

# Adecco Group – Operating and financial review and prospects

*in millions, except share and per share information*

## 1. Introduction

The information in this discussion and analysis should be read in conjunction with the Company's consolidated financial statements and the notes thereto that are prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and are included elsewhere in this Annual Report and with the disclosure concerning forward-looking statements at the end of this section.

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 (for further details, refer to section "Principles of consolidation" in Note 1 to the consolidated financial statements).

### 1.1 Business and industry background

The Company is the world's leading provider of human resource services including temporary staffing, permanent placement, outsourcing, career transition (outplacement), and other services. The Company had a network of around 5,400 branches and around 32,000 full-time equivalent ("FTE") employees in over 60 countries and territories at the end of 2012. In 2012, the Company connected on average on a daily basis almost 700,000 associates with over 100,000 clients. Registered and headquartered in Switzerland and managed by a multinational team with expertise in markets worldwide, the Company delivers a broad range of human resource services to meet the needs of small, medium, and large business clients as well as those of associates.

The HR industry is fragmented and highly competitive. Customer demand is dependent upon the overall strength of the labour market as well as an established trend towards greater workforce flexibility. Appropriate regulation, particularly for temporary staffing, is beneficial for the industry and has been a driver for greater workforce flexibility. The business is also strongly influenced by the macroeconomic cycle, which typically results in growing demand for employment services during periods of economic expansion, and conversely, contraction of demand during periods of economic downturn. Due to the sensitivity to the economic cycle and the low visibility in the temporary staffing sector, forecasting demand for HR services is difficult. Typically, customers are not able to provide much

advance notice of changes in their staffing needs. Responding to the customers' fluctuating staffing requirements in a flexible way is a key element of the Company's strategy, which it addresses through its diverse HR services network.

Anticipating trends in demand is also important in managing the Company's internal cost structure. This coupled with the ability to maximise overall resources and to enhance competitive advantage through the Company's wide variety of services and locations while maintaining high standards of quality to both clients and associates are key components in achieving profitability targets during any part of the economic cycle.

### 1.2 Organisational structure

The Company is organised in a geographical structure plus the global business Lee Hecht Harrison ("LHH"), which corresponds to the primary segments. This structure is complemented by business lines. The segments consist of France, North America, UK & Ireland, Germany & Austria, Japan, Italy, Benelux, Nordics, Iberia, Australia & New Zealand, Switzerland, Emerging Markets, and LHH. The business lines consist of Office, Industrial, Information Technology, Engineering & Technical, Finance & Legal, Medical & Science, and Solutions. 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.

### 1.3 Service lines

Revenues and gross profit derived from temporary staffing totalled 90% and 74% in 2012 and 91% and 76% in 2011 of the respective consolidated totals. Temporary staffing billings are generally negotiated and invoiced on an hourly basis. Temporary associates record the hours they have worked and these hours, at the rate agreed with the customer, are then accumulated and billed according to the agreed terms. Temporary staffing service revenues are recognised upon rendering the services. The temporary associate is paid the net hourly amount after statutory deductions on a daily, weekly, or monthly basis. Certain other employer payroll-related costs are incurred and the net difference between the amounts billed and payroll costs incurred is reported as gross profit.

Revenues and gross profit derived from permanent placement, outsourcing, career transition (outplacement), and other services totalled 10% and 26% in 2012 and 9% and 24% in 2011 of the respective consolidated totals. The terms of outsourcing and outplacement services are negotiated with the client on a project basis and revenues are recognised upon rendering the services. For permanent placement services, the placement fee is directly negotiated with the client and revenues are recognised at the time the candidate begins full-time employment, or as the fee is earned. Allowance provisions are established based on historical information for any non-fulfilment of permanent placement obligations. Career transition (outplacement) and permanent placement services provide significantly higher gross margins than temporary staffing.

#### 1.4 Key performance indicators

The Company monitors operational results through a number of additional key performance indicators besides revenues, gross profit, selling, general, and administrative expenses, and operating income before amortisation and impairment of goodwill and intangible assets and uses these measures of operational performance along with qualitative information and economic trend data to direct the Company's strategic focus.

These indicators include the following:

- Service line mix – the split between temporary staffing, permanent placement, outsourcing, career transition (outplacement), and other services.
- Business line mix – the split between General Staffing (Office, Industrial), Professional Staffing (Information Technology, Engineering & Technical, Finance & Legal, Medical & Science), and Solutions.
- Bill rate – an average hourly billing rate for temporary staffing services indicating current price levels.
- Pay rate – an average hourly payroll rate including social charges for temporary staffing services indicating current costs.
- Temporary hours sold – the volume of temporary staffing services sold.
- Temporary associates – the number of temporary associates at work.
- Clients – the number of active clients.
- Permanent placements – the number of candidates placed in permanent job positions.
- Average fee per placement – the average amount received for job placement services.
- Days sales outstanding ("DSO") – accounts receivable turnover.
- Full-time equivalent ("FTE") employees.
- Retention rate of employees, associates, and clients.
- Branches – the number of locations from which the Company offers HR services.
- Conversion ratio – operating income before amortisation and impairment of goodwill and intangible assets as a percentage of gross profit.
- Economic Value Added – residual income after cost of capital.

#### 1.5 Seasonality

The Company's quarterly operating results are affected by the seasonality of the Company's customers' businesses. Demand for temporary staffing services historically has been lowest during the first quarter of the year.

#### 1.6 Currency

The financial results of the Company are presented in Euro, which the Company uses as its reporting currency in recognition of the significance of the Euro to the Company's operations. In 2012, 47% of total revenues were generated in the Euro zone. Amounts shown in the consolidated statements of operations, consolidated statements of comprehensive income, and consolidated statements of cash flows are translated using average exchange rates for the period or at transaction exchange rates. In 2012, the average exchange rate for the US Dollar, British Pound, Japanese Yen, Australian Dollar, Swiss Franc, Norwegian Krone, and Canadian Dollar which comprised 18%, 9%, 8%, 2%, 2%, and 2% of total revenues, respectively, strengthened against the Euro when compared to 2011. The Company's consolidated balance sheets are translated using the year end exchange rates. At year end 2012, the Norwegian Krone, British Pound, Canadian Dollar, and Swiss Franc strengthened, the Australian Dollar was stable, whereas the US Dollar and Japanese Yen weakened against the Euro when compared to 2011.

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## 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, constant currency, and organic growth comparisons, which are used in addition to, and in conjunction with results presented in accordance with U.S. GAAP.

Net debt, constant currency, and organic growth 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, constant currency, and organic growth 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.

### 2.1 Net debt

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.

The following table highlights the calculation of net debt based upon financial measures in accordance with U.S. GAAP:

in EUR	31.12.2012	31.12.2011
<b>Net debt</b>		
Short-term debt and current maturities of long-term debt	541	236
Long-term debt, less current maturities	1,536	1,190
<b>Total debt</b>	<b>2,077</b>	<b>1,426</b>
Less:		
Cash and cash equivalents	(1,103)	(532)
Short-term investments	(2)	(2)
<b>Net debt</b>	<b>972</b>	<b>892</b>

### 2.2 Constant currency

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.

### 2.3 Organic growth

Organic growth figures exclude the impact of currency, acquisitions, and divestitures. Management believes that organic growth comparisons are important supplemental information because these comparisons exclude the impact of changes resulting from foreign currency exchange rate fluctuations, acquisitions, and divestitures.

## 3. Operating results

### 3.1 Overview

In 2012, the business environment and growth in demand for HR services was diverse across geographies. Revenues were flat in 2012 at EUR 20,536 or decreased by 3% in constant currency when compared to 2011.

Operating income before amortisation of intangible assets ("EBITA")<sup>1</sup> decreased by 11% or by 14% in constant currency from EUR 814 in 2011 to EUR 725 in 2012. The EBITA margin was 3.5% in 2012 and 4.0% in 2011. Excluding restructuring and integration costs of EUR 88 in 2012 and EUR 20 in 2011, the EBITA margin decreased by 10 basis points ("bps") from 4.1% in 2011 to 4.0% in 2012.

Operating income decreased by 12% to EUR 673 in 2012 compared to EUR 763 in 2011.

<sup>1</sup> EBITA is a non-U.S. GAAP measure and refers to operating income before amortisation of intangible assets.

Net income attributable to Adecco shareholders decreased to EUR 377 in 2012 compared to EUR 519 in 2011.

### 3.2 Revenues

Revenues in 2012 were flat at EUR 20,536 and decreased by 3% in constant currency. On an organic basis, revenues decreased by 4% in 2012. This decrease was driven primarily by a decline in temporary staffing volume as temporary hours sold decreased by 5% to 1,193 million. Permanent placement revenues were EUR 343 in 2012, which was flat versus 2011, and decreased by 5% in constant currency. Career transition (outplacement) revenues were EUR 269 in 2012 which represents an increase of 30%, or 25% in constant currency and 1% organically.

### Segment performance

The segment breakdown of revenues is presented below:

in EUR	2012	2011	Variance %	
			EUR	Constant currency
<b>Revenues</b>				
France	5,203	6,066	(14)	(14)
North America <sup>1,2</sup>	3,800	3,442	10	2
UK & Ireland	1,936	1,707	13	6
Germany & Austria <sup>2</sup>	1,591	1,544	3	3
Japan <sup>2</sup>	1,550	1,406	10	1
Italy	934	1,032	(10)	(10)
Benelux	922	961	(4)	(4)
Nordics	840	795	6	2
Iberia	657	734	(11)	(11)
Australia & New Zealand	531	510	4	(4)
Switzerland	437	474	(8)	(10)
Emerging Markets <sup>1</sup>	1,825	1,638	11	10
LHH <sup>2</sup>	310	236	31	26
<b>Adecco Group<sup>2</sup></b>	<b>20,536</b>	<b>20,545</b>	<b>0</b>	<b>(3)</b>

<sup>1</sup> In 2012, Mexico, previously reported in North America, is reported under Emerging Markets. The 2011 information has been restated to conform to the current year presentation.

<sup>2</sup> In 2012, revenues changed organically in North America by 3%, Germany & Austria by 1%, Japan by -10%, LHH by 3%, and Adecco Group by -4%.

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## **France**

Revenues in France decreased by 14% to EUR 5,203 in 2012. Temporary hours sold decreased by 17% and temporary staffing services bill rates increased by 3% versus 2011. In 2012, France accounted for 25% of the Company's revenues.

## **North America**

Revenues in North America increased by 10%, by 2% in constant currency, or by 3% organically, to EUR 3,800 in 2012. Temporary hours sold grew by 4% and bill rates decreased by 1% versus 2011 in constant currency. North America contributed 18% to the Company's revenues in 2012.

## **UK & Ireland**

UK & Ireland's revenues increased by 13% or by 6% in constant currency, to EUR 1,936 in 2012. Temporary hours sold increased by 7% and bill rates grew by 1% in constant currency. UK & Ireland generated 9% of the Company's revenues in 2012.

## **Germany & Austria**

Germany & Austria's revenues increased by 3% or by 1% organically to EUR 1,591 in 2012. Temporary hours sold decreased by 3% and bill rates grew by 6%. Revenues in Germany & Austria accounted for 8% of the Company's revenues in 2012.

## **Japan**

Revenues in Japan increased by 10% or by 1% in constant currency, to EUR 1,550. Revenues decreased by 10% on an organic basis versus 2011. Temporary sales decreased by 3% in constant currency or by 14% organically. Temporary hours sold decreased by 8% and bill rates increased by 5% in constant currency. Revenues in outsourcing were up 15% in constant currency and 5% organically. In 2012, 8% of the Company's revenues were generated in Japan.

## **Italy**

In Italy, revenues decreased by 10% to EUR 934 in 2012 as temporary hours sold decreased by 14% and bill rates grew by 4%. Italy accounted for 5% of the Company's revenues in 2012.

## **Benelux**

In the Benelux countries, revenues decreased by 4% to EUR 922 in 2012. Temporary hours sold decreased by 6% and bill rates increased by 2%. The Benelux revenues in 2012 accounted for 4% of the Company's revenues.

## **Nordics**

Revenues in the Nordic countries increased by 6%, or 2% in constant currency, to EUR 840. Temporary hours sold increased by 4% and the bill rates remained unchanged in constant currency. The Nordics revenues in 2012 accounted for 4% of the Company's revenues.

## **Iberia**

In Iberia, revenues decreased by 11% to EUR 657. The temporary hours sold decreased by 18% and the bill rate increased by 4%. Revenues in outsourcing decreased by 1% compared to 2011. In 2012, Iberia contributed 3% to the Company's revenues.

## **Australia & New Zealand**

In Australia & New Zealand, revenues increased by 4% or decreased by 4% in constant currency, to EUR 531 in 2012. Australia & New Zealand contributed 3% of the Company's revenues in 2012.

## **Switzerland**

In Switzerland, revenues decreased by 8% or by 10% in constant currency to EUR 437. Switzerland revenues represented 2% of the Company's revenues in 2012.

## **Emerging Markets**

In the Emerging Markets, revenues increased by 11% or by 10% in constant currency, to EUR 1,825. The Emerging Markets represented 9% of the Company's revenues in 2012.

## **LHH**

Revenues of Lee Hecht Harrison ("LHH"), Adecco's career transition and talent development business, amounted to EUR 310, an increase of 31% or 26% in constant currency. Organically, revenues increased by 3% versus 2011. LHH represented 2% of the Company's revenues in 2012.

## Business line performance

The business line breakdown of revenues is presented below:

in EUR	2012	2011	Variance %	
			EUR	Constant currency
<b>Revenues<sup>1</sup></b>				
Office	5,476	5,301	3	(1)
Industrial	9,955	10,642	(6)	(8)
<b>General Staffing<sup>2</sup></b>	<b>15,431</b>	<b>15,943</b>	<b>(3)</b>	<b>(5)</b>
Information Technology	2,379	2,176	9	2
Engineering & Technical <sup>2</sup>	1,169	1,009	16	9
Finance & Legal	761	722	5	(1)
Medical & Science <sup>2</sup>	398	384	4	1
<b>Professional Staffing<sup>2</sup></b>	<b>4,707</b>	<b>4,291</b>	<b>10</b>	<b>3</b>
<b>Solutions<sup>2</sup></b>	<b>398</b>	<b>311</b>	<b>28</b>	<b>21</b>
<b>Adecco Group<sup>2</sup></b>	<b>20,536</b>	<b>20,545</b>	<b>0</b>	<b>(3)</b>

<sup>1</sup> Breakdown of staffing revenues into Office, Industrial, Information Technology, Engineering & Technical, Finance & Legal, and Medical & Science is based on dedicated branches. Solutions include revenues from Human Capital Solutions, Managed Service Programmes ("MSP"), Recruitment Process Outsourcing ("RPO"), and Vendor Management System ("VMS").

<sup>2</sup> In 2012, revenues changed organically in General Staffing by -6%, Engineering & Technical by 3%, Medical & Science by -2%, Professional Staffing by 1%, Solutions by 4%, and Adecco Group by -4%.

### General Staffing

In 2012, the Company's Office & Industrial businesses, which represented 75% of total revenues, decreased by 5% in constant currency or 6% organically to EUR 15,431.

In the Office business, revenues overall decreased by 1% in constant currency. Revenues in constant currency increased in Emerging Markets (9%), UK & Ireland (6%), and North America (5%), whereas revenues decreased in constant currency in Japan (-11%) and Nordics (-2%). Japan, Emerging Markets, North America, UK & Ireland, and Nordics generated almost 80% of the revenues in the Office business.

In the Industrial business, revenues decreased by 8% in constant currency. Revenues increased in constant currency in Emerging Markets (12%) and North America (2%) and were flat organically in Germany & Austria, whereas revenues decreased in France (-15%) and Italy (-11%). France, Germany & Austria, North America, Italy, and Emerging Markets accounted for 80% of the revenues in the Industrial business.

### Information Technology

In Information Technology, the Company's revenues increased by 2% in constant currency compared to 2011. Revenues increased in constant currency in UK & Ireland (6%) and organically in North America (2%) and Japan (5%), whereas revenues declined in constant currency in Australia & New Zealand (-4%). UK & Ireland, North America, Japan, and Australia & New Zealand contributed over 85% to the business line's revenues.

### Engineering & Technical

Revenues in the Company's Engineering & Technical business line increased by 9% in constant currency, or by 3% organically, compared to 2011. Revenues increased in Germany & Austria by 8% and were flat in constant currency in North America. Over 70% of the business line's revenues were generated in North America and Germany & Austria.

### Finance & Legal

In Finance & Legal, the Company's revenues decreased by 1% in constant currency. Revenues increased in constant currency in North America by 7%, but declined in UK & Ireland (-13%)

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when compared to 2011. North America and UK & Ireland generated more than 75% of the revenues of the business line Finance & Legal.

## Medical & Science

Medical & Science revenues increased by 1% in constant currency or declined by 2% organically. Compared to 2011, revenues increased in constant currency in North America (19%) and declined in France (-15%) and in constant currency in the Nordics (-19%). North America, France, and Nordics accounted for over 75% of the business line's revenues.

## Solutions

The Company's Solutions revenues increased by 21% in constant currency or by 4% organically.

## 3.3 Gross profit

Gross profit increased by 3%, or declined by 1% in constant currency, to EUR 3,674 in 2012. Excluding acquisitions and divestitures, which had a positive impact of 20 bps, gross margin was up 30 bps. Higher gross margins in the temporary staffing business (10 bps) and the higher contribution of outplacement (10 bps) and others (10 bps) all positively impacted the gross margin.

The change in gross margin in 2012 compared to 2011 is as follows:

	%
<b>Gross margin 2011</b>	<b>17.4</b>
Temporary staffing	0.1
Permanent placement	–
Outplacement	0.1
Others	0.1
Acquisitions & divestitures	0.2
<b>Gross margin 2012</b>	<b>17.9</b>

## 3.4 Selling, general, and administrative expenses

During 2012, the Company maintained its emphasis on cost control. Selling, general, and administrative expenses ("SG&A") were EUR 2,949 in 2012 and increased by 7%, 3% in constant currency or 1% organically, reflecting an increase in SG&A as a percentage of revenues of 100 bps to 14.4% in 2012 from 13.4% in 2011. SG&A in 2012 included restructuring costs of EUR 83 associated with headcount reduction and branch optimisation in France, related to the merger of the Adecco and Adia networks under the single Adecco brand, in Japan and various other European countries as well as the data cen-

tre consolidation in North America. In addition, SG&A included integration costs of EUR 5 related to DBM in 2012 and of EUR 20 related to MPS and DBM in 2011.

Compensation expenses, which include restructuring costs, comprised approximately 70% of total SG&A and increased by 4% in constant currency to EUR 2,148 in 2012. The average FTE employees during 2012 decreased by 1% (organically -2%) to around 33,000 and the average number of branches during 2012 remained flat (organically -2%) at over 5,500. At year end 2012, the number of FTE employees and the number of branches were around 32,000 and 5,400, respectively.

The following table shows the average FTE employees and the average branches by segment:

	FTE employees		Branches	
	2012	% variance	2012	% variance
<b>Segment breakdown (yearly average)</b>				
France	5,653	(9)	1,354	(2)
North America	6,636	4	864	(1)
UK & Ireland	2,810	(3)	360	1
Germany & Austria	2,609	1	514	3
Japan	2,132	9	143	7
Italy	1,531	(3)	392	(8)
Benelux	1,454	(8)	349	2
Nordics	1,013	(4)	185	(4)
Iberia	1,427	(6)	403	1
Australia & New Zealand	474	(9)	62	(8)
Switzerland	416	(3)	98	0
Emerging Markets	5,041	4	577	5
LHH	1,518	6	217	8
Corporate	273	14		
<b>Adecco Group</b>	<b>32,987</b>	<b>(1)</b>	<b>5,518</b>	<b>0</b>

Marketing expenses were EUR 97 in 2012, compared to EUR 81 in 2011. Bad debt expense decreased by EUR 3 to EUR 13 in 2012.

### 3.5 Amortisation of intangible assets

Amortisation of intangible assets increased by EUR 1 to EUR 52 in 2012.



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## 3.6 Operating income

Operating income before amortisation of intangible assets (EBITA) decreased by 11% or by 14% in constant currency from EUR 814 in 2011 to EUR 725 in 2012. The EBITA margin was 3.5% in 2012 and 4.0% in 2011. Excluding restructuring and integration costs of EUR 88 in 2012 and EUR 20 in 2011, the EBITA margin decreased by 10 bps from 4.1% in 2011 to 4.0% in 2012.

Operating income decreased by 12% to EUR 673 in 2012 compared to EUR 763 in 2011.

The segment breakdown of operating income is presented in the following table:

in EUR	2012	2011	Variance %	
			EUR	Constant currency
<b>Operating income</b>				
France	103	220	(53)	(53)
North America <sup>1</sup>	161	146	10	2
UK & Ireland	32	32	(2)	(9)
Germany & Austria	90	110	(18)	(18)
Japan	91	80	13	3
Italy	51	60	(16)	(16)
Benelux	40	44	(9)	(9)
Nordics	30	18	65	59
Iberia	20	24	(16)	(16)
Australia & New Zealand	17	18	(6)	(14)
Switzerland	42	50	(14)	(16)
Emerging Markets <sup>1</sup>	63	58	10	8
LHH	82	36	131	117
Corporate expenses	(97)	(82)		
<b>Operating income before amortisation of intangible assets (EBITA)</b>	<b>725</b>	<b>814</b>	<b>(11)</b>	<b>(14)</b>
Amortisation of intangible assets	(52)	(51)		
<b>Adecco Group</b>	<b>673</b>	<b>763</b>	<b>(12)</b>	<b>(15)</b>

<sup>1</sup> In 2012, Mexico, previously reported in North America, is reported under Emerging Markets. The 2011 information has been restated to conform to the current year presentation.

### France

France's operating income decreased by 53% to EUR 103 in 2012. The operating income margin was 2.0% in 2012, a decrease of 160 bps compared to 2011. Excluding restructuring costs of EUR 60 associated with headcount reduction and branch optimisation related to the merger of the Adecco and Adia networks under the single Adecco brand (for further details refer to Note 6 to the consolidated financial statements), the operating income margin was 3.1% in 2012 compared to 3.6% in 2011.

### North America

North America's operating income increased by 10%, or 2% in constant currency, to EUR 161 in 2012. The operating income

margin was 4.2% in 2012, unchanged compared to 2011. Excluding restructuring costs of EUR 6 related to the data centre consolidation in North America in 2012 and integration costs relating to the MPS acquisition of EUR 4 in 2011, the operating income margin was 4.4% in 2012, unchanged compared to 2011.

### UK & Ireland

UK & Ireland's operating income decreased by 2%, or by 9% in constant currency to EUR 32 in 2012. The operating income margin was 1.6% in 2012, a decrease of 30 bps compared to 2011. Included in 2012 are sponsorship costs for the London Summer Olympics and in 2011 integration costs related to the MPS acquisition of EUR 2.

### **Germany & Austria**

Germany & Austria's operating income decreased by 18% to EUR 90 in 2012 and the operating income margin was 5.6%, a decrease of 150 bps compared to 2011. Excluding restructuring costs of EUR 10 in 2012, the operating income margin was 6.3% in 2012 compared to 7.1% in 2011.

### **Japan**

Japan's operating income increased in 2012 by 13%, or 3% in constant currency to EUR 91. The operating income margin increased by 10 bps to 5.8% compared to 2011, positively impacted by the VSN Inc. ("VSN") acquisition (for further details refer to Note 2 to the consolidated financial statements).

### **Italy**

In Italy, operating income declined by 16% to EUR 51 in 2012 and the operating income margin decreased by 40 bps to 5.4% compared to 2011. Excluding restructuring costs of EUR 3 in 2012, the operating income margin was 5.7% in 2012 compared to 5.8% in 2011.

### **Benelux**

In the Benelux countries, operating income was EUR 40 in 2012, down 9% versus 2011. The operating income margin decreased by 20 bps to 4.3% in 2012 compared to 2011. Excluding restructuring costs of EUR 1 in 2012, the operating income margin was 4.5% in 2012, unchanged compared to 2011.

### **Nordics**

Operating income in the Nordics increased by 65% or 59% in constant currency to EUR 30 in 2012. The operating income margin increased by 130 bps to 3.6% in 2012 compared to 2011. In 2011, results were negatively impacted by the exit of the nursing home outsourcing business in Norway.

### **Iberia**

In Iberia, operating income decreased by 16% to EUR 20 in 2012. The operating income margin decreased by 20 bps to 3.0% in 2012 compared to 2011. Excluding restructuring costs of EUR 2 in 2012, the operating income margin was 3.3% in 2012 compared to 3.2% in 2011.

### **Australia & New Zealand**

In Australia & New Zealand, operating income decreased by 6%, or by 14% in constant currency to EUR 17 in 2012 compared to 2011. The operating income margin decreased by 30 bps to 3.2% in 2012 compared to 2011.

### **Switzerland**

In Switzerland, operating income decreased by 14% or by 16% in constant currency to EUR 42 in 2012 compared to 2011. The operating income margin declined by 80 bps to 9.7%.

### **Emerging Markets**

In the Emerging Markets, the Company increased operating income by 10% or 8% in constant currency to EUR 63 in 2012. The operating income margin was 3.5% in 2012, unchanged compared to 2011.

### **LHH**

In 2012, operating income in LHH increased by 131%, by 117% in constant currency or 62% organically to EUR 82. The operating income margin was 26.6% in 2012 compared to 15.1% in 2011. Integration costs relating to the DBM acquisition were EUR 5 in 2012 and EUR 14 in 2011.

## **3.7 Interest expense**

Interest expense increased by EUR 5 to EUR 76 in 2012 compared to EUR 71 in 2011, mainly due to higher levels of outstanding debt.

## **3.8 Other income/(expenses), net**

Other income/(expenses), net, which include interest income, foreign exchange gains and losses, proportionate net income of investee companies, and other non-operating income/(expenses), net, amounted to an expense of EUR 13 in 2012, compared to an expense of EUR 6 in 2011. The 2012 expense includes the loss of EUR 15 on the sale of a business in North America at the end of June 2012. The 2011 expense includes the EUR 11 loss recognised in connection with the exchange and tender offers for outstanding notes completed in April 2011 (for further details refer to Note 7 to the consolidated financial statements).

## **3.9 Provision for income taxes**

In 2012, the provision for income taxes amounted to EUR 206 and the effective tax rate was 35%. This compared to a provision for income taxes of EUR 166 and an effective tax rate of 24% in the prior year.

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The Company's effective tax rate is impacted by recurring items, such as tax rates in the different jurisdictions where the Company operates and the income mix within jurisdictions. Furthermore, it is also affected by discrete items which may occur in any given year, but are not consistent from year to year.

The effective tax rate in both years includes the positive impact from the successful resolution of prior years' audits and disputes and the expiration of the statutes of limitations.

In 2012, discrete events including the valuation allowance on the French deferred tax assets had a negative impact of approximately 4% on the tax rate. At the end of 2012, the Tax Credit and Competitive Employment Act in France ("CICE") was approved. As CICE is expected to have a negative impact for income tax purposes starting in 2013, management reassessed the recoverability of the French deferred tax assets and recorded a full valuation allowance on those assets.

The 2011 effective tax rate includes the reduction in deferred tax liabilities of EUR 31 related to distributable earnings of the Company's Japanese subsidiary following the ratification of the Swiss-Japanese Tax Treaty, which resulted in a reduction of withholding taxes payable upon distribution of dividends to Switzerland. Other discrete events had a positive impact of approximately 2% on the 2011 effective tax rate.

### **3.10 Net income attributable to Adecco shareholders and EPS**

Net income attributable to Adecco shareholders for 2012 decreased to EUR 377 compared to EUR 519 in 2011. Basic earnings per share ("EPS") was EUR 2.00 in 2012 compared to EUR 2.72 in 2011.

## **4. Outlook**

Given the current environment, the Company continues to focus on price discipline and the tight alignment of the cost base to revenue developments. Consequently, in 2013 the Company plans to invest EUR 30 (including EUR 24 related to restructuring plans initiated in 2012) to further optimise the cost base. Approximately one third of the investments are related to the ongoing consolidation of the data centres in North America. The remainder will be invested in further aligning the cost base to revenue developments in France and other countries.

Thanks to the Company's strong balance sheet and cash flow generation, an enhanced dividend policy has been introduced. In addition to the pay-out range of 40% to 50% of adjusted net earnings, the Company is committed to pay at least a stable dividend compared to the previous year even if the pay-out range is temporarily exceeded, barring seriously adverse economic conditions.

The Company is solidly positioned for the future. In an environment of economic uncertainty, the Company will continue to build on its strengths – its leading global position and the diversity of its service offerings. The Company will continue to take advantage of growth opportunities, with a strong focus on disciplined pricing and cost control to optimise profitability and value creation. The Company continues to be very focused on reaching a mid-term EBITA margin target of above 5.5%. Based on the good progress on its six strategic priorities and more favourable economic conditions expected towards the end of 2013, the Company is convinced that it will achieve this target in 2015.

## **5. Liquidity and capital resources**

Currently, cash needed to finance the Company's existing business activities is primarily generated through operating activities, bank overdrafts, commercial paper, the existing multicurrency credit facility, and, when necessary, the issuance of bonds and other capital instruments.

The principal funding requirements of the Company's business include financing working capital and capital expenditures. Capital expenditures mainly comprise the purchase of computer equipment, capitalised software, and the cost of leasehold improvements.

Within the Company's working capital, trade accounts receivable, net of allowance for doubtful accounts, comprise approximately 70% of total current assets. Accounts payable, accrued salaries and wages, payroll taxes and employee benefits, and sales and value added taxes comprise approximately 65% of total current liabilities. Working capital financing needs increase as business grows.

Management believes that the ability to generate cash from operations combined with additional capital resources available is sufficient to support the expansion of existing business activities and to meet short- and medium-term financial commitments. The Company may utilise available cash resources, secure additional financing, or issue additional shares to finance acquisitions.

### 5.1 Analysis of cash flow statements

Cash and cash equivalents increased by EUR 571 to EUR 1,103 as of December 31, 2012. The increase was mainly due to the generation of EUR 579 in operating cash flows and the EUR 683 net proceeds from borrowings of long-term debt. This was partly offset by the acquisition of VSN in January 2012 for EUR 87, net of cash acquired, the repayment of

EUR 73 of long-term debt, the EUR 256 payment of dividends, purchase of treasury shares of EUR 191, and capital expenditures of EUR 88.

Cash flows from operations are generally derived from receipt of cash from customers less payments to temporary personnel, regulatory authorities, employees, and other operating disbursements. Cash receipts are dependent on general business trends, foreign currency fluctuations, and cash collection trends measured by DSO. DSO varies significantly within the various countries in which the Company has operations, due to the various market practices within these countries. In general, an improvement in DSO reduces the balance of trade accounts receivable resulting in cash inflows from operating activities. Cash disbursement activity is predominantly associated with scheduled payroll payments to the temporary personnel. Given the nature of these liabilities, the Company has limited flexibility to adjust its disbursement schedule. Also, the timing of cash disbursements differs significantly amongst various countries.

The following table illustrates cash flows from or used in operating, investing, and financing activities:

<i>in EUR</i>	2012	2011
<b>Summary of cash flow information</b>		
Cash flows from operating activities	579	524
Cash used in investing activities	(197)	(317)
Cash flows from/(used in) financing activities	206	(224)

Cash flows from operating activities increased by EUR 55 to EUR 579 in 2012 compared to 2011. This increase is primarily attributable to the decrease in working capital needs and higher non-cash items, partly offset by lower income. DSO decreased to 54 days for the full year 2012 compared to 55 days for the full year 2011.

Cash used in investing activities decreased by EUR 120 to EUR 197 in 2012 compared to 2011. In 2012, the Company acquired VSN for a consideration, net of cash acquired of EUR 87 while in 2011 DBM was acquired for a consideration, net of cash acquired, of EUR 148. The Company's capital expenditures amounted to EUR 88 in 2012 and EUR 109 in 2011.

Cash flows from financing activities totalled EUR 206, compared to cash used in financing activities of EUR 224 in 2011. In 2012, the Company issued long-term debt of EUR 683, net of issuance costs and repaid long-term debt of EUR 73, whereas in 2011 the Company issued long-term debt of EUR 330, net of issuance costs and repaid long-term debt of EUR 214. The debt repayments in 2011 primarily consisted of the partial repayments of the 5-year Euro medium-term notes due in 2014 and the fixed rate notes due in 2013 resulting from the exchange and tender offers for the outstanding notes in April 2011. Furthermore, the Company paid dividends of EUR 256 and EUR 149 in 2012 and 2011, respectively and purchased treasury shares, net of disposals for EUR 191 and EUR 178, in 2012 and 2011, respectively.

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## 5.2 Additional capital resources

As of December 31, 2012, the Company's total capital resources amounted to EUR 5,948 comprising EUR 2,077 in debt and EUR 3,871 in equity, excluding treasury shares and noncontrolling interests. Long-term debt, including current maturities, was EUR 1,872 as of December 31, 2012 and EUR 1,266 as of December 31, 2011 and includes long-term and medium-term notes, and medium-term loans. The borrowings, which are unsecured, are denominated in Euros and Swiss Francs. The borrowings outstanding as of December 31, 2012 mature in 2013, 2014, 2016, 2017, 2018, and 2020. During 2012, the Company increased its short- and long-term debt including foreign currency effects by EUR 651.

The Company maintains a French commercial paper programme ("Billet de Trésorerie programme"). Under the programme, the Company may issue short-term commercial paper up to a maximum amount of EUR 400, with maturity per individual paper of 365 days or less. As of December 31, 2012 and December 31, 2011 EUR 184 and EUR 145, respectively, were outstanding under the programme, with maturities of up to 364 days. The weighted-average interest rate on commercial paper outstanding was 0.31% and 1.31% as of December 31, 2012 and December 31, 2011, respectively.

In addition, the Company maintains a committed multicurrency revolving credit facility. The five-year revolving credit facility, which was extended in September 2012 and contains a further 1-year extension option at the discretion of the lender, has been issued by a syndicate of banks, permits borrowings up to a maximum of EUR 600 and is used for general corporate purposes including refinancing of advances and outstanding letters of credit. The interest rate is based on LIBOR, or EURIBOR for drawings denominated in Euro, plus a margin between 0.6% and 1.3% per annum depending on certain debt-to-EBITDA ratios. Utilisation fee of 0.25% and 0.5% applies on top of the interest rate, if drawings exceed 33.33% and 66.67% of total commitment, respectively. The letter of

credit fee equals the applicable margin, and the commitment fee equals 35% of the applicable margin. As of December 31, 2012 and December 31, 2011, there were no outstanding borrowings under the credit facility. As of December 31, 2012, the Company had EUR 517 available under the credit facility after utilising the EUR equivalent of EUR 83 in the form of letters of credit.

Net debt increased by EUR 80 to EUR 972 as of December 31, 2012. The calculation of net debt based upon financial measures in accordance with U.S. GAAP is presented on page 44.

Under the terms of the various short- and long-term credit agreements, the Company is subject to covenants requiring, among other things, compliance with certain financial tests and ratios. As of December 31, 2012, the Company was in compliance with all financial covenants.

For further details regarding financing arrangements refer to Note 7 to the consolidated financial statements.

The Company manages its cash position to ensure that contractual commitments are met and reviews cash positions against existing obligations and budgeted cash expenditures. The Company's policy is to invest excess funds primarily in investments with maturities of 12 months or less, and in money market and fixed income funds with sound credit ratings, limited market risk, and high liquidity.

The Company's current cash and cash equivalents and short-term investments are invested primarily within Europe and the USA. In most cases, there are no restrictions on the transferability of these funds among entities within the Company.

### 5.3 Contractual obligations

The Company's contractual obligations are presented in the following table:

<i>in EUR</i>	2013	2014	2015	2016	2017	Thereafter	Total
<b>Contractual obligations by year</b>							
Short-term debt obligations	205						205
Long-term debt obligations	336	358	1	289	291	597	1,872
Interest on debt obligations	70	47	38	32	32	15	234
Operating leases	180	127	96	74	53	62	592
Purchase and service contractual obligations	50	40	35	29	17		171
<b>Total</b>	<b>841</b>	<b>572</b>	<b>170</b>	<b>424</b>	<b>393</b>	<b>674</b>	<b>3,074</b>

Short-term debt obligations consist of borrowings outstanding under the French commercial paper programme and other short-term debt. Long-term debt obligations consist primarily of the EUR 333 fixed rate notes due 2013, the EUR 356 medium-term notes due 2014, the CHF 350 fixed rate notes due 2016, the CHF 350 fixed rate notes due 2017, the EUR 500 medium-term notes due 2018, and the CHF 125 fixed rate notes due 2020. These debt instruments were issued partly for acquisitions and the share buyback programme, to refinance existing debt, optimise available interest rates, and increase the flexibility of cash management.

Future minimum rental commitments under non-cancellable leases comprise the majority of the operating lease obligations of EUR 592 presented above. The Company expects to fund these commitments with existing cash and cash flows from operations. Operating leases are employed by the Company to maintain the flexible nature of the branch network.

As of December 31, 2012, the Company has future purchase and service contractual obligations of approximately EUR 171, primarily related to IT development and maintenance agreements, marketing sponsorship agreements, equipment purchase agreements, and other vendor commitments.

### 5.4 Additional funding requirements

The Company plans to invest approximately EUR 120 in property, equipment, and leasehold improvements for existing operations in 2013. The focus of these investments will be on information technology.

Further planned cash outflows include distribution of dividends for 2012 in the amount of CHF 1.80 per share to shareholders of record on the date of payment. The maximum amount of dividends payable based on the total number of outstanding shares (excluding treasury shares) as of December 31, 2012 of 184,609,768 is EUR 275 (CHF 332 - based on CHF/EUR exchange rate of 1.21 as of December 31, 2012). Payment of dividends is subject to approval by shareholders at the Annual General Meeting. In June 2012, the Company launched a share buyback programme of up to EUR 400 on a second trading line with the aim of subsequently cancelling the shares and reducing share capital. As of December 31, 2012, 3,837,087 shares have been acquired under this share buyback programme for EUR 145. The Company plans to invest an additional EUR 255 to complete this programme.

The Company has entered into certain guarantee contracts and standby letters of credit that total EUR 735, including the letters of credit issued under the multicurrency revolving credit facility (EUR 83). 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,

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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.

## **5.5 Income taxes**

The Company has reserves for taxes that may become payable in future periods as a result of tax audits. At any given time, the Company is undergoing tax audits in different tax jurisdictions, which cover multiple years. Ultimate outcomes of these audits could, in a future period, have a material impact on cash flows.

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 in the next 12 months from those recorded as liabilities for uncertain tax positions in the financial statements. An estimate of the range of the possible changes cannot be made until issues are further developed or examinations close.

## **5.6 Credit ratings**

As of December 31, 2012, the Company's long-term credit rating was Baa3 stable outlook from Moody's and BBB stable outlook from Standard & Poor's.

## **6. Financial risk management – foreign currency and derivative financial instruments**

The Company is exposed to market risk, primarily related to foreign exchange, interest rates, and equity market risk. Except for the equity market risk, these exposures are actively managed by the Company in accordance with written policies approved by the Board of Directors. The Company's objective is to minimise, where deemed appropriate, fluctuations in earnings and cash flows associated with changes in foreign currency exchange rates and interest rates. It is the Company's policy to use a variety of derivative financial instruments to hedge these exposures in the absence of natural hedges.

Given the global nature of the Company's business, the Company is exposed to the effects of changes in foreign currency exchange rates. Consequently, in order to preserve the value of assets, equity, and commitments, the Company enters into various contracts, such as foreign currency forward contracts, swaps, and cross-currency interest rate swaps, which change in value as foreign exchange rates change.

Depending on the amount of outstanding foreign currency forward contract hedges and the fluctuation of exchange rates, the settlement of these contracts may result in significant cash inflows or cash outflows.

The Company has also issued fixed rate long- and medium-term notes. Accordingly, the Company manages exposure to changes in fair value of fixed interest long-term debt through the use of derivative instruments. The terms of the interest rate swaps generally match the terms of specific debt agreements. Additional discussion of these interest rate swaps is located in Note 11 to the consolidated financial statements.

## 7. Controls and compliance

The Company is committed to maintaining the highest standards of ethical business conduct. The Company's Chief Human Resources Officer and the Head of Group Compliance Reporting oversee worldwide business ethics and compliance practices and report regularly on these topics, depending on the nature of the irregularities, to the Audit Committee or to the Corporate Governance Committee. In addition, the Company's Head of Group Internal Audit reports directly to the Audit Committee.

The Board of Directors and management of the Company are responsible for establishing and maintaining adequate Internal Control Over Financial Reporting. Management has assessed the effectiveness of the Company's Internal Control Over Financial Reporting as of December 31, 2012. In making this assessment, management used the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that, as of December 31, 2012, the Company's Internal Control Over Financial Reporting is effective.

The Company's internal control system is designed to provide reasonable assurance to the Company's management and the Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of its published consolidated financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statements preparation and presentation. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## 8. Critical accounting policies, judgements, and estimates

The preparation of the financial statements in accordance with U.S. GAAP requires management to adopt accounting policies and make significant judgements and estimates. There may be alternative policies and estimation techniques that could be applied. The Company has in place a review process to monitor the application of new accounting policies and the appropriateness of estimates. Changes in estimates may result in adjustments based on changes in circumstances and the availability of new information. Therefore, actual results could differ materially from estimates. The policies and estimates discussed below either involve significant estimates or judgements or are material to the Company's financial statements. The selection of critical accounting policies and estimates has been discussed with the Audit Committee. The Company's significant accounting policies are disclosed in Note 1 to the consolidated financial statements.

### 8.1 Accruals and provisions

Various accruals and provisions are recorded for sales and income taxes, payroll-related taxes, pension and health liabilities, workers' compensation, profit sharing, and other similar items taking into account local legal and industry requirements. The estimates used to establish accruals and provisions are based on historical experience, information from external professionals, including actuaries, and other facts and reasonable assumptions under the circumstances. If the historical data the Company uses to establish its accruals and provisions does not reflect the Company's ultimate exposure, accruals and provisions may need to be increased or decreased and future results of operations could be materially affected.



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On a routine basis, governmental agencies in the countries in which the Company operates may audit payroll tax calculations and compliance with other payroll-related regulations. These audits focus primarily on documentation requirements and the support for payroll tax remittances. Due to the nature of the Company's business, the number of people employed, and the complexity of some payroll tax regulations, the Company may be required to make some adjustments to the payroll tax remittances as a result of these audits. The Company makes an estimate of the additional remittances that may be required and records the estimate as a component of direct costs of services or SG&A, as appropriate. The estimate is based on the results of past audits, with consideration for changing business volumes and changes to the payroll tax regulations. To the extent that actual experience differs from the estimates, the Company will increase or decrease the reserve balance.

In most states of the USA, the Company is self-insured for workers' compensation claims by temporary workers. The provision recognised is based on actuarial valuations which take into consideration historical claim experience and workers' demographic and market components. Workers' compensation expense for temporary workers is included in direct costs of services. Significant weakening of the US market, changes in actuarial assumptions, increase of claims or changes in laws may require additional workers' compensation expense. Improved claim experience may result in lower workers' compensation premiums.

## **8.2 Allowance for doubtful accounts**

The Company makes judgements as to its ability to collect outstanding receivables and provides allowances for the portion of receivables when collection becomes doubtful. Provisions are made based on a specific review of significant outstanding invoices. For those invoices not specifically reviewed, provisions are recorded at differing percentages, based on the age of the receivable. In determining these percentages, the Company analyses its historical collection experience and current economic trends. In the event that recent history and trends indicate that a smaller or larger allowance is appropriate, the Company would record a credit or charge to SG&A during the period in which such a determination is made. Since the Company cannot predict with certainty future changes in the financial stability of its customers, additional provisions for doubtful accounts may be needed and the future results of operations could be materially affected. As of December 31, 2012 and December 31, 2011, the Company has recorded an allowance for doubtful accounts of EUR 85 and EUR 107, respectively. Bad debt expense of EUR 13 and EUR 16 was recorded in 2012 and 2011, respectively.

### **8.3 Income taxes**

Deferred tax assets and liabilities are determined based on temporary differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are also provided for the future tax benefit of existing net operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates and laws expected to be in effect in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded against deferred tax assets in those cases when management does not believe that the realisation is more likely than not. While management believes that its judgements and estimations regarding deferred tax assets and liabilities are appropriate, significant differences in actual experience may materially affect the Company's future financial results.

In addition, significant judgement is required in determining the worldwide provision for income taxes. In the ordinary course of a global business, there are many transactions for which the ultimate tax outcome is uncertain. Many of these uncertainties arise as a consequence of intercompany transactions and arrangements. Although management believes that its tax positions are supportable, no assurance can be given that the final outcome of these matters will not be materially different from amounts reflected in the income tax provisions and accruals. Such differences could have a material effect on the income tax provisions or benefits in the periods in which such determinations are made.

### **8.4 Impairment of goodwill and indefinite-lived intangible assets**

The carrying value of goodwill and indefinite-lived intangible assets is reviewed annually for impairment at a reporting unit level. The annual impairment test is performed during the fourth quarter based on financial information as of October 31. In interim periods, an impairment test will be performed in the instance that an event occurs or there is a change in circumstances which would indicate that the carrying value of goodwill or indefinite-lived intangible assets may be impaired.

In step one of the goodwill impairment test, the goodwill of the reporting units is tested for impairment by comparing the carrying value of each reporting unit to the reporting unit's fair value as determined using a combination of comparable market multiples, additional market information, and discounted cash flow valuation models. If the fair value of the reporting unit is lower than the carrying value of the reporting unit, step two is performed to measure the amount, if any, of impairment. In step two, the fair value of all assets and liabilities of the reporting unit is determined, as if the reporting unit had been acquired on a stand-alone basis. The fair value of the reporting unit's assets and liabilities is then compared to the fair value of the reporting unit, with the excess, if any, considered to be the implied goodwill of the reporting unit. If the carrying value of the reporting unit's goodwill exceeds this implied goodwill value, that excess is recorded as an impairment charge in operating income. No impairment was recognised in 2012 or 2011.

Indefinite-lived intangible assets are tested by comparing the fair value of the asset to the carrying value of the asset. In the event that the carrying value exceeds the fair value, an impairment charge is recorded in operating income. No impairment charge was recognised in 2012 or 2011 in connection to indefinite-lived intangible assets.

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Determining the fair value of a reporting unit and, if necessary, its assets (including indefinite-lived intangible assets) and liabilities requires the Company to make certain estimates and judgements about assumptions which include expected revenue growth rates, profit margins, working capital levels, discount rates, and capital expenditures. Estimates and assumptions are based on historical and forecasted operational performance and consider external market and industry data.

Differences between the estimates used by management in its assessment and the Company's actual performance, as well as market and industry developments, changes in the business strategy that may lead to reorganisation of reporting units and the disposal of businesses could all result in an impairment of goodwill and indefinite-lived intangible assets.

## **8.5 Impairment of definite-lived intangible assets**

Definite-lived intangible assets are evaluated for impairment by first comparing the carrying amount of a definite-lived intangible asset with the expected undiscounted future cash flows from the operations to which the asset relates. The asset is regarded as not recoverable if the carrying amount exceeds the undiscounted future cash flows. The impairment loss is then calculated as the difference between the asset's carrying value and its fair value, which is calculated using a discounted cash flow model. No impairment charge was recognised in 2012 or 2011 in connection with definite-lived intangible assets.

## **8.6 Accounting for restructuring costs**

In recording severance reserves for ongoing benefits, the Company accrues a liability when the following conditions have been met: the employees' rights to receive compensation are attributable to employees' services already rendered, the obligation relates to rights that vest or accumulate, payment of the compensation is probable, and the amount can be reasonably estimated. For one-time termination benefits which require employees to render services beyond a "minimum retention period", liabilities associated with employee termination benefits are recorded as employees render services over the future service period. Otherwise, liabilities associated with employee one-time termination benefits are recorded at the point when management has taken a decision to terminate a specific group of employees, the employees have been notified of the decision, and the type and amount of benefits to be received by the employees is known. Liabilities for contract termination and other exit costs are recorded at fair value when a contract is formally terminated in accordance with the contract term, or the Company ceases using the right conveyed by the contract.

### 8.7 Defined benefit pension plans

In order to determine the ultimate obligation under its defined benefit pension plans, the Company estimates the future cost of benefits and attributes that cost to the time period during which each covered employee works. Various actuarial assumptions must be made in order to predict and measure costs and obligations many years prior to the settlement date, the most significant ones being the interest rates used to discount the obligations of the plans and the long-term rates of return on the plans' assets. Management, along with third-party actuaries and investment managers, review all of these assumptions on an ongoing basis to ensure that the most reasonable information available is being considered.

### 8.8 Contingencies

In the ordinary course of business conducted around the world, the Company faces loss contingencies that may result in the recognition of a liability or the write-down of an asset. Management periodically assesses these risks based on information available and assessments from external professionals.

The Company is currently involved in various claims and legal proceedings. Periodically, the status of each significant loss contingency is reviewed to assess the potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be estimated, a liability for the estimated loss is recorded. Because of uncertainties related to these matters, accruals are based on the best information available at the time. As additional information becomes available, the potential liability related to pending claims and litigation is reassessed and, if required, estimates are revised. Such revisions in the estimates of the potential liabilities could have a material impact on results of operations and the financial position of the Company.

## 9. Forward-looking statements

Information in this Annual 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 Annual Report are based on information available to the Company as of March 12, 2013, and the Company assumes no duty to update any such forward-looking statements. The forward-looking statements in this Annual 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.