the Group and its operations.

We therefore adopt an approach to tax that supports this strategy and also balances the various interests of our stakeholders including shareholders, governments, employees and the communities in which we operate. Our aim is to pursue a principled and sustainable tax strategy that has strong commercial merit and is aligned with our business strategy. We believe this will enhance shareholder value whilst protecting Compass' reputation.

Business Review (continued)

In doing so, we act in compliance with the relevant local and international laws and disclosure requirements, and we conduct an open and transparent relationship with the relevant tax authorities that fully complies with the Group's Code of Business Conduct and Code of Ethics.

In an increasingly complex international corporate tax environment, a degree of tax risk and uncertainty is, however, inevitable. Tax risk can arise from differences in interpretation of regulations, but most significantly where governments apply diverging standards in assessing intragroup cross border transactions. This is the situation for many multinational organisations. We manage and control these risks in a proactive manner and, in doing so, exercise our judgement and seek appropriate advice from relevant professional firms. Tax risks are assessed as part of the Group's formal governance process and are reviewed by the Board and the Audit Committee on a regular basis.

Risks and uncertainties

The Board takes a proactive approach to risk management with the aim of protecting its employees and customers and safeguarding the interests of the Group, its shareholders, employees, clients, consumers and all other stakeholders.

The principal risks and uncertainties that face the business and the activities the Group undertakes to mitigate these are set out on pages 18 to 21.

Related party transactions

Details of transactions with related parties are set out in note 31 of the consolidated financial statements. These transactions have not had, and are not expected to have, a material effect on the financial performance or position of the Group.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review, as is the financial position of the Group, its cash flows, liquidity position, and borrowing facilities.

The Group has considerable financial resources together with longer term contracts with a number of clients and suppliers across different geographic areas and industries. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the 12 months from the date of approval of the Annual Report. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Karen Witts
Group Chief Financial Officer
26 November 2019

Risk Management

Identifying and managing risk

The Board continues to take a proactive approach to recognising, assessing and mitigating risk with the aim of protecting its employees and consumers and safeguarding the interests of the Company and its shareholders. Risk management is an essential element of business governance and, as set out in the Corporate Governance section in the Annual Report, the Group has policies and procedures in place to ensure that risks are properly identified, evaluated and managed at the appropriate level within the business. The identification of risks and opportunities, the development of action plans to manage the risks and maximise the opportunities, and the continual monitoring of progress against agreed key performance indicators (KPIs) are integral parts of the business process and core activities throughout the Group.

Risk Governance Framework

The Group runs a formal risk management process as part of which the Group's Principal Risks (highlighted on pages 19 to 21) are assessed and prioritised, with the Board having overall responsibility for risk management. Risks are reviewed by country and regional leadership teams on an ongoing basis and are assessed to identify and document corresponding mitigating actions. Risk updates form an integral part of periodic management reviews and are also reviewed by other members of the Group's senior leadership and the Group's Risk and Governance Committees. Additional reviews are performed by Group Internal Audit. This bottom up and top down approach provides awareness and agreement on key risks facing the Group. The Board reviews a Major Risk Assessment report, including principal risks and areas of emerging risks, which is formally reviewed twice a year.

Our Principal Risks

The tables on pages 19 to 21 set out the principal risks and uncertainties facing the business at the date of this Announcement and any changes to the status of the risks since 2018. These have been subject to robust assessment and review. They do not comprise all of the risks that the Group may face and are not listed in any order of priority. Additional risks and uncertainties not presently known to management or deemed to be less material at the date of this Report, may also have an adverse effect on the Group. As a global business operating in countries and regions with diverse economic and political conditions, the Group's operations and earnings may be adversely affected by political or economic instability, including instability caused by the implementation of the UK's decision to exit the European Union (EU) (Brexit).

There is still significant uncertainty about the potential withdrawal from the EU, the timeframe, the outcome of negotiations about future arrangements between the UK and the EU, and the period for which existing EU laws for member states continue to apply to the UK. The Board views the potential impact of Brexit as an integral part of its principal risks rather than as a stand-alone risk.

We have identified a potential impact on our food supply chain in the UK relating to Brexit through potential increased import costs from weaker sterling, compounded by potential new import duties and tariffs, and on our labour force in the way of staff shortages and salary cost pressures. In addition, whilst significant changes to produce standards and legislative requirements more generally are not anticipated in the short term, they could impact the Group if introduced in future. We are taking actions to assess and mitigate against any impact of Brexit, including engaging with key suppliers and wholesalers to identify Brexit readiness, stock levels, labour strategies and remediation plans. Where possible, we seek to absorb price increases through operational efficiencies, and cost indexation in our contracts also gives us the contractual right to review pricing with our clients. We are experiencing a challenging macroeconomic environment in some of our regions and a result, we are taking prompt action to ensure that we have the right sized labour model for the future.

The Group faces a number of operational risks on an ongoing basis such as litigation and financial (including liquidity and credit) risk and some wider risks, for example, environmental and reputational. Additionally, there are risks (such as those relating to the eurozone economy, pensions, and acquisitions and investments) which vary in importance depending on changing conditions.

In accordance with the provisions of the UK Corporate Governance Code 2016, the Board has taken into consideration the principal risks in the context of determining whether to adopt the going concern basis of accounting and when assessing the prospects of the Company for the purpose of preparing the viability statement. The going concern and viability statements can be found on page 40 of the Strategic Report. All risks disclosed in previous years can be found in the annual reports available on our website www.compass-group.com. We recognise that these risks remain important to the business and they are kept under review. However, we have focused the disclosures on pages 19 to 21 on those risks that are currently considered to be more significant to the Group.

Principal Risks

Principal risks

Increased risk   Static risk

RISK AND TREND	DESCRIPTION	MITIGATION
HEALTH AND SAFETY		
Health and safety **2019** (static) 2018 (static)	Compass feeds millions of consumers and employs hundreds of thousands of people around the world every day. For that reason, setting the highest standards for food hygiene and safety is paramount. Health and safety breaches could cause serious business interruption and could result in criminal and civil prosecution, increased costs and potential damage to our reputation.	All management meetings throughout the Group feature a health and safety update as one of their first substantive agenda items. Health and safety improvement KPIs are included in the annual bonus plans for each of the business' management teams. The Group has policies, procedures and standards in place to ensure compliance with legal obligations and industry standards. The safety and quality of our global supply chain are assured through compliance against a robust set of standards which are regularly reviewed, audited and upgraded as necessary to improve supply chain visibility and product integrity. A substantial refresh of the Group's global safety standards and Supply Chain Integrity standards is ongoing and new Allergen Management Plans based on good practice are expected to be launched in 2020.
PEOPLE		
Recruitment **2019** (increased) 2018 (increased)	Failure to attract and recruit people with the right skills at all levels could limit the success of the Group. The Group faces resourcing challenges in some of its businesses due to a lack of industry experience amongst candidates and appropriately qualified people, and the seasonal nature of some of our business. The risk in this area has increased due to the continued economic and political conditions where a combination of high employment and a shortage in the resource pool has made the labour market more competitive.	The Group aims to mitigate this risk by efficient, time critical resource management, mobilisation of existing, experienced employees within the organisation, improved use of technology such as apps and social media, and by offering training and development programmes.
Retention and motivation **2019** (static) 2018 (static)	Retaining and motivating the best people with the right skills, at all levels of the organisation, is key to the long term success of the Group.	The Group has established training, development, performance management and reward programmes to help retain, develop and motivate our best people. The Group has a number of well established initiatives which help us to monitor the level of engagement and to respond to our people's needs.
CLIENTS AND CONSUMERS		
Sales and retention **2019** (static) 2018 (static)	Our business relies on securing and retaining a diverse range of clients. The potential loss of material client contracts in an increasingly competitive market is a risk to the business.	We have strategies which strengthen our long term relationships with our clients and consumers based on quality, value and innovation. Our business model is structured so that we are not reliant on one particular sector or group of clients. We are using technology to support the delivery of efficiencies and to contribute to growth through, for example, cashierless and cashless payment systems and the use of artificial intelligence. This benefits our clients and consumers and positively impacts retention and new business wins.
Bidding **2019** (static) 2018 (static)	Each year, the Group bids for a large number of opportunities.	A rigorous tender review process is in place, which includes a critical assessment of contracts to identify potential risks (including social and ethical) and rewards, prior to approval at an appropriate level in the organisation.

Principal Risks (continued)

RISK AND TREND	DESCRIPTION	MITIGATION
CLIENTS AND CONSUMERS (continued)		
Service delivery and contractual compliance **2019** 2018	The Group's operating companies contract with a large number of clients. Failure to comply with the terms of these contracts, including proper delivery of services, could lead to the loss of business and/or claims.	Processes are in place to ensure that the services delivered to clients are of an appropriate standard and comply with the required contract terms and conditions.
Competition and disruption **2019** 2018	We operate in a highly competitive marketplace. The levels of concentration and outsource penetration vary by country and by sector. Some markets are relatively concentrated with two or three key players. Others are highly fragmented and offer significant opportunities for consolidation and penetration of the self-operated market. Aggressive pricing from our competitors could cause a reduction in our revenues and margins. The emergence of new industry participants using disruptive technology could adversely affect our business.	We aim to minimise this and to respond to new market and consumer food services trends by continuing to promote our differentiated propositions and by focusing on our strengths, such as flexibility in our cost base, quality, value of service and innovation. We are using our knowledge and experience and continue to invest in technology which will help us to counter any potential risk and to capitalise on the opportunities created.
ECONOMIC AND POLITICAL ENVIRONMENT		
Economy **2019** 2018	Some sectors of our business could be susceptible to adverse changes in economic conditions and employment levels. Continued worsening of economic conditions has increased the risk to the business in some jurisdictions, notably in Europe.	We are, as part of our strategy, always focused on productivity and purchasing initiatives which help us to manage our cost base. In more adverse conditions we can, if necessary, take further radical action to reduce labour costs.
Cost inflation **2019** 2018	Our objective is always to deliver the right level of service in the most efficient way. An increase in the cost of labour, for example, minimum wages in the USA and UK, or food, especially in countries such as Brazil, could constitute a risk to our ability to do this. Increases in inflation continue to intensify cost pressures in some locations.	As part of our MAP framework and by sharing best practice across the Group, we seek to manage inflation by continuing to drive greater efficiencies through menu management, supplier rationalisation, labour scheduling and productivity, and with the increased use of technology. Cost indexation in our contracts also gives us the contractual right to review pricing with our clients.
Political stability **2019** 2018	We are a global business operating in countries and regions with diverse economic and political conditions. Our operations and earnings may be adversely affected by political or economic instability caused, for example, by the UK's decision to leave the EU. We have identified a potential impact on our food supply chain in the UK relating to Brexit through potential increased import costs from weaker sterling, compounded by potential new import duties and tariffs, and on our labour force in the way of staff shortages and salary cost pressures. Political instability around the world remains a risk as a result of geopolitical tensions.	The Group remains vigilant to future changes presented by emerging markets or fledgling administrations and we try to anticipate and contribute to important changes in public policy. We are taking actions to assess and mitigate against any impact of Brexit, including engaging with key suppliers and wholesalers to identify Brexit readiness, stock levels, labour strategies and remediation plans. Where possible, we seek to absorb price increases through operational efficiencies, and cost indexation in our contracts also gives us the contractual right to review pricing with our clients. We are also working on our recruitment and retention strategies to mitigate any impact on our labour supply.

Principal Risks (continued)

RISK AND TREND	DESCRIPTION	MITIGATION
COMPLIANCE AND FRAUD		
Compliance and fraud **2019** ➔ 2018 ➔	Ineffective compliance management with increasingly complex laws and regulations, or evidence of fraud, bribery and corruption could have an adverse effect on the Group's reputation. It could also result in an adverse impact on the Group's performance, and a reduction in the Company's share price and/or a loss of business. A failure to manage these risks could adversely impact the Group's performance if significant financial penalties are levied or a criminal action or other litigation is brought against the Company or its directors.	The Group's zero tolerance based Codes of Business Conduct and Ethics continue to govern all aspects of our relationships with our stakeholders. All alleged breaches of the Codes, including any allegations of fraud, are investigated. The Group undertakes a robust risk management assessment that helps properly identify major risks and ensure the internal control framework remains effective through regular monitoring, testing and review. Emerging regulatory and compliance risks are included in this process to enable visibility and planning to address them. A strong culture of integrity is promoted through our Ethics and Compliance programme and our Speak Up helpline. All alleged breaches of our Codes, including any allegations of fraud, are investigated and dealt with appropriately. Regulation and compliance risk is also considered as part of our annual business planning process.
International tax **2019** ⬆ 2018 ⬆	The international corporate tax environment remains complex and an increase in audit activity from tax authorities means that the potential for tax uncertainties and disputes remains high. We note in particular the policy efforts being led by the EU and the OECD which may have a material impact on the taxation of all international businesses.	As a Group, we seek to plan and manage our tax affairs efficiently in the jurisdictions in which we operate. In doing so, we act in compliance with relevant laws and disclosure requirements. We manage and control these risks in a proactive manner and in doing so exercise our judgement and seek appropriate advice from reputable professional firms. Tax risks are assessed as part of the Group's formal governance process and are reviewed by the Board and the Audit Committee on a regular basis.
INFORMATION SYSTEMS AND TECHNOLOGY		
Information systems and technology **2019** ⬆ 2018 ⬆	The digital world creates increasing risk for global businesses including, but not limited to, technology failures, loss of confidential data and damage to brand reputation through, for example, the increased and instantaneous use of social media. Disruption caused by the failure of key software applications, security controls or underlying infrastructure could delay day to day operations and management decision making. The use of sophisticated phishing and malware attacks on businesses has risen over the last year with an increase in the number of companies suffering operational disruption and loss of data.	We continually assess our cyber risk and manage the maturity of our enterprise infrastructure, platforms and security controls to ensure we can effectively defend against any current or future cyber attacks. We also have in place appropriate crisis management procedures to handle issues in the event of our defences being breached. This is supported by using industry standard tooling, experienced professionals and partners and regular compliance monitoring to evaluate and mitigate potential impacts. The Group relies on a variety of IT platforms to manage and deliver services and communicate with our clients, consumers, suppliers and employees. Our decentralised model and infrastructure helps to mitigate propagation of attacks across the Group's technology estate. We continue to be focused on the need to maximise the effectiveness of our information systems and technology as a business enabler and have increased our investment in technology and people to strengthen our platforms and enhance our cyber security defences to mitigate the risk of technology failure and data loss.

Compass Group PLC
Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Notes	2019 £m	2018 (restated[1]) £m
Combined sales of Group and share of equity accounted joint ventures	2, 3, 11	**25,152**	23,147
Less: share of sales of equity accounted joint ventures		**(274)**	(275)
Revenue	2	**24,878**	22,872
Operating costs	2	**(23,308)**	(21,229)
Operating profit before joint ventures and associates	2	**1,570**	1,643
Share of profit after tax of joint ventures and associates		**31**	50
Operating profit	2	**1,601**	1,693
Underlying operating profit[2]	2, 3, 11	**1,882**	1,744
Acquisition related costs	10	**(54)**	(49)
One-off pension charge	10	**(12)**	-
Cost action programme charge	10	**(190)**	-
Share of profit of joint ventures and associates held for sale	10	**(25)**	-
Tax on share of profit of joint ventures	10	**-**	(2)
Net loss on sale and closure of businesses	9	**(7)**	(58)
Finance income		**12**	6
Finance costs		**(122)**	(120)
Other financing items (loss)/gain		**(15)**	2
Profit before tax	2	**1,469**	1,523
Income tax expense	2, 4	**(351)**	(385)
Profit for the year	2	**1,118**	1,138
ATTRIBUTABLE TO			
Equity shareholders of the Company	2	**1,110**	1,130
Non-controlling interests		**8**	8
Profit for the year	2	**1,118**	1,138
BASIC EARNINGS PER SHARE (PENCE)	2, 5	**70.0p**	71.3p
DILUTED EARNINGS PER SHARE (PENCE)	2, 5	**69.9p**	71.3p

[1] Prior year comparatives have been restated upon the Group's adoption of IFRS 15 'Revenue from contracts with customers'. See note 2 for details regarding the restatement.
[2] Underlying operating profit excludes acquisition related costs, one-off pension charge and cost action programme charge, but includes share of profit after tax of associates and operating profit before tax of joint ventures, including those classified as held for sale. The reconciliation between statutory and underlying results is provided in note 10.

Compass Group PLC
Consolidated Financial Statements (continued)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2019

	2019 £m	2018 (restated[1]) £m
Profit for the year	**1,118**	1,138
Other comprehensive income		
Items that are not reclassified subsequently to the income statement		
Remeasurement of post employment benefit obligations – (loss)/gain	**(357)**	68
Return on plan assets, excluding interest income – gain	**425**	21
Tax charge on items relating to the components of other comprehensive income	**(10)**	(29)
	58	60
Items that are or may be subsequently reclassified to the income statement		
Currency translation differences	**131**	(76)
Reclassification adjustment for movements in foreign exchange on sale of businesses	**6**	-
Tax on items relating to the components of other comprehensive income	**(2)**	(1)
	135	(77)
Total other comprehensive gain/(loss) for the year	**193**	(17)
Total comprehensive income for the year	**1,311**	1,121
ATTRIBUTABLE TO		
Equity shareholders of the Company	**1,303**	1,113
Non-controlling interests	**8**	8
Total comprehensive income for the year	**1,311**	1,121

[1] Prior year comparatives have been restated upon the Group's adoption of IFRS 15 'Revenue from contracts with customers'. See note 2 for details regarding the restatement.

Compass Group PLC
Consolidated Financial Statements (continued)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Attributable to equity shareholders of the Company							
	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares[1] £m	Other reserves £m	Retained earnings £m	Non-controlling interests £m	Total £m
At 30 September 2018, as reported	176	182	295	-	4,208	(2,246)	25	2,640
Impact of change in accounting standards - IFRS 15	-	-	-	-	-	27	-	27
At 30 September 2018, restated[2]	176	182	295	-	4,208	(2,219)	25	2,667
Impact of change in accounting standards - IFRS 9	-	-	-	-	-	(15)	-	(15)
At 1 October 2018, restated[2]	176	182	295	-	4,208	(2,234)	25	2,652
Profit for the year	-	-	-	-	-	1,110	8	1,118
Other comprehensive income								
Currency translation differences	-	-	-	-	131	-	-	131
Remeasurement of post employment benefit obligations – loss	-	-	-	-	-	(357)	-	(357)
Return on plan assets, excluding interest income – gain	-	-	-	-	-	425	-	425
Tax on items relating to the components of other comprehensive income	-	-	-	-	(2)	(10)	-	(12)
Reclassification adjustment for movements in foreign exchange on sale of businesses	-	-	-	-	6	-	-	6
Total other comprehensive income	-	-	-	-	135	58	-	193
Total comprehensive income for the year	-	-	-	-	135	1,168	8	1,311
Fair value of share-based payments	-	-	-	-	27	-	-	27
Changes to non-controlling interests due to acquisitions and disposals	-	-	-	-	-	-	(1)	(1)
Tax on items taken directly to equity	-	-	-	-	-	4	-	4
Change in the fair value of non-controlling interests put options	-	-	-	-	(8)	-	-	(8)
Purchase of own shares to satisfy employee share-based payments	-	-	-	(4)	-	-	-	(4)
Other changes	-	-	-	-	-	(3)	-	(3)
	176	182	295	(4)	4,362	(1,065)	32	3,978
Dividends paid to shareholders (note 6)	-	-	-	-	-	(611)	-	(611)
Dividends paid to non-controlling interests	-	-	-	-	-	-	(5)	(5)
At 30 September 2019	176	182	295	(4)	4,362	(1,676)	27	3,362

[1] Own shares held by the Group represent 187,455 ordinary shares in Compass Group PLC (2018: nil ordinary shares) and are held by the Compass Group All Share Schemes Trust (ASST). These shares are listed on a recognised stock exchange and their market value at 30 September 2019 was £3.9 million (2018: £nil). The nominal value held at 30 September 2019 was £20,714 (2018: £nil).

[2] The Group has adopted IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments' effective for the year ended 30 September 2019. IFRS 15 has been applied retrospectively and comparatives for the prior year have been restated, whilst IFRS 9 has been applied prospectively from 1 October 2018 by adjusting the opening balance sheet at that date. Additional information about the transitional impact of these standards is included in note 2.

OTHER RESERVES	Share-based payment reserve £m	Merger reserve £m	Revaluation reserve £m	Translation reserve £m	Adjustment for non-controlling interest put options reserve £m	Total other reserves £m
At 1 October 2018	232	4,170	7	(130)	(71)	4,208
Other comprehensive income						
Currency translation differences	-	-	-	131	-	131
Reclassification adjustment for movements in foreign exchange on sale of businesses	-	-	-	6	-	6
Tax on items relating to the components of other comprehensive income	-	-	-	(2)	-	(2)
Total other comprehensive income	-	-	-	135	-	135
Fair value of share-based payments	27	-	-	-	-	27
Change in the fair value of non-controlling interests put options	-	-	-	-	(8)	(8)
At 30 September 2019	259	4,170	7	5	(79)	4,362

Compass Group PLC
Consolidated Financial Statements (continued)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Attributable to equity shareholders of the Company							
	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares £m	Other reserves £m	Retained earnings £m	Non-controlling interests £m	Total £m
At 1 October 2017, as reported	176	182	295	-	4,320	(2,875)	22	2,120
Impact of change in accounting standards - IFRS 15	-	-	-	-	-	22	-	22
At 1 October 2017, restated[1]	176	182	295	-	4,320	(2,853)	22	2,142
Profit for the year[1]	-	-	-	-	-	1,130	8	1,138
Other comprehensive income								
Currency translation differences	-	-	-	-	(76)	-	-	(76)
Remeasurement of post employment benefit obligations – gain	-	-	-	-	-	68	-	68
Return on plan assets, excluding interest income – gain	-	-	-	-	-	21	-	21
Tax on items relating to the components of other comprehensive income	-	-	-	-	(1)	(29)	-	(30)
Total other comprehensive (loss)/income	-	-	-	-	(77)	60	-	(17)
Total comprehensive (loss)/income for the year[1]	-	-	-	-	(77)	1,190	8	1,121
Fair value of share-based payments	-	-	-	-	21	-	-	21
Changes to non-controlling interests due to acquisitions and disposals	-	-	-	-	-	(5)	4	(1)
Tax on items taken directly to equity	-	-	-	-	-	1	-	1
Change in the fair value of non-controlling interest put options	-	-	-	-	(56)	-	-	(56)
Other changes	-	-	-	-	-	(4)	-	(4)
	176	182	295	-	4,208	(1,671)	34	3,224
Dividends paid to shareholders (note 6)	-	-	-	-	-	(548)	-	(548)
Dividends paid to non-controlling interests	-	-	-	-	-	-	(9)	(9)
At 30 September 2018[1]	176	182	295	-	4,208	(2,219)	25	2,667

[1] Prior year comparatives have been restated upon the Group's adoption of IFRS 15 'Revenue from contracts with customers'. See note 2 for details regarding the restatement.

OTHER RESERVES	Share-based payment reserve £m	Merger reserve £m	Revaluation reserve £m	Translation reserve £m	Adjustment for non-controlling interest put options reserve £m	Total other reserves £m
At 1 October 2017	211	4,170	7	(53)	(15)	4,320
Other comprehensive income						
Currency translation differences	-	-	-	(76)	-	(76)
Tax on items relating to the components of other comprehensive income	-	-	-	(1)	-	(1)
Total other comprehensive loss	-	-	-	(77)	-	(77)
Fair value of share-based payments	21	-	-	-	-	21
Change in the fair value of non-controlling interest put options	-	-	-	-	(56)	(56)
At 30 September 2018	232	4,170	7	(130)	(71)	4,208

Compass Group PLC
Consolidated Financial Statements (continued)

CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2019

	Notes	30 September 2019 £m	30 September 2018 (restated[1]) £m	1 October 2017 (restated[1]) £m
NON-CURRENT ASSETS				
Goodwill		**4,576**	4,270	3,994
Other intangible assets	2	**1,426**	1,105	836
Contract fulfilment assets and contract costs	2	**976**	838	738
Property, plant and equipment		**1,052**	1,006	1,000
Interests in joint ventures and associates		**226**	263	220
Other investments		**96**	73	63
Post employment benefit assets		**448**	346	259
Trade and other receivables		**96**	105	104
Deferred tax assets		**76**	45	132
Derivative financial instruments[2]		**207**	83	139
Non-current assets		**9,179**	8,134	7,485
CURRENT ASSETS				
Inventories		**404**	353	353
Trade and other receivables	2	**3,051**	2,852	2,696
Tax recoverable		**88**	69	86
Cash and cash equivalents[2]		**398**	969	387
Derivative financial instruments[2]		**-**	34	4
		3,941	4,277	3,526
Assets held for sale		**190**	236	-
Current assets		**4,131**	4,513	3,526
Total assets		**13,310**	12,647	11,011
CURRENT LIABILITIES				
Short term borrowings[2]		**(186)**	(813)	(20)
Derivative financial instruments[2]		**(6)**	(12)	(6)
Provisions		**(223)**	(167)	(132)
Current tax liabilities		**(247)**	(227)	(227)
Trade and other payables		**(4,718)**	(4,317)	(3,892)
		(5,380)	(5,536)	(4,277)
Liabilities directly associated with assets held for sale		**(30)**	(72)	-
Current liabilities		**(5,410)**	(5,608)	(4,277)
NON-CURRENT LIABILITIES				
Long term borrowings[2]		**(3,679)**	(3,611)	(3,939)
Derivative financial instruments[2]		**(6)**	(33)	(11)
Post employment benefit obligations		**(259)**	(224)	(231)
Provisions		**(266)**	(227)	(266)
Deferred tax liabilities	2	**(114)**	(57)	(58)
Trade and other payables		**(214)**	(220)	(87)
Non-current liabilities		**(4,538)**	(4,372)	(4,592)
Total liabilities		**(9,948)**	(9,980)	(8,869)
Net assets		**3,362**	2,667	2,142
EQUITY				
Share capital		**176**	176	176
Share premium account		**182**	182	182
Capital redemption reserve		**295**	295	295
Own shares		**(4)**	-	-
Other reserves		**4,362**	4,208	4,320
Retained earnings	2	**(1,676)**	(2,219)	(2,853)
Total equity shareholders' funds		**3,335**	2,642	2,120
Non-controlling interests		**27**	25	22
Total equity		**3,362**	2,667	2,142

[1] Prior year comparatives have been restated upon the Group's adoption of IFRS 15 'Revenue from contracts with customers'. See note 2 for details regarding the restatement.
[2] Component of net debt.

Approved by the Board of Directors on 26 November 2019 and signed on its behalf by

DOMINIC BLAKEMORE, Director

KAREN WITTS, Director

Compass Group PLC
Consolidated Financial Statements (continued)

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Notes	2019 £m	2018 (restated[1]) £m
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	7	**2,396**	2,270
Interest paid		**(116)**	(101)
Tax received		**26**	26
Tax paid		**(354)**	(349)
Net cash from operating activities		**1,952**	1,846
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of subsidiary companies[2]	9	**(451)**	(420)
Purchase of additional interest in joint ventures and associates		**(27)**	(32)
Proceeds from sale of subsidiary companies, joint ventures and associates net of exit costs[2]		**101**	39
Purchase of intangible assets	2	**(185)**	(164)
Purchase of contract fulfilment assets	2	**(286)**	(261)
Purchase of property, plant and equipment	2	**(352)**	(359)
Proceeds from sale of property, plant and equipment/intangible assets/contract fulfilment assets		**47**	54
Purchase of other investments		**(13)**	(8)
Proceeds from sale of other investments		**3**	1
Dividends received from joint ventures and associates[3]		**48**	35
Interest received		**9**	6
Net cash from investing activities		**(1,106)**	(1,109)
CASH FLOW FROM FINANCING ACTIVITIES			
Purchase of own shares to satisfy employee share-based payments[4]		**(4)**	-
Receipts from issue of treasury shares to satisfy employee share scheme awards exercised		**-**	1
Purchase of non-controlling interests		**-**	(5)
Increase in borrowings	8	**1,830**	1,506
Repayment of borrowings	8	**(2,631)**	(1,074)
Repayment of obligations under finance leases	8	**(4)**	(6)
Equity dividends paid	6	**(611)**	(548)
Dividends paid to non-controlling interests		**(5)**	(9)
Net cash from financing activities		**(1,425)**	(135)
CASH AND CASH EQUIVALENTS			
Net (decrease)/increase in cash and cash equivalents	8	**(579)**	602
Cash and cash equivalents at beginning of the year	8	**969**	387
Currency translation gains on cash and cash equivalents	8	**9**	2
Total cash and cash equivalents		**399**	991
Cash reclassified as held for sale		**(1)**	(22)
Cash and cash equivalents at end of the year		**398**	969

[1] Prior year comparatives have been restated upon the Group's adoption of IFRS 15 'Revenue from contracts with customers'. See note 2 for details regarding the restatement.
[2] Net of cash acquired or disposed and payments received or made under warranties and indemnities.
[3] Includes dividends received from joint ventures and associates classified as held for sale.
[4] Including stamp duty and brokers' commission.

Compass Group PLC
Consolidated Financial Statements (continued)

RECONCILIATION OF FREE CASH FLOW
FOR THE YEAR ENDED 30 SEPTEMBER 2019

	2019 £m	2018 (restated[1]) £m
Net cash from operating activities	**1,952**	1,846
Purchase of intangible assets	**(185)**	(164)
Purchase of contract fulfilment assets	**(286)**	(261)
Purchase of property, plant and equipment	**(352)**	(359)
Proceeds from sale of property, plant and equipment/intangible assets/contract fulfilment assets	**47**	54
Purchase of other investments	**(13)**	(8)
Proceeds from sale of other investments	**3**	1
Dividends received from joint ventures and associates	**48**	35
Interest received	**9**	6
Dividends paid to non-controlling interests	**(5)**	(9)
Free cash flow	**1,218**	1,141
Add back: Cash related to cost action programme in the year	**29**	-
Underlying free cash flow	**1,247**	1,141

[1] Prior year comparatives have been restated upon the Group's adoption of IFRS 15 'Revenue from contracts with customers'. See note 2 for details regarding the restatement.

Compass Group PLC
Consolidated Financial Statements (continued)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

1 BASIS OF PREPARATION

The financial information included within this announcement has been prepared using accounting policies in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted for use in the European Union (EU), and in accordance with the Disclosure Guidance and Transparency Rules (DTR) of the Financial Conduct Authority.

The financial information set out below does not constitute the Company's statutory accounts for the years ended 30 September 2019 or 2018, but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's Annual General Meeting. The auditor has reported on those accounts; its Reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying its Report and did not contain statements under s498(2) or (3) of the Companies Act 2006.

2 CHANGES IN ACCOUNTING POLICIES

IFRS 15 'Revenue from contracts with customers' – impact of the adoption

The impact of the adoption of IFRS 15 'Revenue from contracts with customers' on the Group's consolidated financial statements is included below. IFRS 15 has been adopted retrospectively and comparatives for the year ended 30 September 2018 have been restated. The following tables show the impact of these changes on each of the Group's primary statement line items affected. Where practical, line items which are not impacted by the restatement have been aggregated within the relevant sub-totals. The impact of the new standard is also explained in more detail within the footnotes that follow the tables.

Consolidated income statement (extract)

	Notes	30 September 2018 As previously reported £m	IFRS 15 £m	**30 September 2018 Restated £m**
Combined sales of Group and share of equity accounted joint ventures	(i), (iv)	23,239	(92)	**23,147**
Less: share of sales of equity accounted joint ventures		(275)	-	**(275)**
Revenue	(i), (iv)	22,964	(92)	**22,872**
Operating costs	(i), (ii), (iv)	(21,324)	95	**(21,229)**
Operating profit before joint ventures and associates		1,640	3	**1,643**
Share of profit after tax of joint ventures and associates		50	-	**50**
Operating profit		1,690	3	**1,693**
Underlying operating profit		1,741	3	**1,744**
Net loss on sale and closure of businesses		(58)	-	**(58)**
Finance costs and other financing items		(112)	-	**(112)**
Profit before tax		1,520	3	**1,523**
Income tax expense	(ii)	(387)	2	**(385)**
Profit for the year		1,133	5	**1,138**
ATTRIBUTABLE TO				
Equity shareholders of the Company		1,125	5	**1,130**
Non-controlling interests		8	-	**8**
Profit for the year		1,133	5	**1,138**
BASIC EARNINGS PER SHARE (PENCE)		71.0p	0.3p	**71.3p**
DILUTED EARNINGS PER SHARE (PENCE)		71.0p	0.3p	**71.3p**

Consolidated statement of comprehensive income (extract)

	30 September 2018 As previously reported £m	IFRS 15 £m	**30 September 2018 Restated £m**
Profit for the year	1,133	5	**1,138**
Total other comprehensive loss for the year	(17)	-	**(17)**
Total comprehensive income for the year	1,116	5	**1,121**
ATTRIBUTABLE TO			
Equity shareholders of the Company	1,108	5	**1,113**
Non-controlling interests	8	-	**8**
Total comprehensive income for the year	1,116	5	**1,121**

Compass Group PLC
Consolidated Financial Statements (continued)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Consolidated balance sheet (extract)

	Notes	1 October 2017 As previously reported £m	IFRS 15 £m	**1 October 2017 Restated £m**	30 September 2018 As previously reported £m	IFRS 15 £m	**30 September 2018 Restated £m**
NON-CURRENT ASSETS							
Other intangible assets	(iii), (iv)	1,537	(701)	**836**	1,903	(798)	**1,105**
Contract fulfilment assets and contract costs	(ii), (iii)	-	738	**738**	-	838	**838**
Other non-current assets		5,911	-	**5,911**	6,191	-	**6,191**
Non-current assets		7,448	37	**7,485**	8,094	40	**8,134**
CURRENT ASSETS							
Trade and other receivables	(iv)	2,701	(5)	**2,696**	2,857	(5)	**2,852**
Other current assets		830	-	**830**	1,661	-	**1,661**
Current assets		3,531	(5)	**3,526**	4,518	(5)	**4,513**
Total assets		10,979	32	**11,011**	12,612	35	**12,647**
NON-CURRENT LIABILITIES							
Deferred tax liabilities	(ii)	(48)	(10)	**(58)**	(49)	(8)	**(57)**
Other non-current liabilities		(4,534)	-	**(4,534)**	(4,315)	-	**(4,315)**
Non-current liabilities		(4,582)	(10)	**(4,592)**	(4,364)	(8)	**(4,372)**
CURRENT LIABILITIES							
Current liabilities		(4,277)	-	**(4,277)**	(5,608)	-	**(5,608)**
Total liabilities		(8,859)	(10)	**(8,869)**	(9,972)	(8)	**(9,980)**
Net assets		2,120	22	**2,142**	2,640	27	**2,667**
EQUITY							
Retained earnings		(2,875)	22	**(2,853)**	(2,246)	27	**(2,219)**
All other reserves		4,995	-	**4,995**	4,886	-	**4,886**
Total equity		2,120	22	**2,142**	2,640	27	**2,667**

Consolidated cash flow statement and cash generated from operations (extract)

	Notes	30 September 2018 As previously reported £m	IFRS 15 £m	**30 September 2018 Restated £m**
Operating profit before joint ventures and associates	(ii)	1,640	3	**1,643**
Amortisation of intangible assets	(iii)	233	(164)	**69**
Amortisation of contract fulfilment assets	(iii)	-	164	**164**
Amortisation of contract prepayments	(iv)	-	21	**21**
Unwind of costs to obtain contracts	(ii)	-	13	**13**
Investment in contract prepayments	(iv)	-	(27)	**(27)**
Increase in costs to obtain contracts	(ii)	-	(16)	**(16)**
Operating cash flows from movement in working capital	(iv)	147	(21)	**126**
Other cash generated from operations		277	-	**277**
Cash generated from operations		2,297	(27)	**2,270**
Other cash flows from operating activities		(424)	-	**(424)**
Net cash from operating activities		1,873	(27)	**1,846**
Purchase of intangible assets	(iii)	(425)	261	**(164)**
Purchase of contract fulfilment assets	(iii)	-	(261)	**(261)**
Purchase of property, plant and equipment	(iv)	(386)	27	**(359)**
Other cash flows from investing activities		(325)	-	**(325)**
Net cash from investing activities		(1,136)	27	**(1,109)**
Net cash from financing activities		(135)	-	**(135)**
Net increase in cash and cash equivalents		602	-	**602**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Consolidated free cash flow (extract)

	Notes	30 September 2018 As previously reported £m	IFRS 15 £m	30 September 2018 Restated £m
Net cash from operating activities	(iv)	1,873	(27)	**1,846**
Purchase of intangible assets	(iii)	(425)	261	**(164)**
Purchase of contract fulfilment assets	(iii)	-	(261)	**(261)**
Purchase of property, plant and equipment	(iv)	(386)	27	**(359)**
Other		79	-	**79**
Free cash flow		1,141	-	**1,141**

As a result of the adoption of IFRS 15 'Revenue from contracts with customers' from 1 October 2018, the following adjustments were made to restate the amounts recognised in the consolidated income statement and balance sheet of previous periods:

Adjustments to the consolidated income statement

	Adjustments for the year ended 30 September 2018			Year ended 30 September 2018
	Consideration payable to customer (i) £m	Capitalisation of costs to obtain a contract (ii) £m	Contract prepayments (iv) £m	£m
Revenue	(71)	-	(21)	**(92)**
Operating costs	71	3	21	**95**
Operating profit	-	3	-	**3**
Income tax expense	-	2	-	**2**
Profit for the year	-	5	-	**5**

Adjustments to the consolidated balance sheet

	Adjustments to the balance sheet as at 1 October 2017			1 October 2017	Adjustments to the balance sheet as at 30 September 2018			30 September 2018
	Capitalisation of costs to obtain a contract (ii) £m	Contract fulfilment assets (iii) £m	Contract prepayments (iv) £m	Restated £m	Capitalisation of costs to obtain a contract (ii) £m	Contract fulfilment assets (iii) £m	Contract prepayments (iv) £m	Restated £m
Other intangible assets	-	(706)	5	**(701)**	-	(803)	5	**(798)**
Contract fulfilment assets and contract costs	32	706	-	**738**	35	803	-	**838**
Trade and other receivables - current	-	-	(5)	**(5)**	-	-	(5)	**(5)**
Deferred tax liabilities	(10)	-	-	**(10)**	(8)	-	-	**(8)**
Net assets	22	-	-	**22**	27	-	-	**27**

(i) Consideration payable to a customer
The Group makes a variety of payments to clients, mainly commissions, concession rentals and reimbursement of utility costs. The adjustments under IFRS 15 for consideration payable to a customer primarily relate to reclassifications of some of these payments from operating costs to a deduction from revenue. The Group has conducted a detailed assessment of payments to clients to establish where these are not in exchange for a distinct good or service and therefore should be reported as a deduction from revenue. This change results in a reduction to revenue and no change to operating profit. The consolidated income statement for the year ended 30 September 2018 were restated to recognise a reduction in revenue of £71 million. This amount was previously reported as operating costs.

(ii) Capitalisation of costs to obtain a contract
Prior to adoption of IFRS 15, the Group's policy was to expense commissions paid to the salesforce on winning or retaining client contracts as incurred. Under IFRS 15, there is a requirement to recognise as an asset the incremental costs of obtaining a contract with a customer if the Group expects to recover them. These costs are then unwound over the life of the contract to which they relate on a straight line basis. Only commissions directly attributable to individual contract award are capitalised, while commissions payable due to multiple contract wins or due to a portfolio of client contracts will continue to be expensed as incurred as they cannot be directly attributable to an identified contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

From a balance sheet perspective, this change has resulted in an adjustment of £32 million at the opening balance sheet date as at 1 October 2017 to recognise the net book value of the costs to obtain a contract. The opening balance sheet as at 1 October 2017 has also been adjusted to recognise the associated deferred tax impact of £10 million. The consolidated balance sheet as at 30 September 2018 was also restated to recognise the additional net book value of the costs to obtain a contract of £3 million.

The consolidated income statement for the year ended 30 September 2018 was restated to recognise a net decrease in operating costs of £3 million due to the de-recognition of commissions paid to salesforce now capitalised net of the charge recorded for the year in relation to these assets (£16 million and £13 million respectively for the year ended 30 September 2018).The consolidated income statement for the year ended 30 September 2018 was also restated to recognise a reduction in the deferred tax liability of £2 million, giving a rise to an income statement deferred tax credit of the same amount.

(iii) Contract fulfilment assets
The Group has historically classified certain client investments as contract intangible assets as a result of having to rely on, or analogise to, requirements that were not developed specifically for contracts with customers. As a result of the implementation of IFRS 15, all client investments previously classified as intangible assets that relate to contributions towards assets that the Group uses in the performance of its obligations in its contracts with clients have now been reclassified within contract fulfilment assets and contract costs. This new classification better represents the underlying nature of these assets as they are used in the fulfilment of the Group’s performance obligations to its clients and improves the revenue generated from our client contracts. These investments represent contributions towards service assets such as catering equipment rather than unrestricted payments, which are treated as contract prepayments.

As a result, a balance sheet reclassification from intangible assets to contract fulfilment assets of £706 million was made at the opening balance sheet date as at 1 October 2017. The consolidated balance sheet as at 30 September 2018 was also restated to recognise the additional reclassification to contract fulfilment assets in the period of £97 million, which includes an increase in the net book value of contract fulfilment assets of £76 million net of the impact of foreign currency translation gain of £21 million.

(iv) Contract prepayments
The Group may give signing-on bonuses and cash payments to its clients which the client can use at its own discretion. Prior to IFRS 15, such payments were considered contract prepayments and reported as other receivables, which then were charged to operating costs over the period in which the Group was expected to benefit from those contracts. Under IFRS 15, these payments are assessed for treatment as ‘consideration payable to a customer’ and where they are not in exchange for a distinct good or service, they continue to be recorded as a contract prepayment, however they are charged to the income statement as a deduction to revenue recognised over the contract term rather than an operating cost. As a result, the consolidated income statement for the year ended 30 September 2018 was restated to recognise a reduction in revenue of £21 million.

The Group has conducted a detailed review of its contract prepayments resulting in a net reclassification of £5 million of payments to clients from contract prepayments to intangible assets at the opening balance sheet date as at 1 October 2017 and as at 30 September 2018.

In the consolidated cash flow statement, these client prepayments are reclassified from investing activities to cash flow from operations.

(v) Other adjustments and disclosure requirements

The Group has assessed whether other adjustments were required as a result of the transition to IFRS 15 and concluded that the standard did not have a significant impact on the timing and recognition of revenue.

The Group is a food service and support services provider and generates revenue by providing these services. Revenue is recognised when the service is performed or when the goods (i.e. food, drinks or meals) are sold. Revenue recognised often corresponds to the amount invoiced or to be invoiced for services delivered in the year, with the associated cost of delivery recognised as incurred. There are no significant judgements associated with this approach.

The Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also discloses information to show the relationship between the disclosure of disaggregated revenue and revenue information discloses for each reportable segment. Refer to note 3 for the disclosure on disaggregated revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 9 Financial instruments – impact of the adoption

The Group adopted IFRS 9 'Financial instruments' on 1 October 2018. The cumulative retrospective impact of the application of the standard has been reflected as an adjustment to equity on the date of adoption. The Group has not restated comparative information for prior periods.

The amendments to IFRS 9 mainly relate to the classification and measurement of financial instruments. IFRS 9 largely retains the existing requirements in IAS 39 'Financial instruments: Recognition and Measurement' for the classification and measurement of financial liabilities; however, it eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and available for sale. The Group elected to continue to apply the hedge accounting guidance in IAS 39.

With respect to provisions for impairment of trade receivables, IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. From 1 October 2018, the Group measures provisions for impairment of trade receivables at an amount equal to lifetime expected credit losses. In determining credit risk, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience, and forwardlooking information. The Group considers the model and the assumptions used in calculating these expected credit losses as sources of estimation uncertainty.

The application of IFRS 9 at 1 October 2018 results in a £15 million adjustment to retained earnings reflective of an additional provision for impairment of trade receivables of £19 million net of a deferred tax asset of £4 million.

IFRS 16 Leases – expected impact of the adoption

IFRS 16 'Leases' replaces IAS 17 'Leases', IFRIC 4 'Determining whether an arrangement contains a lease' and related interpretations. The standard is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Group on 1 October 2019.

The Group will adopt IFRS 16 on a modified retrospective basis with the initial cumulative impact of applying the standard as an adjustment to retained earnings on the date of adoption with no restatement of comparative information.

The Group's current estimate of the financial impact of these changes on the consolidated balance sheet on adoption is the recognition of an additional lease liability at 1 October 2019 of between £950 million and £1,050 million. The additional lease liability will not equal the operating lease commitment for the year ended 30 September 2019 primarily because: a) lease terms determined under IFRS 16 may be longer than under IAS 17; b) lease liabilities will be discounted under IFRS 16; and c) low value and short term leases will not be included in the Group's lease liability.

The right of use asset recognised at 1 October 2019 is expected to be slightly lower than the lease liability, as the value of existing lease prepayments added to the balance is expected to be lower than the value of accruals and provisions for onerous leases that are deducted. Overall, these adjustments are not expected to have a material impact on Group retained earnings.

The net impact on the consolidated income statement for the year to 30 September 2020 is expected to be immaterial. The final impact of adopting IFRS 16 will depend on factors that may occur during the year including new leases entered into, changes or reassessments of the Group's existing lease portfolio and changes to exchange rates or discount rates.

These impacts are based on the assessments undertaken to date. The exact financial impacts of the accounting changes of adopting IFRS 16 at 1 October 2019 may be revised. The Group will issue further details on the impact of adopting IFRS 16 as part of the condensed financial statements for the six months ending 31 March 2020.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

3 SEGMENTAL REPORTING

REVENUE[1]	Geographical segments North America £m	Europe £m	Rest of World £m	Total £m
YEAR ENDED 30 SEPTEMBER 2019				
Business & Industry	**5,077**	**3,077**	**1,517**	**9,671**
Education	**3,495**	**776**	**253**	**4,524**
Healthcare & Seniors	**4,422**	**923**	**501**	**5,846**
Sports & Leisure	**2,454**	**588**	**284**	**3,326**
Defence, Offshore & Remote	**246**	**490**	**1,049**	**1,785**
Combined sales of Group and share of equity accounted joint ventures[2,3,4]	**15,694**	**5,854**	**3,604**	**25,152**
YEAR ENDED 30 SEPTEMBER 2018[5]				
Business & Industry	4,251	3,254	1,542	9,047
Education	3,092	778	241	4,111
Healthcare & Seniors	3,997	904	528	5,429
Sports & Leisure	2,160	426	287	2,873
Defence, Offshore & Remote	218	400	1,069	1,687
Combined sales of Group and share of equity accounted joint ventures[2,3]	13,718	5,762	3,667	23,147

1 There is no inter-segmental trading.
2 This is the revenue measure considered by the chief operating decision maker.
3 Underlying revenue from external customers arising in the UK, the Group's country of domicile, was £2,143 million (2018: £2,179 million). Underlying revenue from external customers arising in the US region was £14,747 million (2018: £12,875 million). Underlying revenue from external customers arising in all foreign countries from which the Group derives revenue was £23,009 million (2018: £20,968 million).
4 Includes revenue of £154 million of joint ventures classified as held for sale.
5 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 'Revenue from contracts with customers'. See note 2 for details regarding the restatement.

OPERATING PROFIT	Geographical segments North America £m	Europe £m	Rest of World £m	Central Activities £m	Total £m
YEAR ENDED 30 SEPTEMBER 2019					
Underlying operating profit before joint ventures and associates	**1,289**	**368**	**249**	**(80)**	**1,826**
Add: Share of profit before tax of joint ventures[1]	**1**	**-**	**36**	**-**	**37**
Regional underlying operating profit[2]	**1,290**	**368**	**285**	**(80)**	**1,863**
Add: Share of profit of associates[1]	**10**	**8**	**1**	**-**	**19**
Group underlying operating profit[2]	**1,300**	**376**	**286**	**(80)**	**1,882**

OPERATING PROFIT	Geographical segments North America £m	Europe £m	Rest of World £m	Central Activities £m	Total £m
YEAR ENDED 30 SEPTEMBER 2018[3]					
Underlying operating profit before joint ventures and associates	1,121	395	246	(70)	1,692
Add: Share of profit before tax of joint ventures	2	-	30	-	32
Regional underlying operating profit[2]	1,123	395	276	(70)	1,724
Add: Share of profit of associates	14	6	-	-	20
Group underlying operating profit[2]	1,137	401	276	(70)	1,744

1 Includes £25 million of share of profit of joint ventures and associates classified as held for sale.
2 Underlying operating profit is the profit measure considered by the chief operating decision maker.
3 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 'Revenue from contracts with customers'. See note 2 for details regarding the restatement

From 1 October 2019 the Group's geographical segments of Europe and Rest of World will be reclassified: Turkey will form part of the Europe segment. Revenue of £306 million and underlying operating profit of £21 million will be reclassified from Rest of World to Europe for the year ended 30 September 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

4 TAX

RECOGNISED IN THE INCOME STATEMENT: INCOME TAX EXPENSE	2019 £m	2018 (restated[1]) £m
CURRENT TAX		
Current year	**387**	380
Adjustment in respect of prior years	**(29)**	(11)
Current tax expense	**358**	369
DEFERRED TAX		
Current year	**(8)**	17
Impact of changes in statutory tax rates	**(1)**	(6)
Adjustment in respect of prior years	**2**	5
Deferred tax expense	**(7)**	16
TOTAL INCOME TAX		
Income tax expense	**351**	385

[1] Prior year comparatives have been restated upon the Group's adoption of IFRS 15 'Revenue from contracts with customers'. See note 2 for details regarding the restatement.

In April 2019, the European Commission published its final decision on the Group Financing Exemption in the UK's Controlled Foreign Company legislation concluding that part of the legislation is in breach of EU State Aid rules. Like many other multinational groups that have acted in accordance with the UK legislation in force at the time, the Group may be affected. The UK government and UK-based multinational companies, including Compass, have appealed to the General Court of the European Union against the decision. The UK government is required to start collection proceedings in advance of the appeal results and it is possible that the Group will be required to make a payment in the year ending 30 September 2020. At present it is not possible to determine the amount that the UK government will seek to collect. If the decision of the European Commission is upheld, we have calculated our maximum potential liability to be £113 million at 30 September 2019. The final impact on the Group remains uncertain and our current assessment is that no provision is required.

The increasingly complex international corporate tax environment and an increase in audit activity from tax authorities means that the potential for tax uncertainties has increased. The Group is currently subject to a number of reviews and audits in jurisdictions around the world that primarily relate to complex corporate tax issues. None of these audits is currently expected to have a material impact on the Group's financial position.

In addition, we continue to engage with tax authorities and other regulatory bodies on payroll and sales tax reviews, and compliance with labour laws and regulations. During the course of the year, the federal tax authorities in Brazil have issued a number of notices of deficiency which we have formally objected to and which are now proceeding through the appeals process. These assessments relate primarily to the PIS / COFINS treatment of certain food costs and the corporate income tax treatment of goodwill deductions. As at 30 September 2019, the total amount assessed in respect of these matters is £44 million. The possibility of further assessments cannot be ruled out and the judicial process is likely to take a number of years to conclude. Based on the opinion of our local legal advisers, we do not currently consider it likely that we will have to settle a liability with respect to these matters, and on this basis no provision has been recorded. We therefore do not currently expect any of these issues to have a material impact on the Group's financial position.

Deferred tax assets have not been recognised in respect of tax losses of £232 million (2018: £41 million) and other temporary differences of £24 million (2018: £20 million). Of the total tax losses, £212 million (2018: £26 million) will expire at various dates between 2020 and 2025. These deferred tax assets have not been recognised as the timing of recovery is uncertain.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

5 EARNINGS PER SHARE

The calculation of earnings per share is based on earnings after tax and the weighted average number of shares in issue during the period. The underlying earnings per share figures have been calculated based on earnings excluding the effect of the acquisition related costs, one-off pension charge, cost action programme charge, gains and losses on sale and closure of businesses, hedge accounting ineffectiveness, change in fair value of investments and the tax attributable to these amounts, but including share of profit of associates and joint ventures classified as held for sale. These items are excluded in order to show the underlying trading performance of the Group.

ATTRIBUTABLE PROFIT	2019 £m	2018 (restated[1]) £m
Profit for the period attributable to equity shareholders of the Company	**1,110**	1,130
Adjustments stated net of tax:		
Acquisition related costs	**41**	37
One-off pension charge	**10**	-
Cost action programme charge	**149**	-
Share of profit of joint ventures and associates held for sale	**25**	-
Net loss on sale and closure of businesses	**4**	68
Other financing items including hedge accounting ineffectiveness and change in the fair value of investments	**12**	(1)
Underlying profit for the year from operations	**1,351**	1,234

AVERAGE NUMBER OF ORDINARY SHARES	2019 Ordinary shares of $11^{1/20}$p each millions	2018 Ordinary shares of $11^{1/20}$p each millions
Average number of shares for basic earnings per share	**1,586**	1,584
Dilutive share options	**1**	1
Average number of shares for diluted earnings per share	**1,587**	1,585

	Basic earnings per share		Diluted earnings per share	
	2019 Earnings per share pence	2018 (restated[1]) Earnings per share pence	2019 Earnings per share pence	2018 (restated[1]) Earnings per share pence
From operations	**70.0**	71.3	**69.9**	71.3
Adjustments stated net of tax:				
Acquisition related costs	**2.6**	2.4	**2.6**	2.4
One-off pension charge	**0.6**	-	**0.6**	-
Cost action programme charge	**9.4**	-	**9.4**	-
Share of profit of joint ventures and associates held for sale	**1.6**	-	**1.6**	-
Net loss on sale and closure of businesses	**0.2**	4.3	**0.2**	4.3
Other financing items including hedge accounting ineffectiveness and change in the fair value of investments	**0.8**	(0.1)	**0.8**	(0.1)
From underlying operations	**85.2**	77.9	**85.1**	77.9

[1] Prior period and year end comparatives have been restated upon the Group’s adoption of IFRS 15 'Revenue from contracts with customers'. See note 2 for details regarding the restatement.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6 DIVIDENDS

A final dividend in respect of 2019 of 26.9 pence per share, £427 million in aggregate[1], has been proposed, giving a total dividend in respect of 2019 of 40.0 pence per share (2018: 37.7 pence per share). The proposed final dividend is subject to approval by shareholders at the Annual General Meeting to be held on 6 February 2020 and has not been included as a liability in these financial statements.

DIVIDENDS ON ORDINARY SHARES	2019 Dividends per share pence	2019 £m	2018 Dividends per share pence	2018 £m
Amounts recognised as distributions to equity shareholders during the year:				
Final 2017	**-**	**-**	22.3	353
Interim 2018	**-**	**-**	12.3	195
Final 2018	**25.4**	**403**	-	-
Interim 2019	**13.1**	**208**	-	-
Total dividends	**38.5**	**611**	34.6	548

[1] Based on the number of ordinary shares, excluding treasury shares, in issue at 30 September 2019 (1,586 million shares).

7 RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS

	2019 £m	2018 (restated[1]) £m
Operating profit before joint ventures and associates	**1,570**	1,643
Adjustments for:		
Acquisition related costs	**54**	49
One-off pension charge	**12**	-
Cost action programme charge	**190**	-
Amortisation of intangible assets	**88**	69
Amortisation of contract fulfilment assets	**184**	164
Amortisation of contract prepayments	**23**	21
Depreciation of property, plant and equipment	**282**	267
Unwind of costs to obtain contracts	**14**	13
Gain on disposal of property, plant and equipment/intangible assets/contract fulfilment assets	**-**	(7)
Other non-cash changes	**(2)**	-
Decrease in provisions	**(41)**	(45)
Investment in contract prepayments	**(30)**	(27)
Increase in costs to obtain contracts	**(19)**	(16)
Decrease in post employment benefit obligations	**(15)**	(8)
Share-based payments - charged to profits	**27**	21
Operating cash flows before movement in working capital	**2,337**	2,144
Increase in inventories	**(30)**	(30)
Increase in receivables	**(121)**	(208)
Increase in payables	**210**	364
Cash generated by operations	**2,396**	2,270

[1] Prior period and year end comparatives have been restated upon the Group's adoption of IFRS 15 'Revenue from contracts with customers'. See note 2 for details regarding the restatement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

8 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

This table is presented as additional information to show movement in net debt, defined as overdrafts, bank and other borrowings, finance leases and derivative financial instruments, net of cash and cash equivalents.

		Gross debt						
NET DEBT	Cash and cash equivalents £m	Bank overdrafts £m	Bank and other borrowings £m	Total overdrafts and borrowings £m	Finance leases £m	Derivative financial instruments £m	Total gross debt £m	Net debt £m
At 1 October 2017	387	(8)	(3,941)	(3,949)	(10)	126	(3,833)	(3,446)
Net increase in cash and cash equivalents	602	-	-	-	-	-	-	602
Cash outflow from repayment of bank loans	-	-	1,074	1,074	-	-	1,074	1,074
Cash inflow from borrowing of bank loans	-	-	(772)	(772)	-	-	(772)	(772)
Cash inflow from issue of bonds	-	-	(686)	(686)	-	-	(686)	(686)
Cash (inflow)/outflow from other changes in gross debt	-	(67)	17	(50)	-	2	(48)	(48)
Cash outflow from repayments of obligations under finance leases	-	-	-	-	6	-	6	6
Increase in net debt as a result of new finance leases	-	-	-	-	(2)	-	(2)	(2)
Reclassified as held for sale	(22)	-	-	-	-	-	-	(22)
Currency translation gains/(losses)	2	(1)	(62)	(63)	-	(6)	(69)	(67)
Other non-cash movements	-	-	28	28	-	(50)	(22)	(22)
At 30 September 2018	969	(76)	(4,342)	(4,418)	(6)	72	(4,352)	(3,383)
Net decrease in cash and cash equivalents	**(579)**	**-**	**-**	**-**	**-**	**-**	**-**	**(579)**
Cash outflow from repayment of bank loans	**-**	**-**	**1,830**	**1,830**	**-**	**-**	**1,830**	**1,830**
Cash inflow from borrowing of bank loans	**-**	**-**	**(1,830)**	**(1,830)**	**-**	**-**	**(1,830)**	**(1,830)**
Cash outflow from repayment of loan notes	**-**	**-**	**195**	**195**	**-**	**-**	**195**	**195**
Cash outflow from repayment of bonds	**-**	**-**	**530**	**530**	**-**	**-**	**530**	**530**
Cash outflow from other changes in gross debt	**-**	**60**	**2**	**62**	**-**	**14**	**76**	**76**
Cash outflow from repayments of obligations under finance leases	**-**	**-**	**-**	**-**	**4**	**-**	**4**	**4**
Increase in net debt as a result of new finance leases	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**	**(1)**
Reclassified as held for sale	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**
Currency translation gains/(losses)	**9**	**(1)**	**(64)**	**(65)**	**-**	**(30)**	**(95)**	**(86)**
Other non-cash movements	**-**	**-**	**(166)**	**(166)**	**-**	**139**	**(27)**	**(27)**
At 30 September 2019	**398**	**(17)**	**(3,845)**	**(3,862)**	**(3)**	**195**	**(3,670)**	**(3,272)**

OTHER NON-CASH MOVEMENTS IN NET DEBT	**2019 £m**	2018 £m
Amortisation of fees and discount on issuance	**(6)**	(4)
Loans acquired through business acquisition	**-**	(12)
Changes in the fair value of bank and other borrowings in a designated fair value hedge	**(160)**	44
Bank and other borrowings	**(166)**	28
Changes in the value of derivative financial instruments including accrued income	**139**	(50)
Other non-cash movements	**(27)**	(22)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9 ACQUISITIONS AND SALE AND CLOSURE OF BUSINESSES

ACQUISITIONS

The total cash spent on acquisitions during the year, net of cash acquired, was £451 million (2018: £420 million). The most significant acquisition during the year relates to Client Rewards.

On 12 December 2018, Compass Group USA, Inc., a USA subsidiary of the Group, purchased the trading net assets of Client Rewards for an initial consideration of £164 million ($209 million). Client Rewards is an Iowa based company that provides procurement and supply chain management services. The preliminary goodwill in relation to the assets acquired is £78 million ($100 million). This goodwill is provisional and will be finalised within 12 months of the acquisition date. Changes are expected to principally relate to the valuation of contracts acquired. This goodwill represents the premium the Group paid to acquire a company that complements its existing businesses and creates significant opportunities and other synergies.

SALE AND CLOSURE OF BUSINESSES

Following a strategic review of the business, the Group decided to take actions to simplify its portfolio of businesses based on an assessment of market growth opportunity, scalability, the Group's market position and capabilities.

During the year, the disposal of several businesses which were held for sale at 30 September 2018 was completed, including its operations in South Africa, Vision Security Group in the UK and part of its US laundries business. As a result, the Group has recognised a net gain of £50 million on the sale and closure of businesses (2018: £3 million loss) including price adjustments to disposals completed in prior years. This gain was offset by £57 million (2018: £55 million) exit costs and assets write down relating to committed or completed business exits.

As at the balance sheet date, the Group has further classified certain businesses as held for sale as these disposals are highly probable and are expected to be completed within 12 months.

As at 30 September 2019, the Group had classified certain businesses as held for sale with assets of £190 million (2018: £236 million) and liabilities of £30 million (2018: £72 million).

10 STATUTORY AND UNDERLYING RESULTS

	Notes	2019 Statutory £m	Adjustments 1	2	3	4	5	6	7	2019 Underlying £m
Operating profit	3	**1,601**	**54**	**12**	**190**	**25**	**-**	**-**	**-**	**1,882**
Net loss on sale and closure of businesses		**(7)**	**-**	**-**	**-**	**-**	**-**	**7**	**-**	**-**
Net finance cost		**(125)**	**-**	**-**	**-**	**-**	**-**	**-**	**15**	**(110)**
Finance income		**12**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12**
Finance costs		**(122)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(122)**
Other financing items		**(15)**	**-**	**-**	**-**	**-**	**-**	**-**	**15**	**-**
Profit before tax		**1,469**	**54**	**12**	**190**	**25**	**-**	**7**	**15**	**1,772**
Income tax expense		**(351)**	**(13)**	**(2)**	**(41)**	**-**	**-**	**(3)**	**(3)**	**(413)**
Tax rate		**23.9%**								**23.3%**
Profit for the year		**1,118**	**41**	**10**	**149**	**25**	**-**	**4**	**12**	**1,359**
Non-controlling interests		**(8)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(8)**
Profit attributable to equity shareholders of the Company		**1,110**	**41**	**10**	**149**	**25**	**-**	**4**	**12**	**1,351**
Average number of shares		**1,586**								**1,586**
BASIC EARNINGS PER SHARE (PENCE)	5	**70.0**	**2.6**	**0.6**	**9.4**	**1.6**	**-**	**0.2**	**0.8**	**85.2**

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10 STATUTORY AND UNDERLYING RESULTS (CONTINUED)

	Notes	2018 Statutory £m	Adjustments 1	2	3	4	5	6	7	2018 Underlying (restated[1]) £m
Operating profit	3	1,693	49	-	-	-	2	-	-	1,744
Net loss on sale and closure of businesses		(58)	-	-	-	-	-	58	-	-
Net finance cost		(112)	-	-	-	-	-	-	(2)	(114)
Finance income		6	-	-	-	-	-	-	-	6
Finance costs		(120)	-	-	-	-	-	-	-	(120)
Other financing items		2	-	-	-	-	-	-	(2)	-
Profit before tax		1,523	49	-	-	-	2	58	(2)	1,630
Income tax expense		(385)	(12)	-	-	-	(2)	10	1	(388)
Tax rate		25.3%								23.8%
Profit for the year		1,138	37	-	-	-	-	68	(1)	1,242
Non-controlling interests		(8)	-	-	-	-	-	-	-	(8)
Profit attributable to equity shareholders of the Company		1,130	37	-	-	-	-	68	(1)	1,234
Average number of shares		1,584								1,584
BASIC EARNINGS PER SHARE (PENCE)[2]	5	71.3	2.4	-	-	-	-	4.3	(0.1)	77.9

[1] Prior year comparatives have been restated upon the Group's adoption of IFRS 15 'Revenue from contracts with customers'. See note 2 for details regarding the restatement.
[2] Underlying constant currency earnings per share is based on a Group constant currency profit attributable to equity shareholders of the Company and includes positive constant currency adjustment of £39 million net of £12 million negative constant currency adjustment to income tax expense.

The Executive Committee manages and assesses the performance of the Group using various underlying and other alternative performance measures. These measures are not recognised under EU-adopted IFRS and may not be directly comparable with alternative performance measures used by other companies. Underlying and other alternative performance measures are defined in the glossary of terms on pages 43 and 44. Underlying operating profit is considered to better reflect ongoing trading, facilitate meaningful year on year comparison and hence provides financial measures that, together with the results prepared in accordance with adopted IFRS, provide better analysis of the results of the Group. In determining the adjustments to arrive at underlying results, we use a set of established principles relating to the nature and materiality of individual items or group of items, including, for example, events which (i) are outside the normal course of business, (ii) are incurred in a pattern that is unrelated to the trends in the underlying financial performance of our ongoing business, or (iii) are related to business acquisitions or disposals as they are not part of the Group's ongoing trading business, and the associated cost impact arises from the transaction rather than from the continuing business. Adjustments from statutory to underlying results are explained further below.

1. Acquisition related costs
Represent charges in respect of intangible assets acquired through business combinations, direct costs incurred as part of a business combination or other strategic asset acquisitions and changes in consideration in relation to past acquisition activity.

2. One-off pension charge
One-off pension charge in relation to GMP equalisation, see page 15 for additional details.

3. Cost action programme charge
Charges relating to actions taken to adjust our cost base, see page 12 for additional details.

4. Share of profit of joint ventures and associates held for sale
The Group's share of profit of joint ventures and associates after these were classified as held for sale.

5. Tax on share of profit of joint ventures
Reclassification of tax on share of profit of joint ventures to income tax expense.

6. Net gain/(loss) on sale and closure of businesses
These represent profits and losses on the sale of subsidiaries, joint ventures, associates and other financial assets. See page12 for additional details.

7. Other financing items
Represent financing items including hedge accounting ineffectiveness and change in the fair value of investments.

Compass Group PLC
Consolidated Financial Statements (continued)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

11 ORGANIC REVENUE AND ORGANIC PROFIT

	Geographical segments				
	North America £m	Europe £m	Rest of World £m	Other £m	Group £m
2019					
Combined sales of Group and share of equity accounted joint ventures[1]	**15,694**	**5,854**	**3,604**	**-**	**25,152**
% growth reported rates	14.4%	1.6%	(1.7)%	-	8.7%
% growth constant currency	8.5%	1.6%	0.8%	-	5.7%
Organic adjustments	(104)	(69)	(194)	-	(367)
Organic revenue	15,590	5,785	3,410	-	24,785
% growth organic	**7.7%**	**4.1%**	**4.3%**	**-**	**6.4%**
2018[2]					
Combined sales of Group and share of equity accounted joint ventures	**13,718**	**5,762**	**3,667**	**-**	**23,147**
Currency adjustments	743	(3)	(92)	-	648
Constant currency underlying revenue	14,461	5,759	3,575	-	23,795
Organic adjustments	11	(203)	(306)	-	(498)
Organic revenue	14,472	5,556	3,269	-	23,297
2019					
Regional underlying operating profit[1]	**1,290**	**368**	**285**	**(80)**	1,863
Share of profit of associates[1]	10	8	1	-	19
Group underlying operating profit[1]	1,300	376	286	(80)	**1,882**
Underlying operating margin (excluding associates)	**8.2%**	**6.3%**	**7.9%**	**-**	**7.4%**
% growth reported rates	14.9%	(6.8)%	3.3%	-	7.9%
% growth constant currency	9.0%	(6.6)%	5.9%	-	**4.7%**
Organic adjustments	(5)	-	(23)	-	(28)
Regional underlying organic operating profit (excluding associates)	**1,285**	**368**	**262**	(80)	1,835
Group underlying organic operating profit (including associates)	1,295	376	263	(80)	**1,854**
% growth organic	**7.9%**	**(8.0)%**	**7.4%**	**-**	**3.8%**
2018[2]					
Regional underlying operating profit	**1,123**	**395**	**276**	**(70)**	1,724
Share of profit of associates	14	6	-	-	20
Group underlying operating profit	1,137	401	276	(70)	**1,744**
Underlying operating margin (excluding associates)	**8.2%**	**6.9%**	**7.5%**	**-**	**7.4%**
Currency adjustments – profit	61	(1)	(7)	-	53
Currency adjustments – associates	1	-	-	-	1
Regional constant currency underlying profit (excluding associates)	**1,184**	**394**	**269**	(70)	1,777
Group constant currency underlying operating profit (including associates)	1,199	400	269	(70)	**1,798**
Organic adjustments	7	6	(25)	-	(12)
Regional underlying organic operating profit (excluding associates)	**1,191**	**400**	**244**	(70)	1,765
Share of profit from associates – constant currency	15	6	-	-	21
Group underlying organic operating profit (including associates)	1,206	406	244	(70)	**1,786**

[1] Underlying revenue and underlying operating profit include share of profit of joint ventures and associates classified as held for sale during the year.
[2] Prior year comparatives have been restated upon the Group's adoption of IFRS 15 'Revenue from contracts with customers'. See note 2 for details regarding the restatement.

Compass Group PLC
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

12 POST BALANCE SHEET EVENTS

There were no significant post balance sheet events.

13 EXCHANGE RATES

	2019	2018
AVERAGE EXCHANGE RATE FOR THE YEAR[1]		
Australian Dollar	**1.81**	1.77
Brazilian Real	**4.96**	4.73
Canadian Dollar	**1.69**	1.73
Chilean Peso	**875.59**	850.39
Euro	**1.13**	1.13
Japanese Yen	**140.53**	149.06
New Zealand Dollar	**1.92**	1.93
Norwegian Krone	**11.02**	10.88
Turkish Lira	**7.16**	5.92
UAE Dirham	**4.69**	4.95
US Dollar	**1.28**	1.35
CLOSING EXCHANGE RATE AS AT 30 SEPTEMBER[1]		
Australian Dollar	**1.83**	1.80
Brazilian Real	**5.13**	5.21
Canadian Dollar	**1.63**	1.69
Chilean Peso	**897.37**	860.15
Euro	**1.13**	1.12
Japanese Yen	**133.18**	148.12
New Zealand Dollar	**1.97**	1.97
Norwegian Krone	**11.20**	10.62
Turkish Lira	**6.96**	7.83
UAE Dirham	**4.53**	4.79
US Dollar	**1.23**	1.30

[1] Average rates are used to translate the income statement and cash flow statement. Closing rates are used to translate the balance sheet. Only the most significant currencies are shown.

Glossary of terms

Capital employed	Total equity shareholders' funds adjusted for net debt, post employment benefit obligations net of associated deferred tax, amortised intangibles arising on acquisition, impaired goodwill and excluding the Group's non-controlling partners' share of net assets and net assets of discontinued operations.
Constant currency	Restates the prior year results to the current year's average exchange rates.
EM & OR restructuring	Emerging Markets and Offshore & Remote restructuring.
Free cash flow	Calculated by adjusting operating profit for non-cash items in profit, cash movements in provisions, contract prepayments and costs to obtain client contracts, post employment benefit obligations and working capital, cash purchases and proceeds from disposal of non-current assets, net cash interest, net cash tax, dividends received from joint ventures and associated undertakings, and dividends paid to non-controlling interests.
Free cash flow conversion	Underlying free cash flow expressed as a percentage of underlying operating profit.
Gross capital expenditure	Includes the purchase of intangible assets, contract fulfilment assets, property, plant and equipment and investment in contract prepayments. Assets purchased under finance leases were included in gross capital expenditure until 2019.
Like for like revenue growth	Calculated by adjusting organic revenue growth for new business wins and lost business.
Net capital expenditure	Gross capital expenditure less proceeds from sale of property, plant and equipment, intangible assets and cash proceeds from derecognition of contract fulfilment assets and contract prepayments.
Net debt	Bank overdrafts, bank and other borrowings, finance leases and derivative financial instruments, net of cash and cash equivalents.
Net debt to EBITDA	Net debt divided by underlying EBITDA.
NOPAT	Net operating profit after tax (NOPAT) is calculated as underlying operating profit from continuing operations less operating profit of non-controlling interests before tax, net of income tax at the underlying rate of the year.
Organic profit growth	Calculated by adjusting underlying operating profit for acquisitions (excluding current year acquisitions and including a full period in respect of prior year acquisitions), sale and closure of businesses (excluded from both periods) and exchange rate movements (translating the prior period at current year exchange rates) and compares the current year results against the prior year. In addition, where applicable, a 53rd week has been excluded from the prior year’s underlying operating profit.
Organic profit	Calculated by adjusting underlying operating profit for acquisitions (excluding current year acquisitions and including a full period in respect of prior year acquisitions), sale and closure of businesses (excluded from both periods) and exchange rate movements (translating the prior period at current year exchange rates).
Organic revenue	Calculated by adjusting underlying revenue for acquisitions (excluding current year acquisitions and including a full period in respect of prior year acquisitions), sale and closure of businesses (excluded from both periods) and exchange rate movements (translating the prior period at current year exchange rates).
Organic revenue growth	Calculated by adjusting underlying revenue for acquisitions (excluding current year acquisitions and including a full period in respect of prior year acquisitions), sale and closure of businesses (excluded from both periods) and exchange rate movements (translating the prior period at current year exchange rates) and compares the current year results against the prior year. In addition, where applicable, a 53rd week has been excluded from the prior year’s underlying revenue.
ROCE	Return on capital employed (ROCE) divides NOPAT by the 12 month average capital employed.
Specific adjusting items	○ acquisition related costs; ○ one-off pension charge; ○ cost action programme charge; ○ tax on share of profit of joint ventures; ○ gain/(loss) on sale and closure of businesses; ○ other financing items including hedge accounting ineffectiveness and change in the fair value of investments
Underlying basic earnings per share	Excludes specific adjusting items and the tax attributable to those items.
Underlying cash tax rate	Based on underlying cash tax and underlying profit before tax.
Underlying depreciation and amortisation	Excludes specific adjusting items.
Underlying EBITDA	Based on underlying operating profit, adding back underlying depreciation and amortisation of intangible assets and contract prepayments.
Underlying effective tax rate	Based on underlying tax charge and underlying profit before tax.
Underlying free cash flow	Free cash flow adjusted for costs in the year relating to the 2019 cost action programme.

Glossary of terms (continued)

Underlying net finance cost	Excludes specific adjusting items.
Underlying operating margin - Group	Based on underlying revenue and underlying operating profit excluding share of profit after tax of associates.
Underlying operating margin - Region	Based on underlying revenue and underlying operating profit excluding share of profit after tax of associates and EM & OR restructuring.
Underlying operating profit - Group	Includes share of profit after tax of associates and profit before tax of joint ventures but excludes the specific adjusting items.
Underlying operating profit - Region	Includes share of profit before tax of joint ventures but excludes the specific adjusting items, profit after tax of associates and EM & OR restructuring.
Underlying profit before tax	Excludes specific adjusting items.
Underlying revenue	The combined sales of Group and share of joint ventures.
Underlying tax charge	Excludes tax attributable to specific adjusting items.