

**Adecco** Group



# Contents

- 2 Selected financial information
- 3 Operating and financial review and prospects
- 9 Consolidated balance sheets
- 10 Consolidated statements of operations
- 11 Consolidated statements of cash flows
- 12 Consolidated statements of changes in shareholders' equity
- 13 Notes to consolidated financial statements

# Adecco Group – Selected financial information (unaudited)

in millions, except share and per share information

For the six months ended (in EUR)	30.6.2010	30.6.2009
<b>Statements of operations</b>		
Revenues	8,608	7,294
Amortisation of intangible assets	(27)	(26)
Impairment of goodwill and intangible assets		(192)
Operating income/(loss)	254	(143)
Net income/(loss) attributable to Adecco shareholders	154	(124)

As of (in EUR)	30.6.2010	31.12.2009
<b>Balance sheets</b>		
Cash and cash equivalents and short-term investments	438	1,460
Trade accounts receivable, net	3,402	2,560
Goodwill	3,365	2,657
Total assets	8,832	7,831
Short-term debt and current maturities of long-term debt	418	456
Accounts payable and accrued expenses	3,291	2,716
Long-term debt, less current maturities	1,089	1,114
Total liabilities	5,411	4,717
Total shareholders' equity	3,421	3,114

For the six months ended (in EUR)	30.6.2010	30.6.2009
<b>Cash flows from operations</b>		
Cash flows from operating activities	30	282
Cash flows from/(used in) investing activities	(874)	(99)
Cash flows from/(used in) financing activities	(222)	158
<b>Other indicators</b>		
Capital expenditures	45	55

As of	30.6.2010	31.12.2009
<b>Other indicators</b>		
Net debt (in EUR) <sup>1</sup>	1,069	110
<b>Additional statistics</b>		
Number of FTE employees at end of period (approximate)	31,000	28,000

<sup>1</sup> Net debt is a non-U.S. GAAP measure and comprises short-term and long-term debt, less cash and cash equivalents and short-term investments.

# Adecco Group – Operating and financial review and prospects

*in millions, except share and per share information*

## 1. Operational results

### 1.1 Overview

Statements throughout this discussion and analysis using the term “the Company” refer to the Adecco Group, which comprises Adecco S.A., a Swiss corporation, its consolidated subsidiaries, as well as variable interest entities for which Adecco is considered the primary beneficiary.

**Revenues** for the first six months of 2010, were EUR 8,608. Compared to the same period last year, revenues increased by 18% or by 16% in constant currency. Acquisitions, mainly the MPS Group (“MPS”) (refer to Note 2 to the consolidated financial statements), added 10% to revenues. In the first six months of 2010, permanent placement revenues amounted to EUR 139, an increase of 42% (acquisitions added 32%), and outplacement revenues amounted to EUR 123, a decrease of 28%, both in constant currency.

**Gross margin** was 17.9%, down 30 basis points (“bps”) compared to the first six months of 2009. Effective as of January 2010, the French government introduced a new business tax law, which requires a portion of the business tax to be computed based on added value and consequently, under U.S. generally accepted accounting principles (“U.S. GAAP”), this component previously reported as costs of services is classified as income tax in 2010. Excluding the impact from the French business tax law change and acquisitions, the gross margin was down 120 bps. This decrease was mainly due to the declining contribution from the outplacement business (–70 bps) and the lower contribution on gross margin from the temporary staffing business (–70 bps). The permanent placement business and other service lines positively impacted the gross margin by 10 bps each.

**Selling, general and administrative expenses (“SG&A”)** were flat or down 1% in constant currency. SG&A as a percentage of revenues decreased by 260 bps to 14.6% in the first six months of 2010 (H1 2009: 17.2%). Included in the first six months of 2009 were restructuring costs for headcount reductions and branch optimisation (“restructuring”) in certain countries of EUR 90. Excluding in 2009, the costs related to the restructuring activities and the impact from the change in the French business tax law, SG&A increased by 7% in constant currency in the first six months of 2010 compared to the first six months of 2009 or excluding acquisitions declined by 5% in constant currency. The branch network declined by 8% or by 12% excluding

acquisitions and full-time equivalent (“FTE”) employees decreased by 2% or 11% excluding acquisitions. As of the end of June 2010, the Company had over 31,000 FTE employees and over 5,500 branches.

**Amortisation of intangible assets** increased by EUR 1 to EUR 27 in the first six months of 2010.

**Impairment of goodwill and intangible assets.** In the first six months of 2009, the Company recorded a non-cash impairment charge to goodwill and intangible assets of EUR 192.

**Operating income/(loss).** In the first six months of 2010, the operating income/(loss) was income of EUR 254 compared to a loss of EUR 143 in the same period of 2009. The operating income margin was 3.0% for the first six months of 2010 and –2.0% for the first six months of 2009. Excluding the impact from the change in the French business tax, the impairment of goodwill and intangible assets of EUR 192 and restructuring costs of EUR 90 in the first six months of 2009, operating income increased by 49% in constant currency and the operating income margin increased by 60 bps.

**Interest expense** was EUR 31 compared to EUR 24 in the first six months of 2009. **Other income/(expenses), net**, was income of EUR 1, a decrease of EUR 3 compared to the same period last year.

In the first six months of 2010, the Company recorded an income tax expense of EUR 70 compared to an income tax benefit of EUR 39 in the same period of 2009. The **effective tax rate** in the first six months of 2010 was 31% compared to 24% in the same period of 2009. The income tax rate for the first six months of 2010 includes the impact from the change in the French business tax law. This was partly offset by the positive impact from the successful resolution of prior years’ audits and the expiration of statutes of limitations. The effective tax rate in the first six months of 2009 was positively impacted by the change in the mix of earnings and the successful resolution of prior years’ audits, substantially offset by the negative impact of the goodwill impairment charge which was not tax deductible.

**Net income/(loss) attributable to Adecco shareholders** was income of EUR 154 in the first six months of 2010 (H1 2009: loss EUR 124). Basic earnings per share (“EPS”) was EUR 0.80 in the first six months of 2010 (H1 2009: EUR –0.71). The first six months of 2009 were negatively impacted by the impairment of goodwill and intangible assets and by the restructuring charges.

# Adecco Group – Operating and financial review and prospects

in millions, except share and per share information

## 1.2 Geographical performance

The geographical breakdown of revenues and operating income/(loss) for the six months ended June 30, 2010 and June 30, 2009 is presented below:

in EUR	2010	2009	Variance %		2010	2009	Variance %	
			EUR	Constant Currency			EUR	Constant Currency
	<b>Revenues</b>				<b>Operating income/(loss)<sup>1,2</sup></b>			
France	2,582	2,280	13	13	85	(15)	n.m.	n.m.
North America <sup>3</sup>	1,662	1,196	39	37	77	64	21	22
UK & Ireland	772	444	74	69	7	(1)	n.m.	n.m.
Japan	621	750	(17)	(19)	34	56	(40)	(42)
Germany & Austria <sup>3</sup>	553	512	8	8	27	0	n.m.	n.m.
Benelux	411	392	5	5	12	(7)	n.m.	n.m.
Italy	382	340	13	13	16	(6)	n.m.	n.m.
Iberia	341	317	8	8	11	(3)	n.m.	n.m.
Nordics	334	294	14	4	15	(6)	n.m.	n.m.
Australia & New Zealand	196	134	47	16	4	1	311	229
Switzerland <sup>3</sup>	166	171	(3)	(6)	14	8	77	72
Emerging Markets <sup>3</sup>	588	464	27	23	16	12	29	28
<b>Total Operating Units</b>					<b>318</b>	<b>103</b>	<b>209</b>	<b>203</b>
Corporate Expenses					(37)	(28)		
<b>Operating income/(loss) before amortisation and impairment of goodwill and intangible assets</b>					<b>281</b>	<b>75</b>	<b>276</b>	<b>269</b>
Amortisation of intangible assets					(27)	(26)		
Impairment of goodwill and intangible assets						(192)		
<b>Adecco Group</b>	<b>8,608</b>	<b>7,294</b>	<b>18</b>	<b>16</b>	<b>254</b>	<b>(143)</b>	<b>n.m.</b>	<b>n.m.</b>

1 Operating income/(loss) before amortisation and impairment of goodwill and intangible assets on the operating unit level.

2 Restructuring expenses in 2009 of EUR 90, thereof France EUR 41, Italy EUR 19, Benelux EUR 10, Iberia EUR 10 and other countries EUR 10.

3 Mexico previously reported under Emerging Markets is since Q4 2009 reported together with North America. Austria previously reported together with Switzerland is since Q4 2009 reported together with Germany. The 2009 information has been restated to conform to the current year presentation.

### France

In France, revenues were up by 13%. In the first six months of 2010, France posted an operating income of EUR 85 compared to an operating loss of EUR 15 in the first six months of 2009. Excluding in 2009, the impact from the French business tax law change and restructuring expenses, the operating income in the first six months of 2010 increased by 50%. The operating income margin was 3.3% in the first six months of 2010.

### North America

In North America, revenues increased by 39% or 8% when excluding acquisitions, divestures and currency impact compared to the first six months of 2009. Operating income in the first six months of 2010 was EUR 77, an increase of 22% in constant currency. The operating income margin decreased by 70 bps to 4.7% in the first six months of 2010, mainly due to the lower contribution from the Human Capital Solutions business.

# Adecco Group – Operating and financial review and prospects

in millions, except share and per share information

## UK & Ireland

In the first six months of 2010, revenues in the UK & Ireland increased by 74% or decreased by 6% when excluding acquisitions and currency impact. In the first six months of 2010, the UK & Ireland had an operating income of EUR 7 compared to an operating loss of EUR 1 in the first six months of 2009.

## Japan

In Japan, revenues decreased by 17%, or by 19% in constant currency, compared to the first six months of 2009. Operating income was EUR 34 compared to EUR 56 in the first six months of 2009 and the operating income margin decreased from 7.5% in 2009 to 5.5% in the first six months of 2010.

## Germany & Austria

In Germany & Austria, revenues increased by 8% compared to the first six months of 2009. Operating income was EUR 27 compared to break-even in 2009. The operating income margin was 4.8% in the first six months of 2010.

## 1.3 Business line performance

The business line breakdown of revenues for the six months ended June 30, 2010 and June 30, 2009 is presented below:

in EUR	2010	2009	Variance %	
			EUR	Constant Currency
<b>Revenues<sup>1</sup></b>				
Office	1,761	1,817	(3)	(5)
Industrial	4,046	3,498	16	15
<b>Total Office and Industrial</b>	<b>5,807</b>	<b>5,315</b>	<b>9</b>	<b>8</b>
Information Technology	958	546	75	68
Engineering & Technical	444	318	39	37
Finance & Legal	326	172	90	88
Medical & Science	166	117	42	40
Sales, Marketing & Events	173	170	1	1
Human Capital Solutions	146	192	(24)	(24)
<b>Total Professional Business Lines</b>	<b>2,213</b>	<b>1,515</b>	<b>46</b>	<b>43</b>
<b>Emerging Markets</b>	<b>588</b>	<b>464</b>	<b>27</b>	<b>23</b>
<b>Adecco Group</b>	<b>8,608</b>	<b>7,294</b>	<b>18</b>	<b>16</b>

<sup>1</sup> Breakdown of revenues is based on dedicated branches.

The 2010 information includes certain changes in the allocation of branches to business lines. The 2009 information has been restated to conform to the current year presentation.

# Adecco Group – Operating and financial review and prospects

*in millions, except share and per share information*

## **Office and Industrial**

The Company's Office and Industrial businesses which represented 67% of total revenues in the first six months of 2010 increased by 9% or 8% in constant currency to EUR 5,807 compared to the first six months of 2009. In the Industrial business, revenues increased by 16%. In France, which comprises over 50% of the Industrial business, revenues increased by 17%. In North America, revenues increased by 25% in constant currency, whereas both Germany & Austria and Italy reported a revenue increase of 15%. In the Office business, revenues contracted by 3% or 5% in constant currency. In constant currency, Japan and the UK & Ireland reported a revenue decline of 19% and 7%, respectively, whereas revenues in North America and Nordics grew by 14% (or by 9% excluding acquisitions and currency impact) and 10%, respectively. The combined revenues from these four geographical areas represented over 70% of the Office business revenues.

## **Information Technology**

In Information Technology, revenues increased by 75% or decreased by 4% excluding acquisitions, divestures and currency impact. Revenues in the UK & Ireland increased by 188% in constant currency or by 8% excluding acquisitions and currency impact, while in North America revenues increased by 79% in constant currency or decreased by 7% when excluding acquisitions, divestures and currency impact. The UK & Ireland and North America comprised over 70% of the Information Technology business line's revenues. Information Technology represented 11% of the Company's revenues in the first six months of 2010.

## **Engineering & Technical**

In the first six months of 2010, revenues in the Engineering & Technical business increased by 39% or by 9% excluding acquisitions and currency impact. In North America, revenues increased by 78% in constant currency or by 31% excluding acquisitions and currency impact, while revenues in Germany & Austria remained flat. North America and Germany & Austria comprised over 70% of Engineering & Technical revenues. Engineering & Technical represented 5% of the Company's revenues in the first six months of 2010.

## **Finance & Legal**

In Finance & Legal, revenues grew 90% or decreased by 3% when excluding acquisitions and currency impact in the first six months of 2010 compared to the same period in 2009. The Finance & Legal businesses in North America and the UK & Ireland comprised over 75% of the business line's revenues. The Finance & Legal business line contributed 4% to the Company's revenues in the first six months of 2010.

## **Human Capital Solutions**

In Human Capital Solutions, revenues decreased by 24% (also in constant currency) in the first six months of 2010 compared to the same period last year, mainly due to a decline in demand in North America.

## **Sales, Marketing & Events/Medical & Science**

In Sales, Marketing & Events, revenues increased by 1% or declined by 2% when excluding acquisitions and currency impact in the first six months of 2010 compared to the first six months of 2009, whereas in Medical & Science revenues grew by 42% or 2% excluding acquisitions and currency impact.

# Adecco Group – Operating and financial review and prospects

*in millions, except share and per share information*

## 2. Non-U.S. GAAP information and financial measures

The Company uses non-U.S. GAAP financial measures for management purposes. The principal non-U.S. GAAP financial measures discussed herein are net debt and constant currency comparisons, which are used in addition to and in conjunction with results presented in accordance with U.S. GAAP.

Net debt and constant currency comparisons should not be relied upon to the exclusion of U.S. GAAP financial measures, but rather reflect additional measures of comparability and means of viewing aspects of the Company's operations that, when viewed together with the U.S. GAAP results, provide a more complete understanding of factors and trends affecting the Company's business.

Because net debt and constant currency comparisons are not standardised, it may not be possible to compare the Company's measures with other companies' non-U.S. GAAP financial measures having the same or a similar name. Management encourages investors to review the Company's financial statements and publicly filed reports in their entirety and not to rely on any single financial measure.

Management monitors outstanding debt obligations by calculating net debt. Net debt comprises short-term and long-term debt less cash and cash equivalents and short-term investments.

Constant currency comparisons are calculated by multiplying the prior year functional currency amount by the current year foreign currency exchange rate. Management believes that constant currency comparisons are important supplemental information for investors because these comparisons exclude the impact of changes in foreign currency exchange rates, which are outside the Company's control, and focus on the underlying growth and performance.

## 3. Cash flow, net debt and Days Sales Outstanding ("DSO")

The Company generated EUR 30 of operating cash flows in the first six months of 2010, compared with EUR 282 in the same period of 2009. This decrease was primarily attributable to higher working capital requirements, mainly due to increased revenues. Cash outflows from investing activities amounted to EUR 874 in the first six months of 2010 and included EUR 831 net cash paid for the acquisition of MPS in January 2010 and EUR 45 for capital expenditures. This compared to cash outflows of EUR 99 in the same period of 2009. Cash outflows from financing activities totalled EUR 222 in the first six months of 2010, which compared to cash inflows of EUR 158 in the same period of 2009. Cash outflows from financing activities in the first six months of 2010 included the repayment of long-term debt of EUR 139 and the payment of dividends of EUR 91.

Net debt increased by EUR 959 to EUR 1,069 at the end of June 2010 compared to December 2009, largely due to the cash outflows related to the acquisition of MPS.

DSO was 53.5 days in the first six months of 2010 compared to 53.8 days in the first six months of 2009.



# Adecco Group – Operating and financial review and prospects

*in millions, except share and per share information*

## 4. Outlook

Throughout the second quarter of 2010, the revenue trend improved strongly for the Company. To date, there is no evidence of a slowdown of business in the third quarter of 2010. Despite current concerns about the sustainability of the economic recovery, developments in the staffing industry continue to signal healthy demand and management is confident of strong revenue development near term.

The acquired businesses, Spring and MPS, are delivering results exceeding expectations and the integration and achievement of targeted synergies are well on track. The increased exposure to the higher margin professional staffing business coupled with a leaner branch network and optimised delivery channels position the Company very well to benefit from the much improved business conditions. Price discipline and cost control remain priorities within the Company, while selective investments in high-growth segments or markets are screened very carefully.

The good results attained in the second quarter of this year show that the Company is delivering on its strategy and is making sound progress to achieve its mid-term EBITA margin target of above 5.5%.

## 5. Forward-looking statements

Information in this report may involve guidance, expectations, beliefs, plans, intentions or strategies regarding the future. These forward-looking statements involve risks and uncertainties. All forward-looking statements included in this report are based on information available to the Company as of August 10, 2010, and the Company assumes no duty to update any such forward-looking statements. The forward-looking statements in this report are not guarantees of future performance and actual results could differ materially from the Company's current expectations. Numerous factors could cause or contribute to such differences. Factors that could affect the Company's forward-looking statements include, among other things:

- global GDP trends and the demand for temporary work;
- changes in regulation of temporary work;
- intense competition in the markets in which the Company operates;
- integration of acquired companies;
- changes in the Company's ability to attract and retain qualified internal and external personnel or clients;
- the potential impact of disruptions related to IT; and
- any adverse developments in existing commercial relationships, disputes or legal and tax proceedings.

# Adecco Group – Consolidated balance sheets (unaudited)

in millions, except share and per share information

As of (in EUR)	Note	30.6.2010	31.12.2009
<b>Assets</b>			
Current assets:			
• Cash and cash equivalents		433	1,458
• Short-term investments		5	2
• Trade accounts receivable, net		3,402	2,560
• Other current assets		398	331
<b>Total current assets</b>		<b>4,238</b>	<b>4,351</b>
Property, equipment, and leasehold improvements, net		281	245
Other assets		314	276
Intangible assets, net	2	634	302
Goodwill	2	3,365	2,657
<b>Total assets</b>		<b>8,832</b>	<b>7,831</b>
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
Current liabilities:			
• Accounts payable and accrued expenses		3,291	2,716
• Short-term debt and current maturities of long-term debt		418	456
<b>Total current liabilities</b>		<b>3,709</b>	<b>3,172</b>
Long-term debt, less current maturities		1,089	1,114
Other liabilities		613	431
<b>Total liabilities</b>		<b>5,411</b>	<b>4,717</b>
<b>Shareholders' equity</b>			
Adecco shareholders' equity:			
• Common shares		118	118
• Additional paid-in capital	3	2,599	2,597
• Treasury shares, at cost		(559)	(561)
• Retained earnings		1,292	1,229
• Accumulated other comprehensive income/(loss), net	3	(31)	(271)
<b>Total Adecco shareholders' equity</b>		<b>3,419</b>	<b>3,112</b>
Noncontrolling interests		2	2
<b>Total shareholders' equity</b>		<b>3,421</b>	<b>3,114</b>
<b>Total liabilities and shareholders' equity</b>		<b>8,832</b>	<b>7,831</b>

The accompanying notes are an integral part of these consolidated financial statements.

# Adecco Group – Consolidated statements of operations (unaudited)

*in millions, except share and per share information*

<i>For the six months ended June 30 (in EUR)</i>	<b>Note</b>	<b>2010</b>	<b>2009</b>
Revenues	8	8,608	7,294
Direct costs of services		(7,071)	(5,968)
<b>Gross profit</b>		<b>1,537</b>	<b>1,326</b>
Selling, general and administrative expenses		(1,256)	(1,251)
Amortisation of intangible assets		(27)	(26)
Impairment of goodwill and intangible assets			(192)
<b>Operating income/(loss)</b>	8	<b>254</b>	<b>(143)</b>
Interest expense		(31)	(24)
Other income/(expenses), net		1	4
<b>Income/(loss) before income taxes</b>		<b>224</b>	<b>(163)</b>
Provision for income taxes	7	(70)	39
<b>Net income/(loss)</b>		<b>154</b>	<b>(124)</b>
Net income attributable to noncontrolling interests			
<b>Net income/(loss) attributable to Adecco shareholders</b>		<b>154</b>	<b>(124)</b>
<b>Basic earnings per share</b>		<b>0.80</b>	<b>(0.71)</b>
Basic weighted-average shares		191,971,225	174,103,338
<b>Diluted earnings per share</b>		<b>0.79</b>	<b>(0.71)</b>
Diluted weighted-average shares		197,344,706	174,103,338

*The accompanying notes are an integral part of these consolidated financial statements.*

# Adecco Group – Consolidated statements of cash flows (unaudited)

in millions, except share and per share information

For the six months ended June 30 (in EUR)	2010	2009
<b>Cash flows from operating activities</b>		
Net income/(loss)	154	(124)
Adjustments to reconcile net income/(loss) to cash flows from operating activities:		
• Depreciation and amortisation	68	67
• Impairment of goodwill and intangible assets		192
• Other charges	23	(27)
Changes in operating assets and liabilities, net of acquisitions:		
• Trade accounts receivable	(466)	584
• Accounts payable and accrued expenses	210	(422)
• Other assets and liabilities	41	12
<b>Cash flows from operating activities</b>	<b>30</b>	<b>282</b>
<b>Cash flows from/(used in) investing activities</b>		
Capital expenditures	(45)	(55)
Acquisition of MPS, net of cash acquired	(831)	
Cash settlements on derivative instruments	11	(13)
Other acquisition and investing activities	(9)	(31)
<b>Cash flows from/(used in) investing activities</b>	<b>(874)</b>	<b>(99)</b>
<b>Cash flows from/(used in) financing activities</b>		
Net increase/(decrease) in short-term debt	7	(34)
Borrowings of long-term debt, net of issuance costs		496
Repayment of long-term debt	(139)	(131)
Dividends paid to shareholders	(91)	(173)
Purchase of treasury shares		(3)
Other financing activities	1	3
<b>Cash flows from/(used in) financing activities</b>	<b>(222)</b>	<b>158</b>
<b>Effect of exchange rate changes on cash</b>	<b>41</b>	<b>7</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(1,025)</b>	<b>348</b>
Cash and cash equivalents:		
• Beginning of year	1,458	574
• End of period	433	922

The accompanying notes are an integral part of these consolidated financial statements.

# Adecco Group – Consolidated statements of changes in shareholders' equity (unaudited)

in millions, except share and per share information

<i>in EUR</i>	Common shares	Additional paid-in capital	Treasury shares, at cost	Retained earnings	Accumulated other com- prehensive in- come/(loss), net	Non- controlling interests	Total shareholders' equity
<b>January 1, 2009</b>	<b>118</b>	<b>2,140</b>	<b>(558)</b>	<b>1,394</b>	<b>(301)</b>	<b>5</b>	<b>2,798</b>
<b>Comprehensive income:</b>							
Net income/(loss)				(124)			(124)
Other comprehensive income/(loss)							
• Currency translation adjustment, net of tax					44		44
• Pension related adjustments, net of tax					2		2
<b>Total comprehensive income</b>							<b>(78)</b>
Tax impact of treasury shares valuation in Holding Company		(22)					(22)
Treasury shares transactions			(3)				(3)
Cash dividends, CHF 1.50 per share				(173)			(173)
Acquisition of noncontrolling interests						(4)	(4)
<b>June 30, 2009</b>	<b>118</b>	<b>2,118</b>	<b>(561)</b>	<b>1,097</b>	<b>(255)</b>	<b>1</b>	<b>2,518</b>

<i>in EUR</i>	Common shares	Additional paid-in capital	Treasury shares, at cost	Retained earnings	Accumulated other com- prehensive in- come/(loss), net	Non- controlling interests	Total shareholders' equity
<b>January 1, 2010</b>	<b>118</b>	<b>2,597</b>	<b>(561)</b>	<b>1,229</b>	<b>(271)</b>	<b>2</b>	<b>3,114</b>
<b>Comprehensive income:</b>							
Net income/(loss)				154			154
Other comprehensive income/(loss)							
• Currency translation adjustment, net of tax					241		241
• Pension related adjustments, net of tax					(1)		(1)
<b>Total comprehensive income</b>							<b>394</b>
Stock-based compensation		2					2
Common stock options exercised			2				2
Cash dividends, CHF 0.75 per share				(91)			(91)
<b>June 30, 2010</b>	<b>118</b>	<b>2,599</b>	<b>(559)</b>	<b>1,292</b>	<b>(31)</b>	<b>2</b>	<b>3,421</b>

The accompanying notes are an integral part of these consolidated financial statements.

# Adecco Group – Notes to consolidated financial statements (unaudited)

*in millions, except share and per share information*

## **Note 1 – Summary of significant accounting policies**

### **Basis of presentation and principles of consolidation**

The consolidated half year financial statements include Adecco S.A., a Swiss corporation, its consolidated subsidiaries as well as variable interest entities in which Adecco is considered the primary beneficiary (collectively, the “Company”).

The consolidated subsidiaries include all majority-owned subsidiaries of the Company except for the variable interest entity Adecco Investment (Bermuda) Ltd. (“Adecco Investment”). On November 26, 2009, Adecco Investment, a wholly-owned subsidiary of the Company which is not consolidated, issued CHF 900 Senior Secured Limited Recourse Mandatory Convertible Bonds (“MCB”) due November 26, 2012. The bonds will convert at maturity into shares of Adecco S.A. The number of shares to be delivered will be calculated based on the closing price of the shares of Adecco S.A., the minimum conversion price being CHF 49.87 per share as per June 30, 2010 (CHF 50.50 per share at issuance of the MCB) and the maximum conversion price being CHF 59.84 per share as of June 30, 2010 (CHF 60.60 per share at issuance of the MCB). The conversion prices will be adjusted for further dividend payments on the shares of Adecco S.A. during the lifetime of the MCB. The maximum number of shares to be delivered is 18,046,922 as of June 30, 2010 (17,821,782 shares at issuance of the MCB) and the minimum number of shares to be delivered is 15,040,107 as of June 30, 2010 (14,851,485 shares at issuance of the MCB). The bonds have an annual coupon of 6.5%, which can be deferred in case no dividend payment is made on the shares of Adecco S.A.

Adecco Investment entered into a prepaid forward contract (“prepaid forward”) with the Company, where it originally acquired 17,821,782 shares of the Company for EUR 587 (CHF 887), net of costs. The strike price of the prepaid forward is adjusted for dividend payments on the shares of Adecco S.A., and the number of shares deliverable under the prepaid forward amounts to 18,046,922 as of June 30, 2010. At maturity, Adecco Investment will receive the shares of Adecco S.A. from the Company with the settlement of the prepaid forward. The shares can be delivered out of treasury shares or conditional capital at the discretion of the Company. Adecco Investment financed the coupon payments with EUR 108 (CHF 164) from the sale of a call spread option (“call spread option”) to Adecco Financial Services (Bermuda) Ltd., a wholly-owned subsidiary of the Company. The call spread option gives the Company the right to benefit from appreciation of the shares underlying

the prepaid forward between floor and cap defined in the agreement. The call spread option is settled in shares, reducing the net number of shares the Company has to deliver in combination with the prepaid forward. In addition, the Company has made a payment of EUR 8 (CHF 12) to Adecco Investment, which has been treated as a deemed capital contribution. The number of shares underlying the prepaid forward, the call spread option and the MCB are subject to anti-dilution provisions. The bondholders only have recourse against the prepaid forward. Subsequently, Adecco Investment has granted a loan of EUR 116 (CHF 176) to the Company, of which EUR 21 (CHF 30) have been repaid in June 2010.

The Company has a variable interest in Adecco Investment related to the call spread option. The assets of Adecco Investment consist of the prepaid forward and a loan to the Company of EUR 112 (CHF 147) as of June 30, 2010 (EUR 118 – CHF 176 as per December 31, 2009). The call spread option only absorbs variability caused by changes in the fair value of the shares to be delivered by the Company under the prepaid forward and therefore the Company is not exposed to any overall variability due to the call spread option. As the Company will not absorb a majority of Adecco Investment’s expected losses or receive a majority of the entity’s expected residual returns, the Company is not required to consolidate it. The prepaid forward and the call spread option are recorded as equity instruments in the Company’s consolidated financial statements. The Company also owns the common shares of Adecco Investment in the amount of USD 10 thousand and a deemed capital contribution of EUR 8 (CHF 12), which is not a variable interest. At June 30, 2010 and December 31, 2009, the Company has an investment in Adecco Investment with a carrying amount of EUR 6 and EUR 5, respectively, recorded within other assets.

The Company prepares its consolidated half year financial statements using the same accounting principles and methods of computation that were applied in the audited consolidated financial statements as of December 31, 2009 and for the year then ended (except as noted below under “New accounting standards”).

# Adecco Group – Notes to consolidated financial statements (unaudited)

*in millions, except share and per share information*

Certain information and footnote disclosures included in the audited consolidated financial statements as of December 31, 2009 have been condensed or omitted. As a result, the financial information in the condensed consolidated financial statements should be read in conjunction with the Company's Annual Report including the Financial Review, the Corporate Governance and the Remuneration Report for the fiscal year ended December 31, 2009.

The reporting currency of the Company is the Euro, which reflects the significance of the Company's Euro-denominated operations. Adecco S.A.'s share capital is denominated in Swiss Francs, and the Company declares and pays dividends in Swiss Francs.

In the opinion of management, the consolidated half year financial statements reflect all adjustments necessary to present fairly the consolidated balance sheets, the consolidated statements of operations, the consolidated statements of cash flows, the consolidated statements of changes in shareholders' equity and the accompanying notes. Such adjustments are of a normal recurring nature.

## **Use of estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make judgements, assumptions, and estimates that affect the amounts reported in the consolidated half year financial statements and accompanying notes. The results of these estimates form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from those estimates.

## **New accounting standards**

In June 2009, the Financial Accounting Standards Board ("FASB") issued new accounting guidance on consolidation of variable interest entities. This guidance amends the criteria to determine the primary beneficiary of variable interest entities, requires ongoing assessment of determination of the primary beneficiary of variable interest entities and requires enhanced disclosures about involvement in a variable interest entity. The guidance is effective for fiscal years beginning after November 15, 2009. The Company adopted this standard on January 1, 2010. The implementation of this guidance did not have a material impact on the Company's consolidated financial statements.

In October 2009, the FASB issued new accounting guidance on revenue recognition on multiple-deliverable revenue arrangements. This guidance amends the requirements for separating the elements in the arrangement and also changes the allocation method of the arrangement consideration. The guidance is effective for fiscal years beginning after June 15, 2010. The Company will adopt this standard on January 1, 2011 and is in the process of assessing the impact of the adoption on the consolidated financial statements.

## **Note 2 – Acquisitions**

In January 2010, the Company acquired all outstanding common shares of MPS Group ("MPS") for EUR 831, net of cash acquired. MPS is one of the largest professional staffing firms in North America with also a strong position in the UK, and is a leading provider of specialty staffing, consulting, and business solutions across various professional business lines such as information technology, finance and accounting, legal, engineering and healthcare. The purchase price was funded with the prepaid forward sale of Adecco S.A. shares (for further details refer to Note 1) and with internal resources. MPS was consolidated by the Company as of January 31, 2010, and the results of MPS's operations have been included in the consolidated financial statements since February 1, 2010.

The following table summarises the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

# Adecco Group – Notes to consolidated financial statements (unaudited)

in millions, except share and per share information

in EUR

## Fair value of assets acquired and liabilities assumed

Cash acquired	70
Other current assets	239
Tangible assets	46
Intangible assets:	
• Marketing related (trade names)	161
• Customer base	137
• Other	8
Goodwill	502
Current liabilities	(148)
Other liabilities	(7)
Deferred tax liabilities	(107)
<b>Total fair value of assets acquired and liabilities assumed</b>	<b>901</b>

The goodwill of EUR 502 arising from the acquisition consists largely of the synergies and economies of scale expected from combining operations of Adecco and MPS. Goodwill recognised as a result of the MPS acquisition is not expected to be deductible for income tax purposes.

The majority of the marketing related intangible assets (trade names) are considered to have infinite lives and are not amortised. Customer base intangible assets acquired have estimated average useful lives of 5 to 9 years and are amortised on a straight-line basis over the useful lives.

The goodwill and intangible assets were assigned to the following segments:

in EUR	North America	UK & Ireland	Germany & Austria	Benelux	Other	Total
Goodwill	381	78	6	12	25	502
Intangible assets	246	52	2	4	2	306

Acquisition related costs included in SG&A in the first six months of 2010 amounted to EUR 6.

assets included in the consolidated results of operations since the acquisition date to June 30, 2010 amount to EUR 7.

MPS revenues and net income since the acquisition date included in the consolidated operating results for the six months ended June 30, 2010 amount to EUR 527 and EUR 11, respectively. Amortisation expense, net of tax for MPS intangible

The following unaudited pro forma information shows consolidated operating results as if the MPS acquisition had occurred on January 1, 2010 and on January 1, 2009:

in EUR	2010	2009
<b>Pro forma consolidated operating results</b>		
Revenues	8,699	7,930
Net income/(loss)	150	(134)
Basic income per share	0.78	(0.70)
Diluted income per share	0.77	(0.70)



# Adecco Group – Notes to consolidated financial statements (unaudited)

in millions, except share and per share information

The 2010 pro forma net income includes the MPS January 2010 net loss of EUR 4, which considers additional amortisation of definite-lived intangible assets, net of tax of EUR 1. The pro forma net loss of MPS for the six months ended June 30, 2009, adjusted for amortisation of definite-lived intangible assets, interest expense, acquisition related costs and income taxes, increased consolidated pro forma net loss by EUR 10 (including intangible assets amortisation, net of tax, of EUR 7 and acquisition costs, net of tax of EUR 6). The pro forma results of operations do not necessarily represent operating results which would have occurred if the acquisition had taken place on the basis assumed above, nor are they indicative of future operating results of the combined companies.

## Note 3 – Shareholders' equity

### Authorised shares and appropriation of available earnings

The Company had 4,166,804 shares of conditional capital reserved for issuance of common shares to employees and members of the Board of Directors upon the exercise of stock options as of June 30, 2010 and December 31, 2009. In addition, as of June 30, 2010 and December 31, 2009, the Company was authorised by its shareholders to issue up to 15,400,000 shares of conditional capital in connection with the issuance of financial instruments, principally convertible bonds. 6,349,207 shares have been reserved for issuance upon conversion of the outstanding guaranteed zero-coupon convertible bond. The remaining shares represent conditional capital authorised without time limitation and remain available for share issuance upon conversion of financial instruments issued or to be issued in the future.

During the six months ended June 30, 2010, 33,333 stock options were exercised. No stock options were exercised during the six months ended June 30, 2009. In 2010, the Company awarded 5,356 treasury shares to the Chairman of the Board of Directors as part of his compensation package.

The Annual General Meeting of Shareholders of Adecco S.A. was held on May 11, 2010. The shareholders approved a dividend of CHF 0.75 per common share in respect of the fiscal year 2009. The dividend to shareholders of EUR 91 was paid in the second quarter of 2010.

### Additional paid-in capital

During 2009, the Company sold a prepaid forward on Adecco S.A. shares for EUR 587 (CHF 887), net of costs, and purchased a call spread option for EUR 108 (CHF 164) from its wholly-owned, non-consolidated subsidiary Adecco Investment (for further details refer to Note 1). The prepaid forward and the call spread option are indexed to and settled in the Company's own shares and therefore are accounted for as equity instruments included in additional paid-in capital. In 2010 the strike prices of both instruments were reduced due to the dividend distribution made by the Company in the second quarter of 2010. The reduction was determined as follows: (share price excluding dividend minus dividend per share) divided by share price excluding dividend. The contracts are exercisable at any time from November 26, 2009 to the maturity date on November 26, 2012.

The initial and current main terms of these contracts are as follows:

	Sold prepaid forward		Purchased call spread option	
	Initial	Current	Initial	Current
Forward/Strike Price	CHF 50.50, received on November 26, 2009	CHF 49.87	Lower call price CHF 50.50 Upper call price CHF 60.60	Lower call price CHF 49.87 Upper call price CHF 59.84
Number of shares to which the contract is indexed	17,821,782 initial underlying shares	18,046,922 underlying shares	17,821,782 initial underlying shares	18,046,922 underlying shares
Maximum number of shares to be delivered	17,821,782 subject to dividend and other anti-dilution adjustments	18,046,922 subject to dividend and other anti-dilution adjustments	2,970,297 subject to dividend and other anti-dilution adjustments	3,006,815 subject to dividend and other anti-dilution adjustments

# Adecco Group – Notes to consolidated financial statements (unaudited)

in millions, except share and per share information

## Accumulated other comprehensive income/(loss), net

The components of accumulated other comprehensive income/(loss), net of tax, were as follows:

in EUR	30.6.2010	31.12.2009
Currency translation adjustment	(19)	(260)
Unrealised gain on cash flow hedging activities	1	1
Pension related adjustments	(13)	(12)
<b>Accumulated other comprehensive income/(loss), net</b>	<b>(31)</b>	<b>(271)</b>

## Note 4 – Employee benefit plans

For the six months ended June 30, 2010 and June 30, 2009, estimated net pension expense for the defined benefit plans was as follows:

in EUR	Swiss Plan		Non-Swiss Plans	
	2010	2009	2010	2009
<b>Components of pension expense</b>				
Service cost	4	3	1	1
Interest cost	1	1	2	2
Expected return on plan assets	(2)	(2)	(2)	(2)
Amortisation of net (gain)/loss		2		1
<b>Pension expense, net</b>	<b>3</b>	<b>4</b>	<b>1</b>	<b>2</b>

## Note 5 – Financial instruments

In accordance with Accounting Standard Codification ("ASC") 815, "Derivatives and Hedging" ("ASC 815"), all derivative instruments are initially recorded at cost as either other current assets, other assets, accounts payable and accrued expenses, or other liabilities in the accompanying consolidated balance sheets and subsequently remeasured to fair value, regardless of the purpose or intent for holding the derivative instruments. For derivative instruments designated and qualifying as fair value hedges, changes in the fair value of the derivative instruments as well as the changes in the fair value of the hedged item attributable to the hedged risk are recognised within the same line item in earnings. For derivative instruments designated and qualifying as cash flow hedges, the effective portion of the changes in the fair value of derivative instruments is initially recorded as a component of accumulated other comprehensive income/(loss), net, in shareholders' equity and reclassified into earnings in the same period during which the hedged transaction affects earnings. The ineffective portion of the change

in fair value of the derivative instruments is immediately recognised in earnings. For derivative instruments designated and qualifying as net investment hedges, changes in the fair value of the derivative instruments are recorded as a component of accumulated other comprehensive income/(loss), net, in shareholders' equity to the extent they are considered effective. These gains or losses will remain in equity until the related net investment is sold or otherwise disposed. For derivative instruments that are not designated or that do not qualify as hedges under ASC 815, the changes in the fair value of the derivative instruments are recognised in other income/(expenses), net, within the consolidated statements of operations.

### Risk and use of derivative instruments

The Company conducts business in various countries and funds its subsidiaries in various currencies, and is therefore exposed to the effects of changes in foreign currency exchange rates, including the US Dollar, the British Pound, the Japanese Yen, and the Euro against the Swiss Franc. In order to mitigate the impact of currency exchange rate fluctuations, the Company

# Adecco Group – Notes to consolidated financial statements (unaudited)

in millions, except share and per share information

assesses its exposure to currency risk and hedges certain risks through the use of derivative instruments. The Company has also issued bonds and long-term notes in various currencies. Accordingly, the Company manages exposure to fixed and floating interest rates and currency fluctuations through the use of derivative instruments.

The main objective of holding derivative instruments is to minimise the volatility of earnings arising from these exposures in the absence of natural hedges. The responsibility for assessing exposures as well as entering into and managing derivative instruments is centralised in the Company's treasury depart-

ment. The activities of the treasury department are covered by corporate policies and procedures approved by the Board of Directors, which generally limit the use of derivative instruments for trading and speculative purposes. Group management approves the hedging strategy and monitors the underlying market risks.

## Fair value of non-derivative financial instruments

The following table shows the carrying value and the fair value of non-derivative financial instruments as of June 30, 2010 and December 31, 2009:

in EUR	30.6.2010		31.12.2009	
	Carrying value	Fair value	Carrying value	Fair value
<b>Non-derivative financial instruments</b>				
Current assets:				
• Cash and cash equivalents	433	433	1,458	1,458
• Available-for-sale securities	5	5	2	2
• Financial instruments included in other current assets			1	1
Current liabilities:				
• Short-term debt	23	23	14	14
• Current maturities of long-term debt	395	395	442	441
Non-current liabilities:				
• Long-term debt	1,089	1,157	1,114	1,173

The Company uses the following methods and assumptions to estimate the fair value of each class of non-derivative financial instruments:

- Cash equivalents, trade accounts receivable, net, accounts payable, and short-term debt  
The carrying amount approximates the fair value given the short maturity of such instruments.
- Available-for-sale securities  
The fair value for these instruments is based on quoted market prices.
- Long-term debt, including current maturities  
The fair value of the Company's publicly traded long-term debt is estimated using quoted market prices. The fair value of the other long-term debt is estimated by discounting future cash flows using interest rates currently available for similar debt with identical terms, similar credit ratings, and remaining maturities.

## Fair value of derivative instruments

The following tables show the notional amount and the fair value of derivative instruments as of June 30, 2010 and December 31, 2009:

# Adecco Group – Notes to consolidated financial statements (unaudited)

in millions, except share and per share information

in EUR	Balance sheet location	Notional amount		Fair value	
		30.6.2010	31.12.2009	30.6.2010	31.12.2009
<b>Derivative assets</b>					
Derivatives designated as hedging instruments under ASC 815					
• Interest rate swaps	Other assets	375	375	23	16
Derivatives not designated as hedging instruments under ASC 815					
• Foreign currency contracts	Other current assets	811	399	28	11
• Cross currency interest rate swaps	Other assets		34		
<b>Derivative liabilities</b>					
Derivatives not designated as hedging instruments under ASC 815					
• Cross currency interest rate swaps	Other liabilities	232	172	(13)	(1)
• Foreign currency contracts	Accounts payable and accrued expenses	820	972	(52)	(16)
• Interest rate swaption	Other liabilities	50			
<b>Total net derivatives</b>				<b>(14)</b>	<b>10</b>

The fair value of interest rate swaps, cross currency interest rate swaps, interest rate swaption and foreign currency contracts is calculated by using the present value of future cash flows based on quoted market information. The Company adds an adjustment for non-performance risk in the recognised measure of fair value of derivative instruments as well as a liquidity charge represented by the bid-ask spread of the outstanding derivatives. The non-performance adjustment reflects the Credit Default Swap ("CDS") applied to the exposure of each transaction. The Company uses the counterparty CDS spread in case of an asset position and its own CDS spread in case of a liability position. As of June 30, 2010 and December 31, 2009, the total impact of non-performance risk and liquidity risk was a loss of EUR 1.

### Fair value hedges

EUR 350 of interest rate swaps that contain a receipt of fixed interest rate payments and payment of floating interest rate payments have been designated as fair value hedges of the

4.5% EUR 500 fixed rate guaranteed notes due 2013 issued by Adecco International Financial Services BV. The outstanding contracts have an original contract period of four to seven years and expire in 2013.

EUR 25 of interest rate swaps that contain a receipt of fixed interest rate payments and payment of floating interest rate payments have been designated as fair value hedges of the 7.625% EUR 500 guaranteed Euro medium-term notes due 2014 issued by Adecco International Financial Services BV. These contracts have an original contract period of five years and expire in 2014.

The loss on the hedged fixed rate notes attributable to the hedged benchmark interest rate risk and the offsetting gain on the related interest rate swaps, both reported as interest expense, for the six months ended June 30, 2010 and June 30, 2009 were as follows:

in EUR	Location of gain/(loss) on derivative recognised in earnings	Gain/(loss) on derivative recognised in earnings		Hedged item	Location of gain/(loss) on related hedged item recognised in earnings	Gain/(loss) on related hedged item recognised in earnings	
		2010	2009			2010	2009
Derivative							
Interest rate swaps	Interest expense	7	7	Long-term debt	Interest expense	(7)	(7)

# Adecco Group – Notes to consolidated financial statements (unaudited)

in millions, except share and per share information

In addition, the net swap settlements that accrue each period are also reported in interest expense. No significant gains or losses were recorded in the first six months of 2010 and first six months of 2009, due to ineffectiveness in fair value hedge relationship. No significant gains or losses were excluded from the assessment of hedge effectiveness of the fair value hedges in the first six months of 2010 and first six months of 2009.

## Cash flow hedges

As of June 30, 2010, and December 31, 2009, no significant balances were included in accumulated other comprehensive income/(loss), net, in connection with cash flow hedges. No significant gains or losses were recorded in the first six months of 2010 and the first six months of 2009, due to ineffectiveness in cash flow hedge relationships. In the first six months of 2010 and the first six months of 2009, no significant gains or losses were excluded from the assessment of hedge effectiveness of the cash flow hedges. No significant reclassifications into earnings of gains and losses that are reported in accumulated other comprehensive income/(loss), net, are expected within the next twelve months.

## Net investment hedges

As of June 30, 2010, and December 31, 2009, the net loss relating to net investment hedges included as a component of accumulated other comprehensive income/(loss), net,

amounted to EUR 68 and EUR 61, respectively, resulting from net investment hedges terminated in 2005. No reclassifications of losses reported in accumulated other comprehensive income/(loss), net, into earnings are expected within the next twelve months.

## Other hedge activities

The Company has entered into certain derivative contracts that are not designated or do not qualify as hedges under ASC 815. These are mainly forward foreign currency contracts and cross-currency interest rate swaps used to hedge the net exposure of subsidiary funding advanced in the local operations' functional currency. Certain forward-starting foreign currency swaps and forward-starting cross-currency interest rate swaps entered into in 2009 have kicked-in at the closing of the MPS acquisition in January 2010. These contracts are entered into in accordance with the written treasury policies and procedures and represent economic hedges. Gains and losses on these contracts are recognised in earnings, as foreign exchange gain/(loss), net, in the accompanying consolidated statements of operations.

In connection with these activities, the Company recorded a gain below EUR 1 and a loss below EUR 1 for the six months ended June 30, 2010 and the six months ended June 30, 2009, respectively, as follows:

<i>in EUR</i>							
Derivative	Location of gain/(loss) on derivative recognised in earnings	Gain/(loss) on derivative recognised in earnings		Hedged item	Location of gain/(loss) on related hedged item recognised in earnings	Gain/(loss) on related hedged item recognised in earnings	
		2010	2009			2010	2009
Cross currency interest rate swaps	Other income/(expenses), net	(13)		Loans and receivables to/from subsidiaries	Other income/(expenses), net	13	
Foreign currency contracts	Other income/(expenses), net	(8)	(6)	Loans and receivables to/from subsidiaries	Other income/(expenses), net	8	6

# Adecco Group – Notes to consolidated financial statements (unaudited)

in millions, except share and per share information

## Credit risk concentration

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash investments, short-term investments, trade accounts receivable, and derivative financial instruments. The Company places its cash and short-term investments in major financial institutions throughout the world, which management assesses to be of high credit quality, in order to limit the exposure of each investment.

Credit risk with respect to trade accounts receivable is dispersed due to the international nature of the business, the large number of customers, and the diversity of industries serviced. The Company's receivables are well diversified and management performs credit evaluations of its customers and, where available and cost-effective, utilises credit insurance.

To minimise counterparty exposure on derivative instruments, the Company enters into derivative contracts with several large multinational banks and limits the exposure in combination with the short-term investments with each counterparty.

## Note 6 – Fair value measurement

The following table represents the Company's assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2010, and December 31, 2009, consistent with the fair value hierarchy provisions of ASC 820 "Fair Value Measurements and Disclosures":

<i>in EUR</i>	Level 1	Level 2	Level 3	Total
<b>June 30, 2010</b>				
<b>Assets</b>				
Available-for-sale securities	5			5
Derivative assets		51		51
<b>Liabilities</b>				
Derivative liabilities		65		65
<b>December 31, 2009</b>				
<b>Assets</b>				
Available-for-sale securities	2			2
Derivative assets		27		27
Other current assets		1		1
<b>Liabilities</b>				
Derivative liabilities		17		17

## Note 7 – Income taxes

The Company operates in various countries with different tax laws and rates; therefore, the effective tax rate may vary from year to year due to changes in the mix of taxable income among countries and special transactions. Income taxes for the first six months of 2010 were provided at a rate of 31%, based on the Company's current estimate of the annual effective tax rate. For the six months ended June 30, 2009, the tax rate was 24%.

The income tax rate for the first six months of 2010 includes the impact from the change in the business tax legislation in France. Under the new French business tax law, effective as

of January 1, 2010, a portion of the business tax is computed based on value added and consequently under U.S. GAAP is classified as income tax. Prior to the law change, this tax was asset-based and therefore in 2009 the French business tax was included in operating income. This was partly offset by the positive impact from the successful resolution of prior years' audits and the expiration of statutes of limitations.

The effective tax rate in the first six months of 2009 was positively impacted by the change in the mix of earnings and the successful resolution of prior years' audits. This was substantially offset by the negative impact of the goodwill impairment charge which was not tax deductible.

# Adecco Group – Notes to consolidated financial statements (unaudited)

*in millions, except share and per share information*

Significant estimates are required in determining income tax expense and benefits. Various internal and external factors may have favourable or unfavourable effects on the future effective tax rate. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations, results of tax audits, and changes in the overall level of pre-tax earnings.

The Company and its subsidiaries file income tax returns in multiple jurisdictions with varying statutes of limitations. Based on the outcome of examinations, or as a result of the expiration of the statute of limitations for specific jurisdictions, it is reasonably possible that the related unrecognised tax benefits for tax positions taken regarding previously filed tax returns could materially change from those recorded as liabilities for uncertain tax positions in the Company's financial statements. An estimate of the range of the possible change cannot be made until issues are further developed or examinations close.

As of June 30, 2010, the total amount of unrecognised tax benefits recorded increased by EUR 44 as a result of current year additions, acquisitions, and fluctuations in the exchange rates. This was partly offset by reductions related to the settlement of tax audits and the application of the statute of limitations in several jurisdictions. As of June 30, 2009, the total amount of unrecognised tax benefits recorded decreased by EUR 51 due to the settlement of tax audits and the application of the statute of limitations in several jurisdictions, partly offset by current year additions.

## **Note 8 – Segment reporting**

The Company is organised in a geographical structure (which corresponds to the primary segments). The geographies directly manage the office and industrial business lines as well as the professional business lines. The classification of a specific branch into a business line is determined by the business line generating the largest revenue share in that specific branch.

The Company evaluates the performance of its segments based on operating income before amortisation and impairment of goodwill and intangible assets, which is defined as the amount of income before amortisation and impairment of goodwill and intangible assets, interest expense, other income/(expenses), net, and provision for income taxes. Corporate items consist of certain assets and expenses which are separately managed at the corporate level. Segment assets include current assets, property, equipment, and leasehold improvements, net, other assets, intangible assets, net, and goodwill. The accounting principles used for the segment reporting are those used by the Company.

# Adecco Group – Notes to consolidated financial statements (unaudited)

in millions, except share and per share information

in EUR	France	North America <sup>1</sup>	UK & Ireland	Japan	Germany & Austria <sup>1</sup>	Benelux	Other <sup>1</sup>	Corporate	Total
<b>Six months ended June 30, 2010</b>									
Revenues	2,582	1,662	772	621	553	411	2,007		8,608
Depreciation	(8)	(8)	(5)	(2)	(4)	(3)	(8)	(3)	(41)
Operating income/(loss) before amortisation and impairment of goodwill and intangible assets	85	77	7	34	27	12	76	(37)	281
Amortisation of intangible assets									(27)
Impairment of goodwill and intangible assets									
Operating income/(loss)									254
Interest expense, and other income/(expenses), net									(30)
Provision for income taxes									(70)
<b>Net income/(loss)</b>									<b>154</b>
Segment assets	1,735	2,441	701	265	1,797	322	1,316	255	8,832

in EUR	France	North America <sup>1</sup>	UK & Ireland	Japan	Germany & Austria <sup>1</sup>	Benelux	Other <sup>1</sup>	Corporate	Total
<b>Six months ended June 30, 2009</b>									
Revenues	2,280	1,196	444	750	512	392	1,720		7,294
Depreciation	(8)	(7)	(4)	(2)	(4)	(3)	(10)	(3)	(41)
Operating income/(loss) before amortisation and impairment of goodwill and intangible assets	(15)	64	(1)	56	0	(7)	6	(28)	75
Amortisation of intangible assets									(26)
Impairment of goodwill and intangible assets									(192)
Operating income/(loss)									(143)
Interest expense, and other income/(expenses), net									(20)
Provision for income taxes									39
<b>Net income/(loss)</b>									<b>(124)</b>
Segment assets	1,507	1,144	310	233	1,730	291	1,111	796	7,122

<sup>1</sup> Mexico and Austria previously reported under Other are since Q4 2009 reported with North America and Germany & Austria, respectively. The 2009 information has been reclassified to conform to the current year presentation.



# Adecco Group – Notes to consolidated financial statements (unaudited)

*in millions, except share and per share information*

## **Note 9 – Commitments and contingencies**

### **Guarantees**

The Company has entered into certain guarantee contracts and standby letters of credit that total EUR 784, including those letters of credit issued under the multicurrency revolving credit facility (EUR 79). The guarantees primarily relate to government requirements for operating a temporary staffing business in certain countries and are generally renewed annually. Other guarantees relate to operating leases and credit lines. The standby letters of credit mainly relate to workers' compensation in the USA. If the Company is not able to obtain and maintain letters of credit and/or guarantees from third parties then the Company would be required to collateralise its obligations with cash. Due to the nature of these arrangements and historical experience, the Company does not expect to be required to collateralise its obligations with cash.

### **Contingencies**

In the ordinary course of business, the Company is involved in various legal actions and claims, including those related to social security charges, other payroll related charges, and various employment related matters. Although, the outcome of the legal proceedings cannot be predicted with certainty, the Company believes it has adequately reserved for such matters.

## **Note 10 – Subsequent events**

### **Guaranteed zero-coupon convertible bond**

On July 27, 2010, the Company was notified that the put option on substantially all outstanding bonds will be exercised on August 26, 2010. The Company intends to call the remaining outstanding bonds shortly after.

The Company has evaluated subsequent events through August 10, 2010, the date the financial statements were available to be issued. No other significant events occurred subsequent to the balance sheet date but prior to August 10, 2010 that would have a material impact on the consolidated financial statements.

# Addresses

Registered office  
Adecco S.A. (Holding)  
CH-1275 Chésèrèx

Contact details  
Adecco management & consulting S.A.  
Sägèrèstrassè 10  
P.O. Box  
CH-8152 Glattbrugg  
T +41 44 878 88 88  
F +41 44 829 88 88

Adecco Corporate Press Office  
T +41 44 878 87 87  
F +41 44 829 89 24  
[press.office@adecco.com](mailto:press.office@adecco.com)

Adecco Corporate Investor Relations  
T +41 44 878 89 89  
F +41 44 829 89 24  
[investor.relations@adecco.com](mailto:investor.relations@adecco.com)  
<http://investor.adecco.com>

Adecco on the Internet  
[www.adecco.com](http://www.adecco.com)

## **Imprint**

Publisher: Adecco Group, Glattbrugg  
Design: MetaDesign, Zurich  
Photographer: Anita Affentranger, Zurich  
Typesetting: Linkgroup, Zurich

August 2010

