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 solutions including temporary staffing, permanent placement, outsourcing, career transition (outplacement), and other services. The Company had a network of over 5,500 branches and over 33,000 full-time equivalent ("FTE") employees in over 60 countries and territories at the end of 2011. In 2011, the Company connected on average on a daily basis over 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. More liberal labour market laws, particularly for temporary staffing, are beneficial for the industry and have 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

Since January 1, 2011, the Company is organised in a geographical structure plus the global business Lee Hecht Harrison ("LHH"). This structure is complemented by business lines. The geographies consist of France, North America, UK & Ireland, Japan, Germany & Austria, Benelux, Italy, Nordics, Iberia, Australia & New Zealand, Switzerland, and Emerging Markets. 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 91% and 76% in 2011 and 92% and 77% in 2010 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 9% and 24% in 2011 and 8% and 23% in 2010 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 2011, 52% of total revenues were generated in the Euro zone. Amounts shown in the consolidated statements of operations and consolidated statements of cash flows are translated using average exchange rates for the period or at transaction exchange rates. In 2011, the average exchange rate for the Japanese Yen, Swiss Franc, Australian Dollar, and Norwegian Krone which comprised 7%, 2%, 2%, and 2% of total revenues, respectively, strengthened against the Euro, whereas the US Dollar and the British Pound which comprised 16% and 8% of total revenues, respectively, weakened against the Euro when compared to 2010. The Canadian Dollar which comprised 2% of total revenues was stable. The Company's consolidated balance sheets are translated using the year end exchange rates. At year end 2011, the Japanese Yen, Australian Dollar, US Dollar, Swiss Franc, British Pound, Canadian Dollar, and Norwegian Krone all strengthened against the Euro when compared to 2010.

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	31.12.2011	31.12.2010
Net debt		
Short-term debt and current maturities of long-term debt	236	217
Long-term debt, less current maturities	1,190	1,088
Total debt	**1,426**	**1,305**
Less:		
Cash and cash equivalents	(532)	(549)
Short-term investments	(2)	(5)
Net debt	**892**	**751**

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 rates fluctuations, acquisitions, and divestitures.

3. Operating results

3.1 Overview

Overall, 2011 saw a healthy business environment and a growth in demand for HR services. Revenues increased in 2011 by 10% to EUR 20,545 when compared to 2010.

Operating income before amortisation of intangible assets increased by 13% from EUR 722 in 2010 to EUR 814 in 2011.

Operating income increased by 14% to EUR 763 in 2011 compared to EUR 667 in 2010.

Net income attributable to Adecco shareholders increased to EUR 519 in 2011 compared to EUR 423 in 2010.

3.2 Revenues

Revenues increased by 10% to EUR 20,545 in 2011 and by 11% in constant currency. On an organic basis, revenues increased in 2011 by 10%. This increase was driven primarily by an increase in temporary staffing volume as temporary hours sold rose by 9% to 1,261 million. Permanent placement revenues were EUR 344 in 2011, which represents an increase of 19% versus 2010, or 18% organically. Career transition (outplacement) revenues were EUR 206 in 2011 which represents a decrease of 8%, or 16% organically.

In France, Germany & Austria, Italy, and Emerging Markets revenues increased organically by double digit percentages.

Segment performance

The segment breakdown of revenues is presented below:

			Variance %	
in EUR	2011	2010	EUR	Constant currency
Revenues [1]				
France	6,066	5,494	10	10
North America [2]	3,646	3,488	5	10
UK & Ireland [2]	1,707	1,630	5	6
Japan	1,406	1,295	9	4
Germany & Austria	1,544	1,231	25	25
Benelux	961	889	8	8
Italy	1,032	842	23	23
Nordics	795	731	9	5
Iberia	734	728	1	1
Australia & New Zealand	510	431	18	9
Switzerland	474	392	21	7
Emerging Markets	1,434	1,256	14	18
LHH [2]	236	249	(5)	(3)
Adecco Group [2]	**20,545**	**18,656**	**10**	**11**

1 Since January 1, 2011, LHH is reported as a separate segment. The 2010 information has been restated to conform to the current year presentation.

2 In 2011, revenues changed organically in North America by 8%, UK & Ireland by 5%, LHH by -13%, and Adecco Group by 10%.

Adecco Group – Operating and financial review and prospects

in millions, except share and per share information

France

Revenues in France increased by 10% to EUR 6,066 in 2011. Temporary hours sold grew by 7% and temporary staffing services bill rates increased by 3% versus 2010 in constant currency. In 2011, France accounted for 30% of the Company's revenues.

North America

Revenues in North America increased by 5%, by 10% in constant currency, or by 8% organically, to EUR 3,646 in 2011. Temporary hours sold grew by 9% and bill rates increased by 1% versus 2010 in constant currency. North America contributed 18% to the Company's revenues in 2011.

UK & Ireland

UK & Ireland's revenues increased by 5% or by 6% in constant currency, to EUR 1,707 in 2011. Revenues increased by 5% on an organic basis versus 2010. Temporary hours sold increased by 1% and bill rates grew by 3% in constant currency. UK & Ireland generated 8% of the Company's revenues in 2011.

Japan

Revenues in Japan increased by 9% or by 4% in constant currency, to EUR 1,406. Temporary hours sold decreased by 7% and bill rates remained unchanged in constant currency. Revenues in outsourcing were up 92% in constant currency. In 2011, 7% of the Company's revenues were generated in Japan.

Germany & Austria

Germany & Austria's revenues increased by 25%, to EUR 1,544 in 2011, reflecting a 21% increase in temporary hours sold and a 3% increase in bill rates. Revenues in Germany & Austria accounted for 7% of the Company's revenues in 2011.

Benelux

In the Benelux countries, revenues increased by 8% to EUR 961 in 2011. Temporary hours sold increased by 7% and bill rates increased by 1%. The Benelux revenues in 2011 accounted for 5% of the Company's revenues.

Italy

In Italy, revenues increased by 23% to EUR 1,032 in 2011 as temporary hours sold increased by 21% and bill rates grew by 1%. Italy accounted for 5% of the Company's revenues in 2011.

Nordics

Revenues in the Nordic countries increased by 9%, or 5% in constant currency, to EUR 795. Temporary hours sold increased by 8% and the bill rates remained unchanged in constant currency. Revenues in outsourcing declined by 31% in constant currency. The Nordics revenues in 2011 accounted for 4% of the Company's revenues.

Iberia

In Iberia, revenues increased by 1% to EUR 734. The temporary hours sold decreased by 4% and the bill rate increased by 3%. Revenues in outsourcing increased by 6% compared to 2010. In 2011, Iberia contributed 4% to the Company's revenues.

Australia & New Zealand

In Australia & New Zealand, revenues increased by 18% or by 9% in constant currency, to EUR 510 in 2011. Australia & New Zealand contributed 2% to the Company's revenues in 2011.

Switzerland

In Switzerland, revenues increased by 21% or by 7% in constant currency, to EUR 474. Switzerland revenues represented 2% of the Company's revenues in 2011.

Emerging Markets

In the Emerging Markets, revenues increased by 14% or by 18% in constant currency, to EUR 1,434. The Emerging Markets represented 7% of the Company's revenues in 2011.

LHH

Revenues of Lee Hecht Harrison ("LHH"), Adecco's career transition and talent development business, amounted to EUR 236, a decrease of 5% or 13% organically. LHH represented 1% of the Company's revenues in 2011.

Business line performance
The business line breakdown of revenues is presented below:

in EUR	2011	2010	Variance % EUR	Variance % Constant currency
Revenues [1]				
Office	5,301	4,871	9	9
Industrial	10,642	9,403	13	13
General Staffing	**15,943**	**14,274**	**12**	**12**
Information Technology [2]	2,176	2,049	6	8
Engineering & Technical [2]	1,009	956	6	9
Finance & Legal [2]	722	705	2	6
Medical & Science [2]	384	360	7	7
Professional Staffing [2]	**4,291**	**4,070**	**5**	**7**
Solutions [2]	**311**	**312**	**0**	**3**
Adecco Group [2]	**20,545**	**18,656**	**10**	**11**

1 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"). The 2010 information has been restated to conform to the current year presentation.

2 In 2011, revenues changed organically in Information Technology by 6%, Engineering & Technical by 7%, Finance & Legal by 1%, Medical & Science by 5%, Professional Staffing by 5%, Solutions by -6%, and Adecco Group by 10%.

General Staffing
The Company's Office and Industrial businesses, which represented 78% of total revenues in 2011 increased by 12% in constant currency to EUR 15,943 in 2011.

In the Office business, revenues overall increased by 9% in constant currency. Revenues in constant currency increased in Emerging Markets (19%), North America (20%), Japan (4%), Nordics (3%), and France (2%), whereas revenues decreased in constant currency in UK & Ireland (–1%). Japan, Emerging Markets, North America, Nordics, UK & Ireland, and France generated more than 80% of the revenues in the Office business.

In the Industrial business, revenues increased by 13% in constant currency. Revenues increased in France (11%), Germany & Austria (30%), Italy (25%), Benelux (11%), and in North America (7%). France, Germany & Austria, North America, Italy, and Benelux accounted for over 80% of the revenues in the Industrial business.

Information Technology
In Information Technology, the Company's revenues increased by 8% in constant currency, or by 6% organically compared to 2010. Revenues increased organically in UK & Ireland (10%) and Australia & New Zealand (13%), whereas revenues declined organically in North America (–3%). UK & Ireland, North America, and Australia & New Zealand contributed over 80% 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 7% organically, compared to 2010. Revenues increased in Germany & Austria by 15%, and increased organically in North America by 8%. Over 75% of the business line's revenues were generated in North America and Germany & Austria.

Finance & Legal
In Finance & Legal, the Company experienced a revenue expansion of 6% in constant currency, or 1% organically. Organically revenues increased in North America by 5%, but declined

in UK & Ireland (–12%) when compared to 2010. North America and UK & Ireland contributed around 75% to the revenues of the business line Finance & Legal.

Medical & Science
Medical & Science revenues grew by 7% in constant currency or by 5% organically. Revenues increased organically in North America (11%) and France (11%), whereas in the Nordics revenues declined by 28% compared to 2010. France, North America, and Nordics accounted for over 80% of the business line's revenues.

Solutions
The Company's Solutions revenues increased by 3% in constant currency or declined by 6% organically.

3.3 Gross profit

Gross profit increased by 7%, or by 8% in constant currency to EUR 3,566 in 2011. Excluding acquisitions, which had a positive impact of 20 basis points ("bps"), gross margin was down 60 bps. Lower gross margins in the temporary staffing business (–50 bps) and the lower contribution of outplacement (–20 bps) were the main drivers behind this decline.

The change in gross margin in 2011 compared to 2010 is as follows:

	%
Gross margin 2010	**17.8**
Temporary staffing	(0.5)
Permanent placement	0.1
Outplacement	(0.2)
Acquisitions	0.2
Gross margin 2011	**17.4**

3.4 Selling, general, and administrative expenses

During 2011, the Company maintained its emphasis on cost control. Selling, general, and administrative expenses ("SG&A") increased by 6%, same in constant currency or 4% organically, reflecting a decrease in SG&A as a percentage of revenues of 60 bps to 13.4% from 14.0% in 2010.

Compensation expenses, which comprised approximately 70% of total SG&A, increased by 7% in constant currency to EUR 1,954 in 2011. The average FTE employees during 2011 increased by 5% (organically 4%) to over 32,500 and the average number of branches during 2011 increased by 2% (organically 1%) to over 5,500. At year end 2011, the number of FTE employees and the number of branches exceeded 33,000 and 5,500, respectively.

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

	FTE employees		Branches	
	2011	% variance	2011	% variance
Segment breakdown (yearly average)				
France	6,229	0	1,388	3
North America	6,838	6	949	(4)
UK & Ireland	2,831	5	356	(2)
Japan	1,948	(6)	133	(8)
Germany & Austria	2,579	13	497	3
Benelux	1,567	4	343	1
Italy	1,578	7	429	0
Nordics	1,051	4	193	4
Iberia	1,513	4	398	7
Australia & New Zealand	519	(1)	67	(11)
Switzerland	424	1	98	(4)
Emerging Markets	4,200	21	472	9
LHH	1,311	(7)	200	25
Corporate	238	9		
Adecco Group	**32,826**	**5**	**5,523**	**2**

Marketing expenses were EUR 81 in 2011, compared to EUR 68 in 2010. Bad debt expense increased by EUR 4 to EUR 16 in 2011.

3.5 Amortisation of intangible assets

Amortisation of intangible assets decreased to EUR 51 in 2011 from EUR 55 in 2010.

3.6 Operating income

Operating income before amortisation of intangible assets increased by 13% from EUR 722 in 2010 to EUR 814 in 2011 and by 14% organically. Operating income increased by 14% to EUR 763 in 2011 compared to EUR 667 in 2010.

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

in EUR	2011	2010	Variance % EUR	Variance % Constant currency
Operating income				
France	220	199	10	10
North America	161	134	20	28
UK & Ireland	32	22	46	50
Japan	80	69	16	12
Germany & Austria	110	82	34	34
Benelux	44	41	5	5
Italy	60	38	60	60
Nordics	18	38	(51)	(53)
Iberia	24	27	(11)	(11)
Australia & New Zealand	18	12	53	42
Switzerland	50	40	24	11
Emerging Markets	43	36	19	24
LHH	36	58	(39)	(37)
Corporate expenses	(82)	(74)		
Operating income before amortisation of intangible assets	**814**	**722**	**13**	**14**
Amortisation of intangible assets	(51)	(55)		
Adecco Group	**763**	**667**	**14**	**16**

France
France's operating income increased by 10% to EUR 220 in 2011. The operating income margin was 3.6% in 2011, unchanged from 2010.

North America
North America's operating income increased by 20%, or by 28% in constant currency, to EUR 161 in 2011. The operating income margin was 4.4% in 2011, an increase of 60 bps compared to 2010. Integration costs relating to the MPS acquisition were EUR 4 in 2011 and EUR 20 in 2010.

UK & Ireland
UK & Ireland's operating income increased from EUR 22 in 2010 to EUR 32 in 2011. The operating income margin was 1.9% in 2011, an increase of 50 bps compared to 2010. Integration costs related to the Spring and MPS acquisitions were EUR 2 in 2011 and EUR 13 in 2010.

Japan
Japan's operating income increased in 2011 by 16%, or 12% in constant currency to EUR 80 and the operating income margin increased by 40 bps to 5.7% compared to 2010, mainly due to a higher gross margin.

Germany & Austria
Germany & Austria's operating income increased by 34% to EUR 110 in 2011 and the operating income margin was 7.1%, an increase of 40 bps compared to 2010, mainly due to increasing revenues and lower SG&A as a percentage of revenues.

Benelux
In the Benelux countries, operating income increased to EUR 44 in 2011. The operating income margin decreased by 20 bps to 4.5% in 2011 compared to 2010.

Italy
In Italy, operating income grew by 60% to EUR 60 in 2011 and the operating income margin expanded by 130 bps to 5.8% compared to 2010, mainly due to a strong increase in revenues and lower SG&A as a percentage of revenues.

Nordics
Operating income in the Nordics decreased by 51% or 53% in constant currency to EUR 18 in 2011. The operating income margin decreased by 280 bps to 2.3% in 2011 compared to 2010. The 2011 results were negatively impacted by the exit of the nursing home outsourcing business in Norway.

Iberia
In Iberia, operating income decreased by 11% to EUR 24 in 2011. The operating income margin decreased by 50 bps to 3.2% in 2011 compared to 2010.

Australia & New Zealand
In Australia & New Zealand, operating income increased by 53%, or 42% in constant currency to EUR 18 in 2011 compared to 2010. The operating income margin increased by 80 bps to 3.5% in 2011 compared to 2010, mainly due to increasing revenues and lower SG&A as a percentage of revenues.

Switzerland
In Switzerland, operating income increased by 24% or by 11% in constant currency to EUR 50 in 2011 compared to 2010. The operating income margin grew by 30 bps to 10.5% due to increasing revenues and lower SG&A as a percentage of revenues.

Emerging Markets
In the Emerging Markets, the Company experienced an increase in operating income of 19% or 24% in constant currency to EUR 43 in 2011. The operating income margin was 3.0% in 2011, 10 bps higher compared to 2010.

LHH
In 2011, operating income in LHH decreased by 39% or by 37% in constant currency to EUR 36. The operating income margin was 15.1% in 2011 compared to 23.5% in 2010. Included in the 2011 results are integration costs relating to the DBM acquisition of EUR 14.

3.7 Interest expense

Interest expense increased by EUR 8 to EUR 71 in 2011 compared to EUR 63 in 2010, mainly due to higher average interest rates on 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 6 in 2011, compared to an expense of EUR 1 in 2010. This increase is mainly due to 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

The provision for income taxes was EUR 166 in 2011 compared to EUR 179 in 2010. The effective tax rate for 2011 was 24% compared to 30% in the prior year.

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

3.10 Net income attributable to Adecco shareholders and EPS

Net income attributable to Adecco shareholders for 2011 increased to EUR 519 compared to EUR 423 in 2010. Basic earnings per share ("EPS") was EUR 2.72 in 2011 compared to EUR 2.20 in 2010.

in millions, except share and per share information

4. Outlook

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. Besides the structural changes and related investments of EUR 45 in France, which would mainly be incurred in the second half of 2012, management expects additional costs of EUR 10 in the first half of 2012, to further optimise the cost base in other European countries and to protect profitability. The Company is committed to its strategic priorities and has the right offering to achieve an EBITA[1] margin target of above 5.5% mid-term.

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

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 80% of total current assets. Accounts payable, accrued salaries and wages, payroll taxes and employee benefits, and sales and value added taxes comprise approximately 74% 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 decreased by a total of EUR 17 to EUR 532 as of December 31, 2011. The decrease was mainly due to the acquisition of DBM in August 2011 for EUR 148, net of cash acquired, the repayment of EUR 214 of long-term debt, the EUR 149 payment of dividends, purchase of treasury shares of EUR 178, settlement of derivatives of EUR 57, and capital expenditures of EUR 109. This was mostly offset by the generation of EUR 524 in operating cash flows and the EUR 330 net proceeds from borrowings of long-term debt.

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 from or used in operating, investing, and financing activities:

in EUR	2011	2010
Summary of cash flows information		
Cash flows from operating activities	524	455
Cash used in investing activities	(317)	(1,020)
Cash used in financing activities	(224)	(385)

Cash flows from operating activities increased by EUR 69 to EUR 524 in 2011 compared to 2010. This increase is primarily attributable to the increase in net income, net of non-cash items mainly related to tax benefits. DSO increased to 55 days for the full year 2011 compared to 54 days for the full year 2010.

Cash used in investing activities decreased by EUR 703 to EUR 317 in 2011 compared to 2010. In 2011, the Company acquired DBM for a consideration, net of cash acquired of EUR 148 while in 2010 MPS was acquired for a consideration, net of cash acquired, of EUR 831. The Company's capital expenditures amounted to EUR 109 in 2011 and EUR 105 in 2010.

Cash used in financing activities totalled EUR 224, a decrease of EUR 161 when compared to 2010. In 2011, the Company issued long-term debt of EUR 330, net of issuance costs and repaid long-term debt of EUR 214, whereas in 2010 long-term debt repayments amounted to EUR 478. 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 outstanding notes in April 2011. In 2010 debt repayments primarily consisted of repayment of the guaranteed zero-coupon convertible bond. In addition in 2011, the Company's net decrease in short-term debt amounted to EUR 9, whereas in 2010 short-term debt increased by EUR 156. Additionally, the Company paid dividends of EUR 149 and EUR 91 in 2011 and 2010, respectively. Furthermore, in 2011, the Company acquired treasury shares in the amount of EUR 178 while in 2010 net cash inflows from treasury shares transactions amounted to EUR 28.

5.2 Additional capital resources

As of December 31, 2011, the Company's total capital resources amounted to EUR 5,940 comprising EUR 1,426 in debt and EUR 4,514 in equity, excluding treasury shares and noncontrolling interests. Long-term debt, including current maturities, was EUR 1,266 as of December 31, 2011 and EUR 1,137 as of December 31, 2010 and includes long- and medium-term notes, and medium-term loans. The borrowings, which are unsecured, are denominated in Euros and Swiss Francs. The majority of the borrowings outstanding as of December 31, 2011 mature in 2013, 2014, and 2018. During 2011, the Company increased its short- and long-term debt including foreign currency effect by EUR 121.

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 of individual paper of 365 days or less. As of December 31, 2011 and December 31, 2010 EUR 145 and EUR 151, respectively was outstanding under the programme, with maturities of up to six months. The weighted-average interest rate on commercial paper outstanding was 1.31% and 1.09% as of December 31, 2011 and December 31, 2010, respectively.

In addition, the Company maintains a committed multicurrency revolving credit facility. The five-year revolving credit facility, which was renewed in October 2011 and contains two 1-year extension options 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, 2011 and December 31, 2010, there were no outstanding borrowings under the credit facility. As of December 31, 2011, the Company had EUR 529 available under the credit facility after utilising EUR 71 in the form of letters of credit.

Furthermore, as of December 31, 2011, the Company had uncommitted lines of credit amounting to EUR 477, of which EUR 15 was used.

Net debt increased by EUR 141 to EUR 892 as of December 31, 2011. The calculation of net debt based upon financial measures in accordance with U.S. GAAP is presented on page 42.

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, 2011, 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:

in EUR	2012	2013	2014	2015	2016	Thereafter	Total
Contractual obligations by year							
Short-term debt obligations	160						160
Long-term debt obligations	76	342	358	1		489	1,266
Interest on debt obligations	67	56	32	24	24	30	233
Operating leases	199	136	105	79	97	51	667
Purchase and service contractual obligations	161	6	3	3			173
Total	**663**	**540**	**498**	**107**	**121**	**570**	**2,499**

Short-term debt obligations consist of bank overdrafts and borrowings outstanding under the lines of credit and the commercial paper programme. Long-term debt obligations consist primarily of the EUR 333 fixed rate notes due in 2013, the EUR 356 5-year Euro medium-term notes due in 2014, and the EUR 500 7-year Euro medium-term notes due in 2018. These debt instruments were issued partly for acquisitions, 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 667 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, 2011, the Company had future purchase and service contractual obligations of approximately EUR 173, primarily related to acquisitions (refer to Note 19 to the consolidated financial statements for further details), 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 110 in property, equipment, and leasehold improvements for existing operations in 2012. The focus of these investments will be on information technology.

Further planned cash outflows include distribution of dividends for 2011 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, 2011 of 170,448,401 is EUR 252 (CHF 307 – based on CHF/EUR exchange rate of 1.22 as of December 31, 2011). Payment of dividends is subject to approval by shareholders at the Annual General Meeting.

The Company has entered into certain guarantee contracts and standby letters of credit that total EUR 661, including the letters of credit issued under the multicurrency revolving credit facility (EUR 71). 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.

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 upon information currently available, the Company is not able to determine if it is reasonably possible that the final outcome of tax audits will result in a materially different outcome than that assumed in its tax reserves.

5.6 Credit ratings

As of December 31, 2011, the Company's long-term credit rating was Baa3 with positive 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, 2011. 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, 2011, 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.

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, 2011 and December 31, 2010, the Company has recorded an allowance for doubtful accounts of EUR 107 and EUR 115, respectively. Bad debt expense of EUR 16 and EUR 12 was recorded in 2011 and 2010, 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 2011 or 2010.

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 2011 or 2010 in connection to indefinite-lived intangible assets.

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 2011 or 2010 in connection with definite-lived intangible assets.

8.6 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, reviews all of these assumptions on an ongoing basis to ensure that the most reasonable information available is being considered.

8.7 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 13, 2012, 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.