



# Adecco

Full-Year 2003 & Q1 2004 Results

Analyst Conference

*June 4, 2004*

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# Introduction

**John Bowmer**

**Executive Chairman**

# Highlights

- **Solid 2003 results with good performance in Q4 2003**
  - 2003 net income up by 26% to EUR 305 million
  - Proposed dividend increase of 17% to CHF 0.70 per share
- **Independent investigation by Paul, Weiss completed in respect of the audit of the financial statements and “whistleblowers”**
- **2003 audit work completed with no restatement of prior year accounts**
- **Company is emerging stronger from very uncertain period**
- **Sales at constant rate continued to grow during Q1 2004**
  - Profitability largely impacted by costs from audit delay
- **Long-term strategy unchanged**

# Meeting the Challenge

- **Challenge:**
  - Protect the company
- **Objectives:**
  - Signed unqualified accounts
  - Business as usual
  - Maintain momentum
- **Next challenge:**
  - Get the 2004 audit signed on time

# Resilience to Recent Events

- **Adecco has met its greatest challenge and emerged a stronger company**
  - No material impact on business performance
  - Sales at constant rate continued to grow in Q1 2004
  - Improving internal processes to bring future benefits
- **Extensive audit uncovered no evidence of misappropriations or irregularities that would be financially significant to the Group**
  - Substantive test-based audit in North America
  - Over 160,000 manhours to complete
- **Total costs associated with the audit delay of approximately EUR 100 million**
- **Tremendous support from our clients, associates and colleagues**

# 2003 Audit Delay

- **Resulted from material weaknesses in Adecco Staffing North America and accusations by “whistleblowers”**
  - Application of cash to accounts receivable
  - Revenue recognition
  - System security
  - Payroll bank account reconciliation
- **Substantive test-based audit procedures more time-consuming than controls based audit procedures**
- **Independent investigation by Paul, Weiss into matters affecting the audit of the financial statements and “whistleblowers”**
- **Outside investigations by the SEC, the US Attorney, the SWX Swiss Exchange and the Swiss Federal Banking Commission and US class action litigation are continuing**

# **Actions Taken in North America**

- **Project teams set up and working to fix outstanding material weaknesses in internal controls**
- **PwC supporting in modification of controls and processes**
- **KPMG to test new controls and processes for Sarbanes-Oxley**
- **Senior management team strengthened:**
  - **Ray Roe – President of Group Operations North America**
  - **Peter Alcide – CFO North America**
  - **Alwin Brunner – CIO North America**
  - **Christophe Jeusse – VP Finance/Operations Adecco Staffing North America**



# Global Management and Organisational Changes

- **Strengthened Group senior management team**
  - Jim Fredholm – CFO from June 1, 2004
  - Thomas Reuter – SVP Sarbanes-Oxley Global Project
- **Established project teams to transfer the new Sarbanes-Oxley compliant controls and processes in North America to our other countries**
- **Continued roll-out of AdeccoWeb and other global software solutions to address systems issues**
- **Improved whistleblower procedures**
- **Increased the size of our internal audit team**
- **Continued implementation of measures to improve internal controls relating to matters identified at the conclusion of the 2003 audit**

# Results Summary

## ▪ 2003 Full-Year Results

- In 2003 net income up by 26% to EUR 305 million
- In 2003 sales up by 2% to EUR 16.3 billion at constant rate (down 5% in EUR)
- Net debt reduced by EUR 491 million to EUR 918 million in 2003 <sup>(1)</sup>
- Proposed dividend for 2003 CHF 0.70 per share, up by 17%

## ▪ Q1 2004 Results

- Q1 2004 sales up by 4% to EUR 3.8 billion at constant rate (down 1% in EUR)
- Q1 2004 operating income down 47% to EUR 59 million largely due to audit-related costs of EUR 36 million
- Net debt further reduced by EUR 81 million to EUR 837 million

(1) Off balance sheet debt includes UK securitization program (Q4 2003: EUR 36 million, Q4 2002: EUR 59 million).



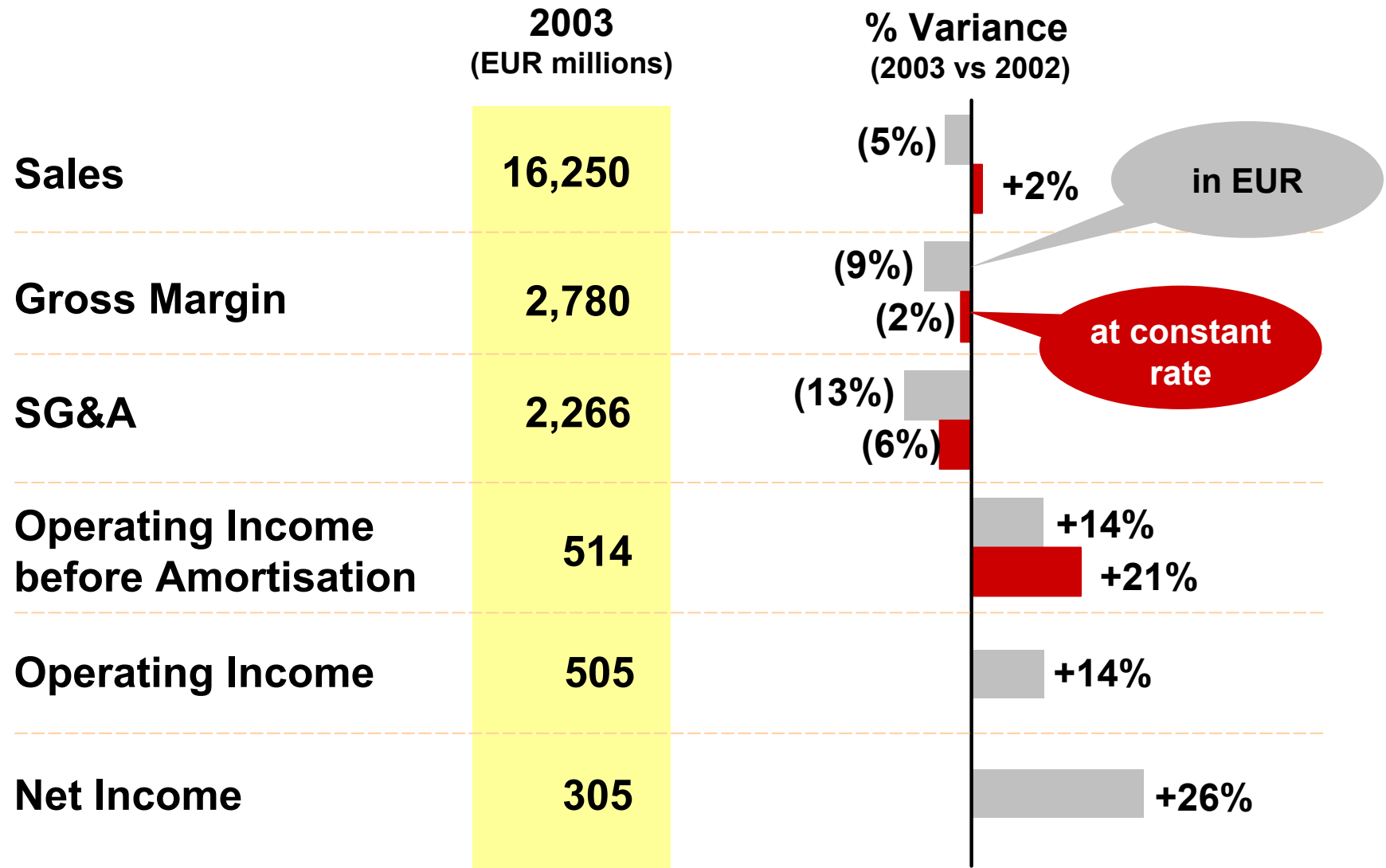
# **Full-Year 2003 Results - Operational Review**

**Jérôme Caille**

**Chief Executive Officer**

**Adecco**

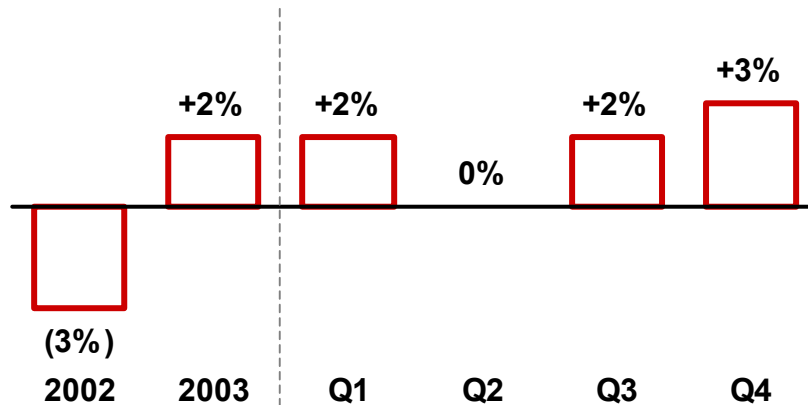
# 2003 Results: Strong Operating Gearing



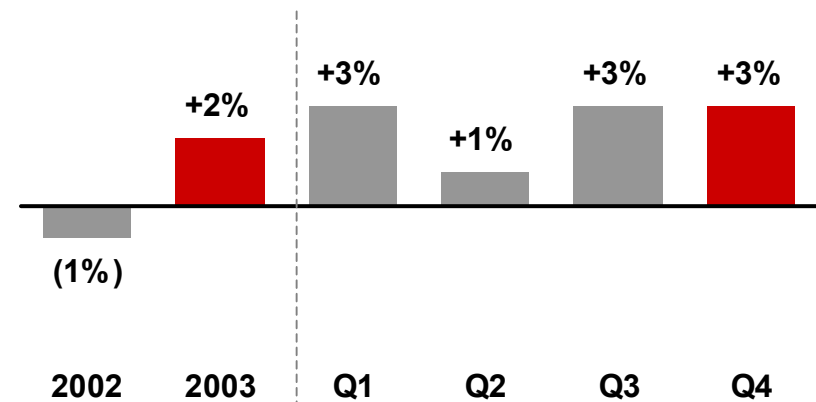
# Turnaround in Sales

At Constant Rate

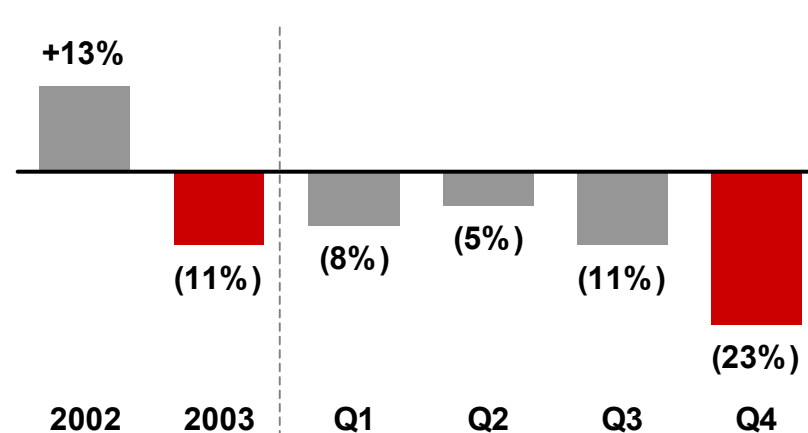
Group



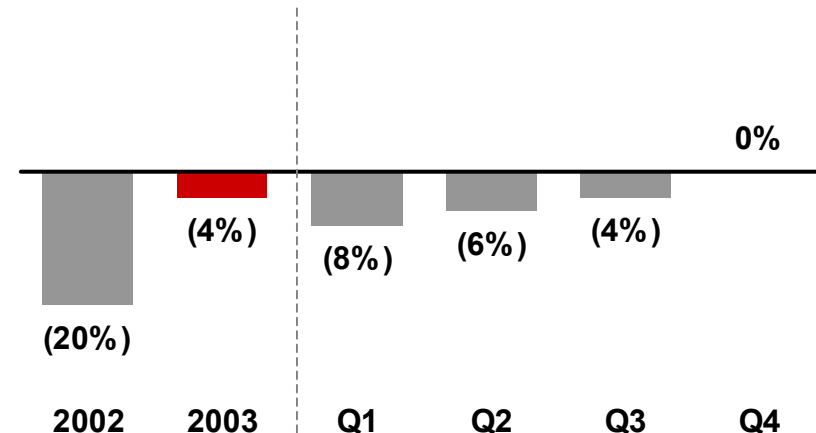
Adecco Staffing (89% of Group)



LHH / Career Services (1% of Group)

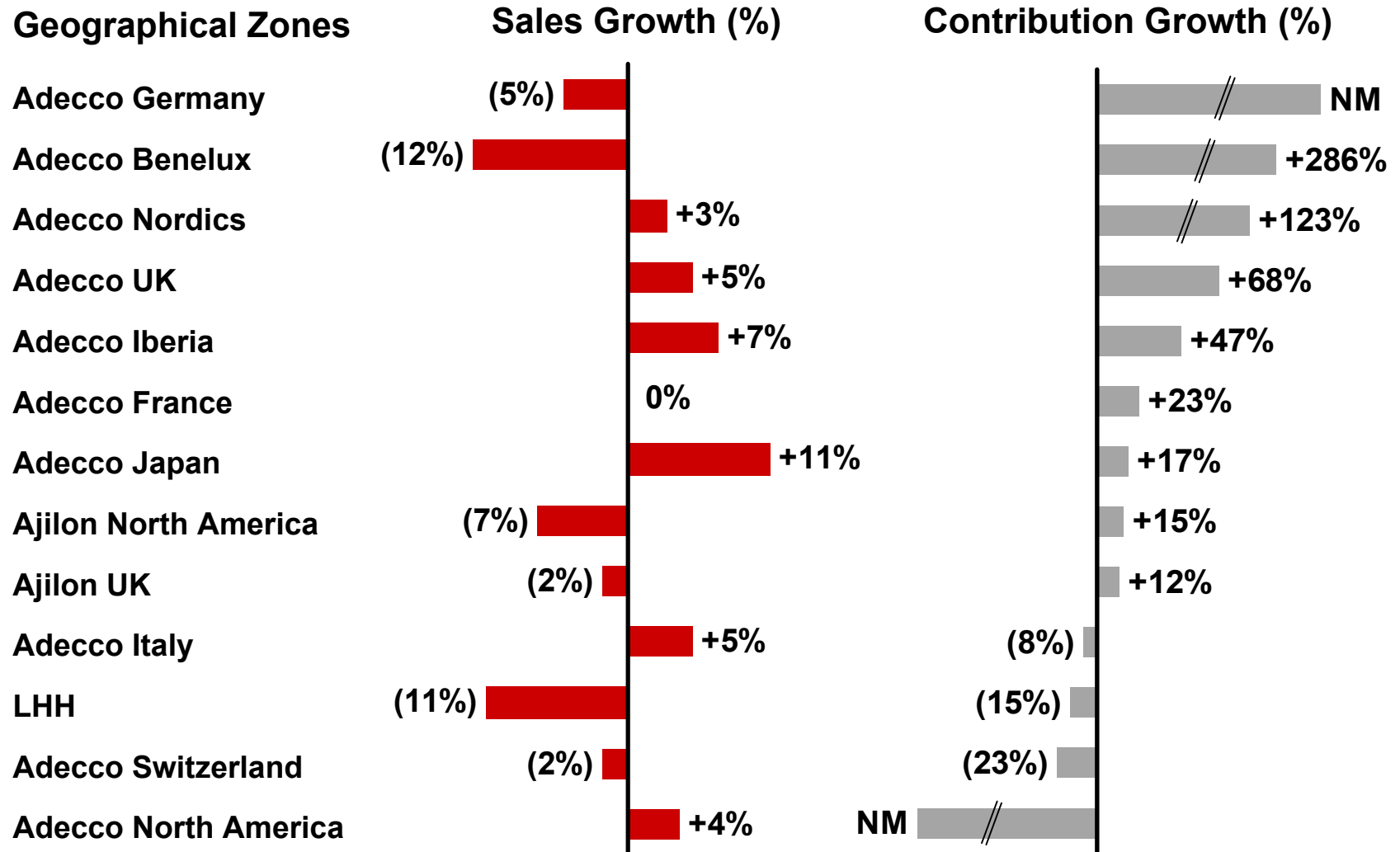


Ajilon Professional (10% of Group)



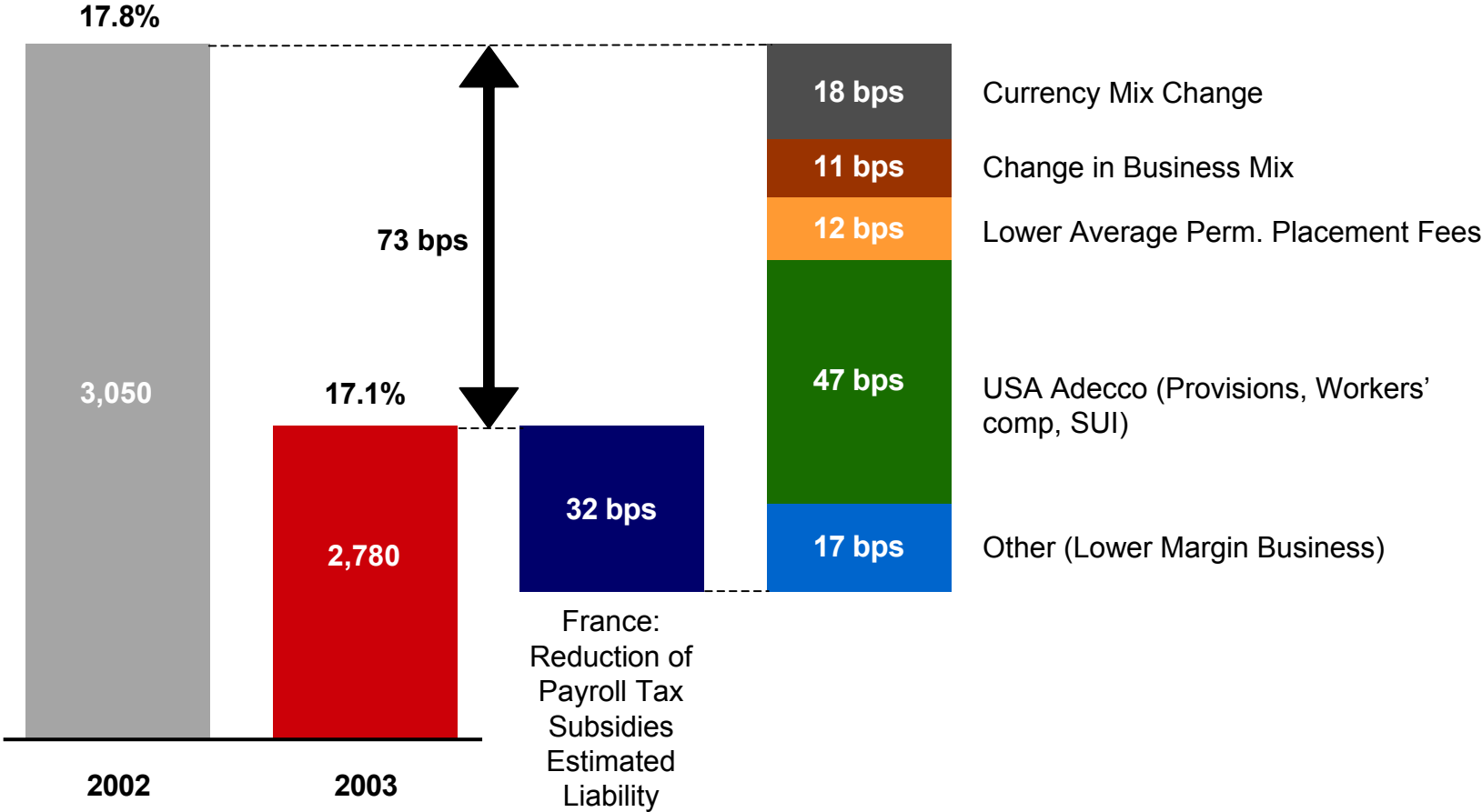
# Operational Leverage in Major Business Units

At Constant Rate, 2003 vs 2002



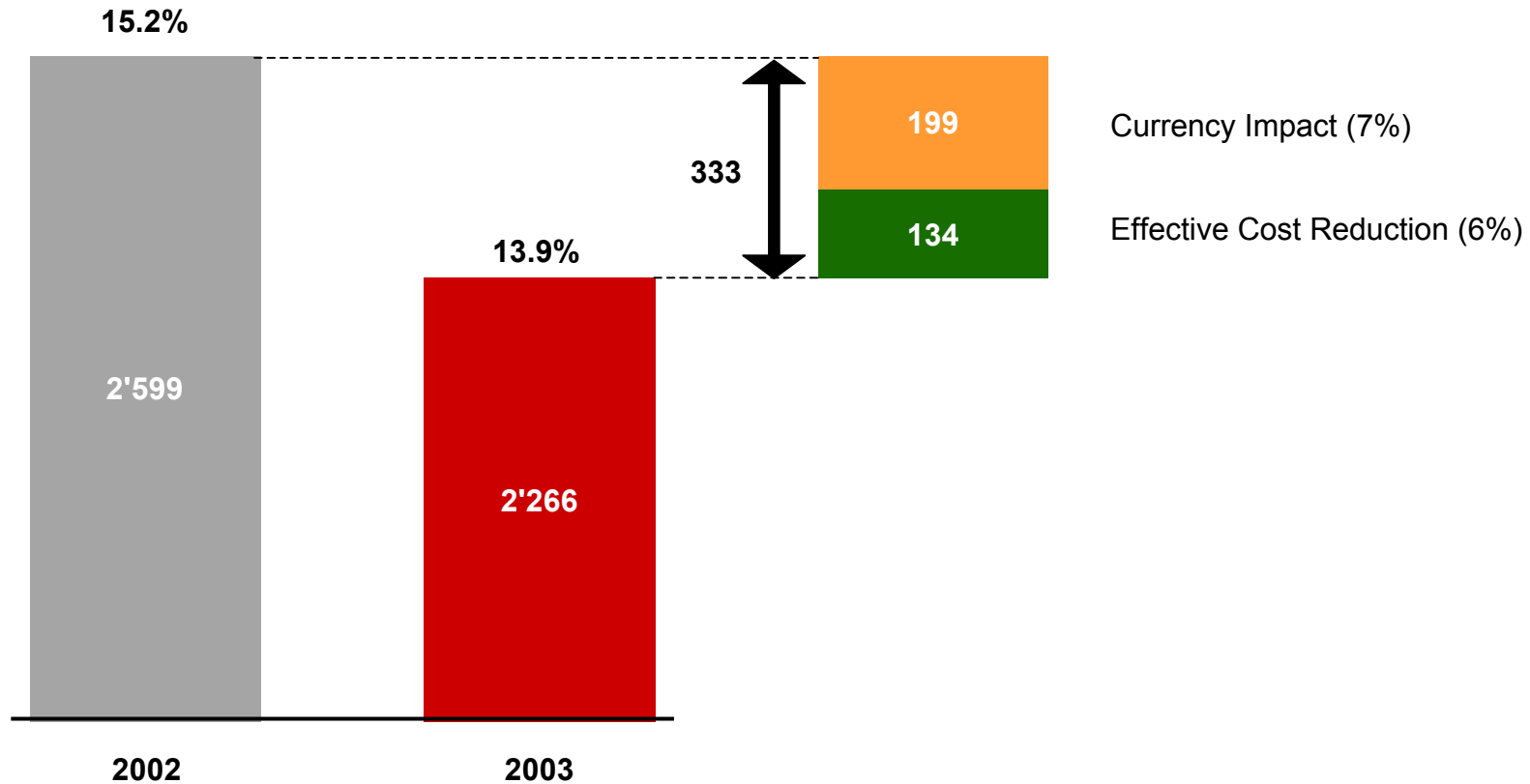
# Gross Margin Development

Gross Margin in EUR millions & in % of Sales, 2003 vs 2002



# Cost Leadership: EUR 134 million Savings at Constant Rate

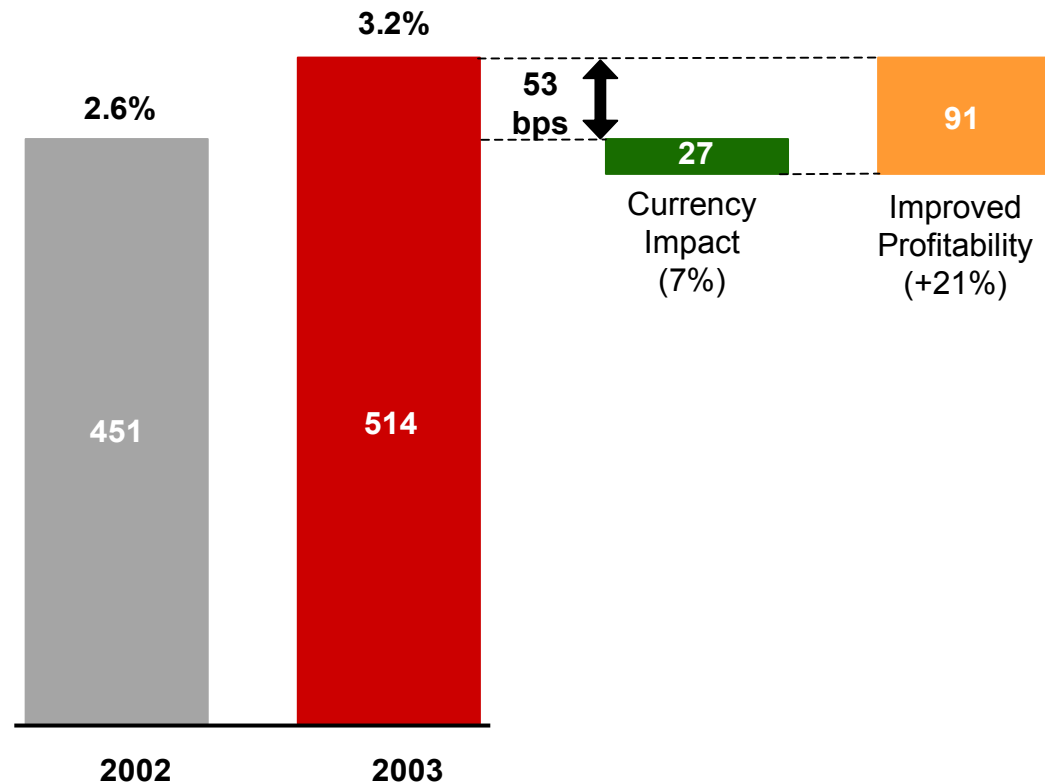
SG&A in EUR millions & in % of Sales, 2003 vs 2002





# Improved Operating Margin

Operating Income before Amortisation in  
EUR millions & in % of Sales, 2003 vs 2002





# **Full-Year 2003 Results - Finance Review**

**Andres Cano**

**Acting Chief Financial Officer**

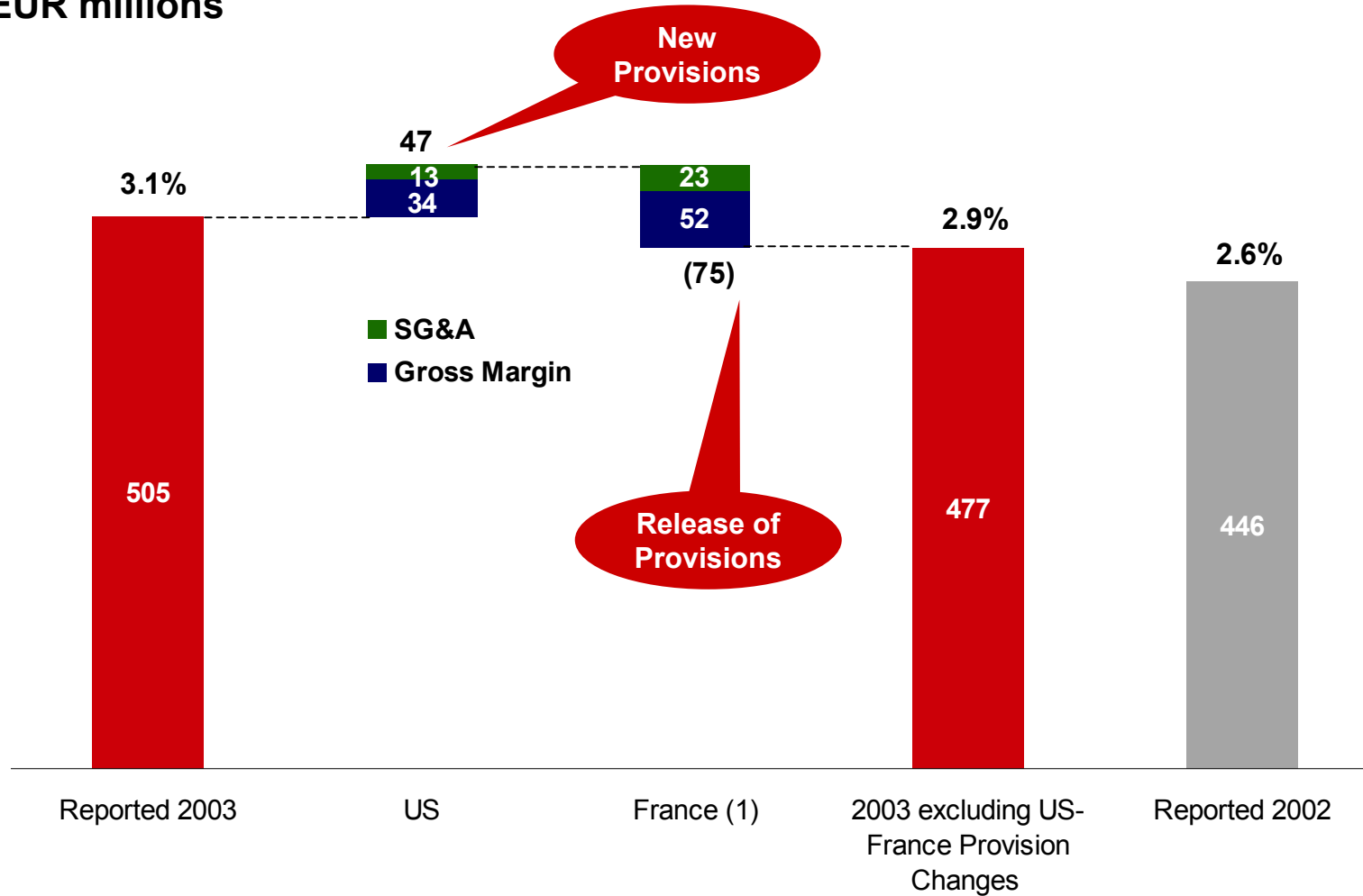
# 2003 Results in Detail

EUR millions

	Twelve Months Ended		Variance %	
	December 28, 2003	December 29, 2002	EUR	Constant
Net service revenues	16,250	17,098	(5%)	2%
Gross margin	2,780	3,050	(9%)	(2%)
SG&A	<u>(2,266)</u>	<u>(2,599)</u>	(13%)	(6%)
<b>Operating income before amortisation</b>	<b>514</b>	<b>451</b>	<b>14%</b>	<b>21%</b>
Amortisation of intangibles	<u>(9)</u>	<u>(5)</u>		
<b>Operating income</b>	<b>505</b>	<b>446</b>	<b>14%</b>	
Interest and other expenses	(70)	(108)		
Provision for income taxes	(127)	(96)		
Change in accounting principle	<u>(3)</u>	<u>-</u>		
<b>Net income</b>	<b><u>305</u></b>	<b><u>242</u></b>	<b>26%</b>	

# Major Items in 2003 Operating Income

EUR millions



(1) In Q4 2003, EUR 35 million in gross margin and EUR 17 million in SG&A was released. For the US, EUR 47 million in total was charged in Q4 2003.

# Estimated Costs Related to Audit Delay

EUR millions, Pre-Tax

	2003	Q1 2004	Q2-Q4 2004	Total
Ernst & Young (additional audit fees)	6	19	15	40
Advisers and Other	-	17	43	60
<b>Estimated Non-Recurring / Cash Total</b>	<b>6</b>	<b>36</b>	<b>58</b>	<b>100</b>

# 2003 Cash Flow Statement

EUR millions

	Twelve Months Ended	
	December 28, 2003	December 29, 2002
Net income	305	242
Depreciation	139	146
Change in operating assets/liabilities	(135)	(12)
Others	146	69
<b>Cash Flow From Operations</b>	<b>455</b>	<b>445</b>
<b>Cash Flow Used in Investing Activities (including in marketable securities)</b>	<b>(440)</b>	<b>(182)</b>
<b>Cash Flow From / (Used in) Financing Activities</b>	<b>365</b>	<b>(398)</b>
Effect of exchange rate changes on cash	(21)	(26)
<b>Net Increase / (Decrease) in Cash / Cash Equivalents</b>	<b>359</b>	<b>(161)</b>

# 2003 Consolidated Balance Sheet

EUR millions

	<u>December 28, 2003</u>	<u>December 29, 2002</u>
<b>Assets</b>		
Cash and marketable securities	974	213
Trade accounts receivable	2,955	2,906
Other current assets	308	333
Property, plant and equipment	334	435
Goodwill & intangibles, net	1,295	1,477
Other assets	440	456
<b>Total</b>	<b><u>6,306</u></b>	<b><u>5,820</u></b>
<b>Liabilities &amp; Equity</b>		
Accounts payable and accrued expenses	2,774	2,815
Short- and long-term debt	1,856	1,563
Other liabilities	129	103
Shareholders' equity	<u>1,547</u>	<u>1,339</u>
<b>Total</b>	<b><u>6,306</u></b>	<b><u>5,820</u></b>
Net debt (includes off balance sheet debt) <sup>(1)</sup>	918	1,409

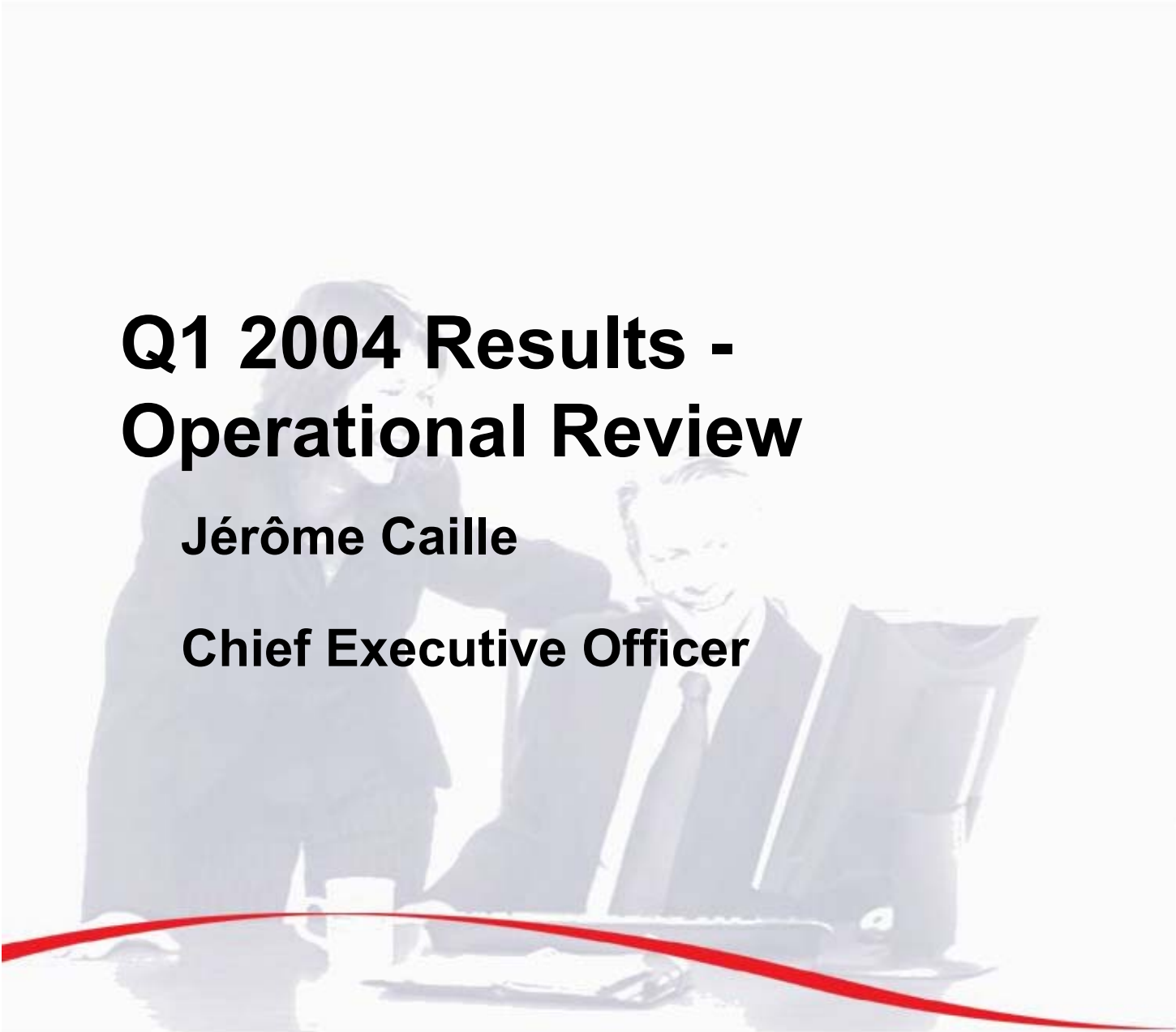
(1) Off balance sheet debt includes UK securitization program (Q4 2003: EUR 36 million, Q4 2002: EUR 59 million).

# Proposed 2003 Dividend

- **CHF 0.70 dividend per share (and CHF 0.175 per ADR) for 2003 to be proposed by the Board of Directors at AGM**
- **Represents an increase over last year of 17% or CHF 0.10 per share**
- **Equates to a dividend yield of 1.1%<sup>(1)</sup> and a payout ratio of 28%**
- **Dividend payment date for the shares is expected to be July 12, 2004 and for the ADRs August 13, 2004**

(1) Based on closing share price as of Tuesday, June 1, 2004.



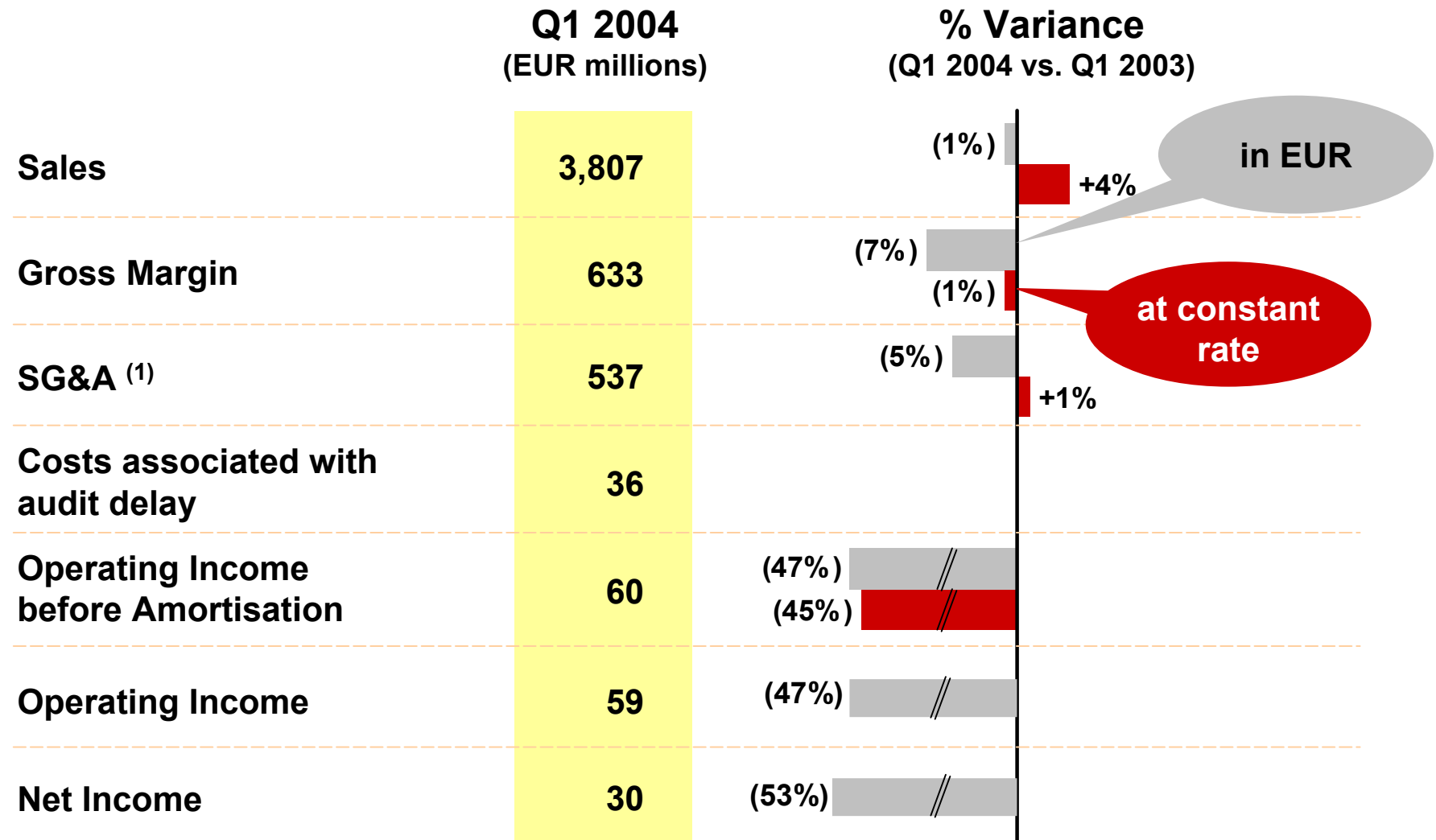


# **Q1 2004 Results - Operational Review**

**Jérôme Caille**

**Chief Executive Officer**

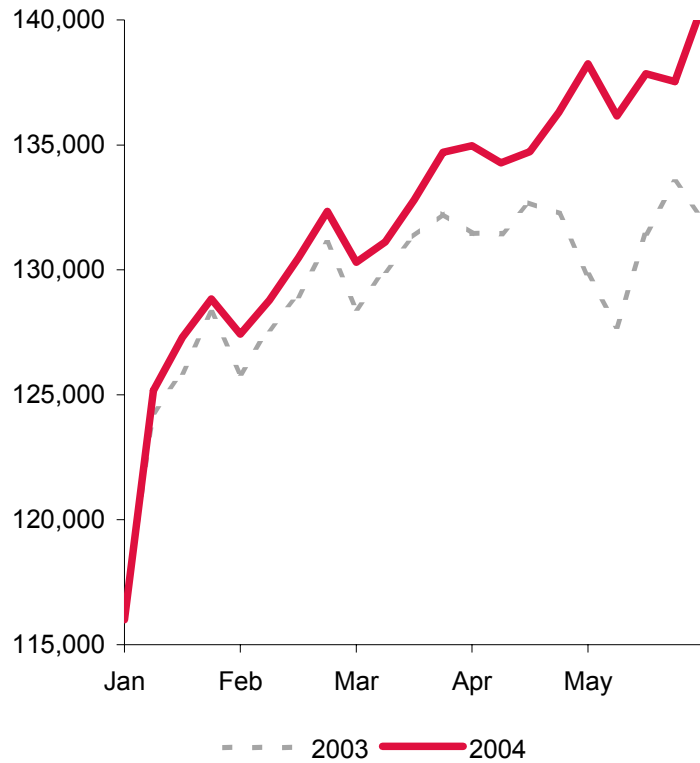
# Highlights of Q1 2004 Results



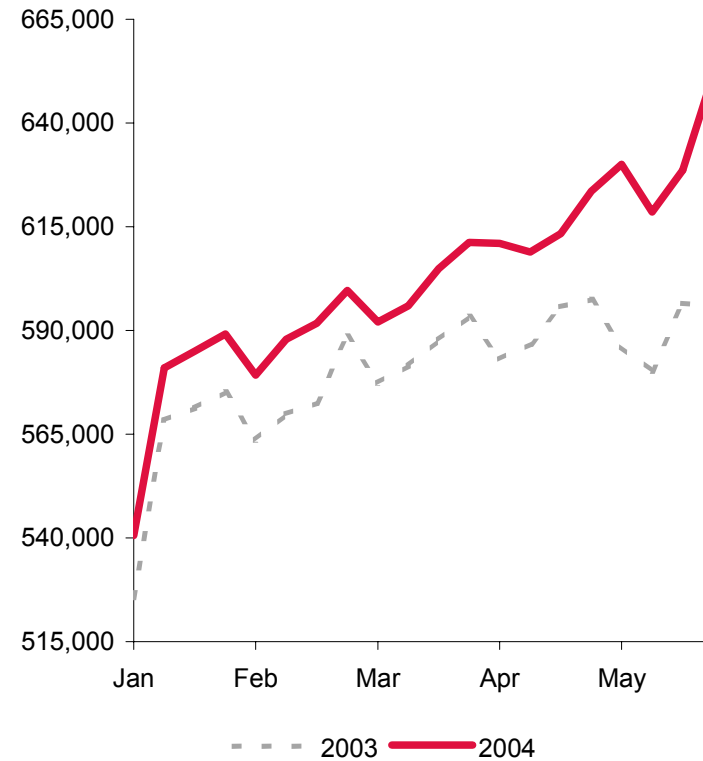
(1) Excluding costs associated with the audit delay of EUR 36 million.

# Trading Update

## Client Base



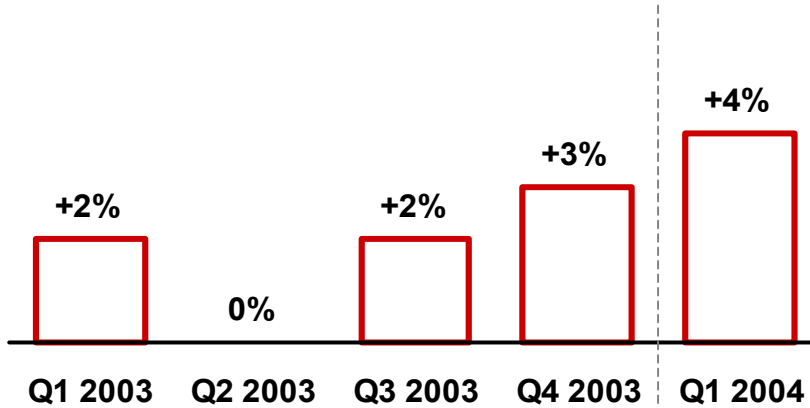
## Number of Temporary Associates



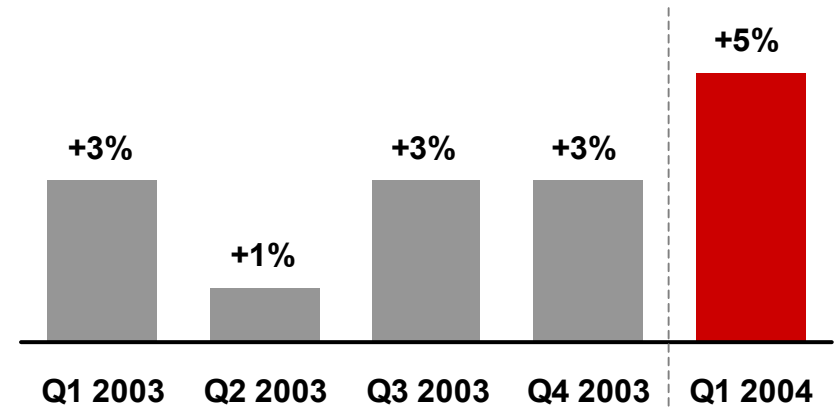
# Sales Growth by Division

At Constant Rate

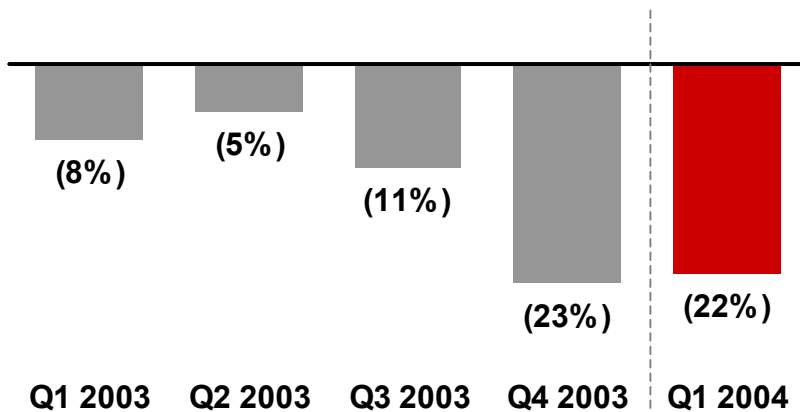
Group



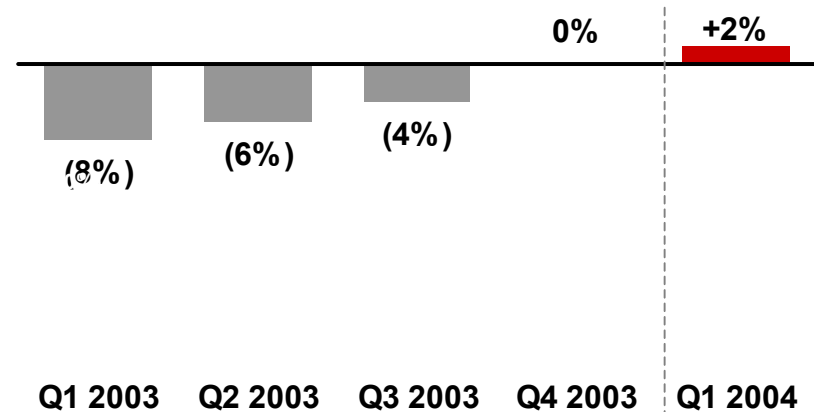
Adecco Staffing (88% of Group)



LHH / Career Services (1% of Group)

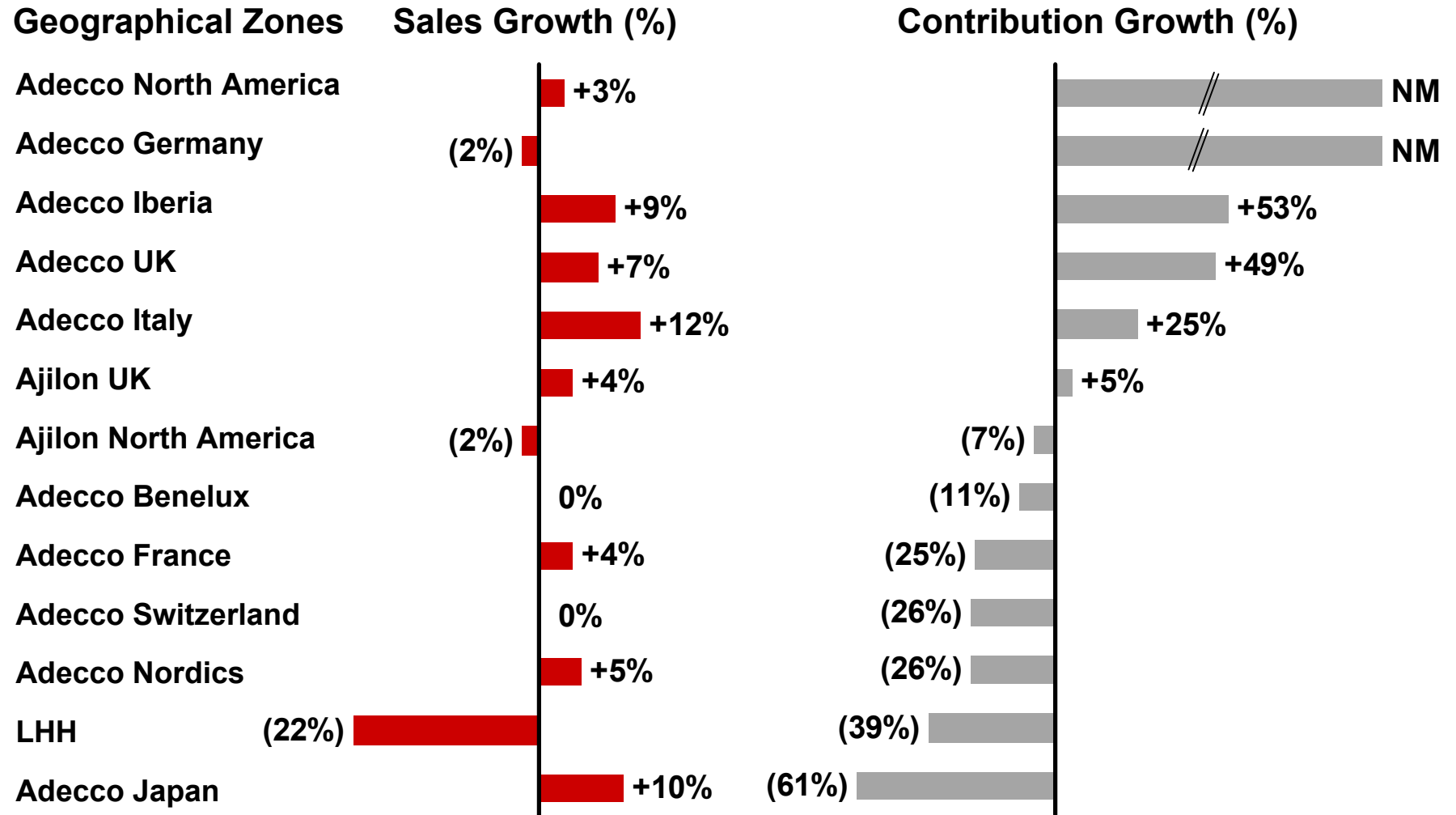


Ajilon Professional (11% of Group)



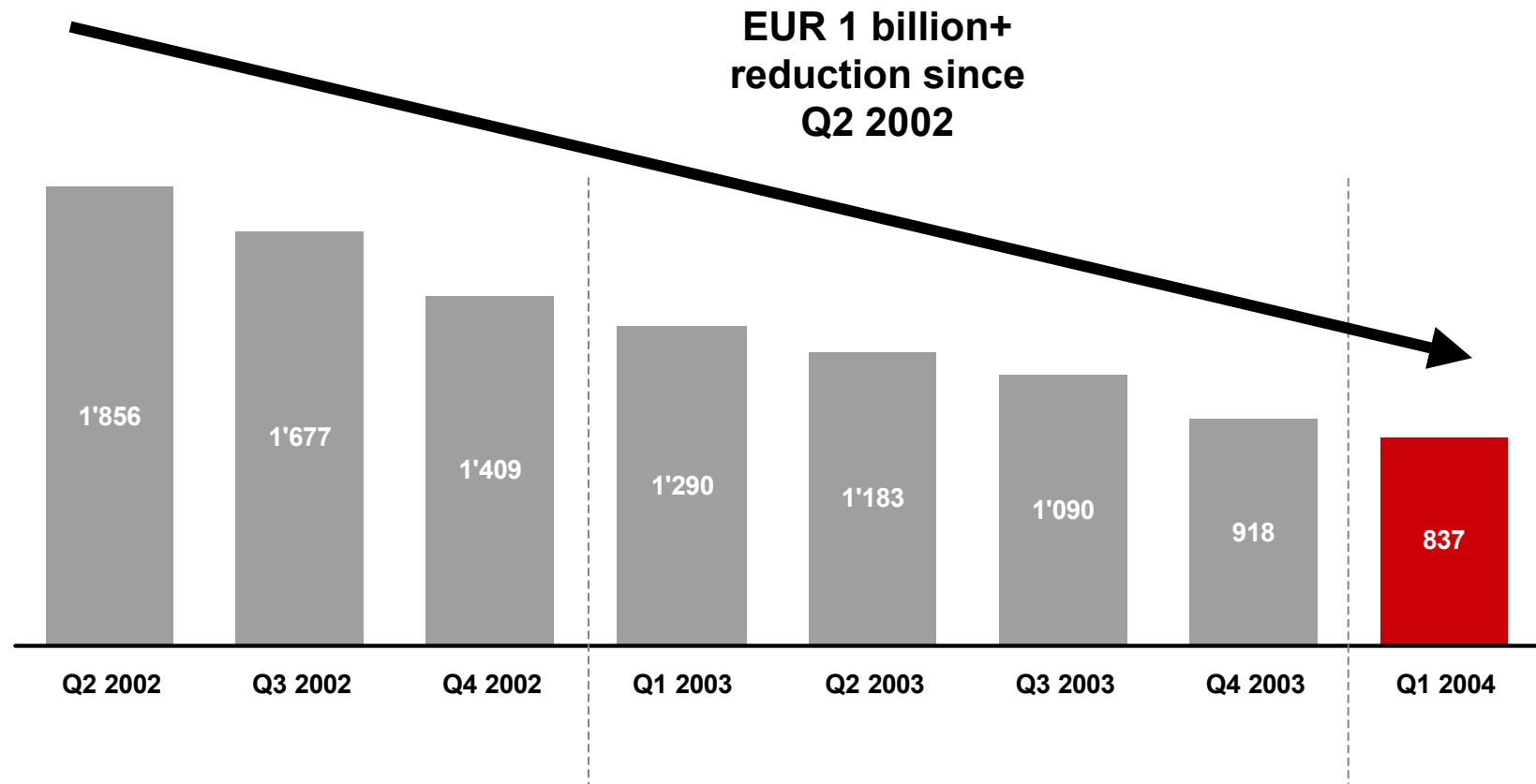
# Performance in Major Business Units

At Constant Rate, Q1 2004 vs Q1 2003



# Deleveraging Continues

Net Debt in EUR millions <sup>(1)</sup>



(1) Includes off balance sheet debt (Q2 2002: EUR 52 million, Q3 2002: EUR 61 million, Q4 2002: EUR 59 million, Q1 2003: EUR 37 million, Q2 2003: EUR 36 million, Q3 2003: EUR 36 million, Q4 2003: EUR 36 million, Q1 2004: 37 million).

# **Q1 2004 Results - Finance Review**

**Andres Cano**

**Acting Chief Financial Officer**

# Q1 2004 Results in Detail

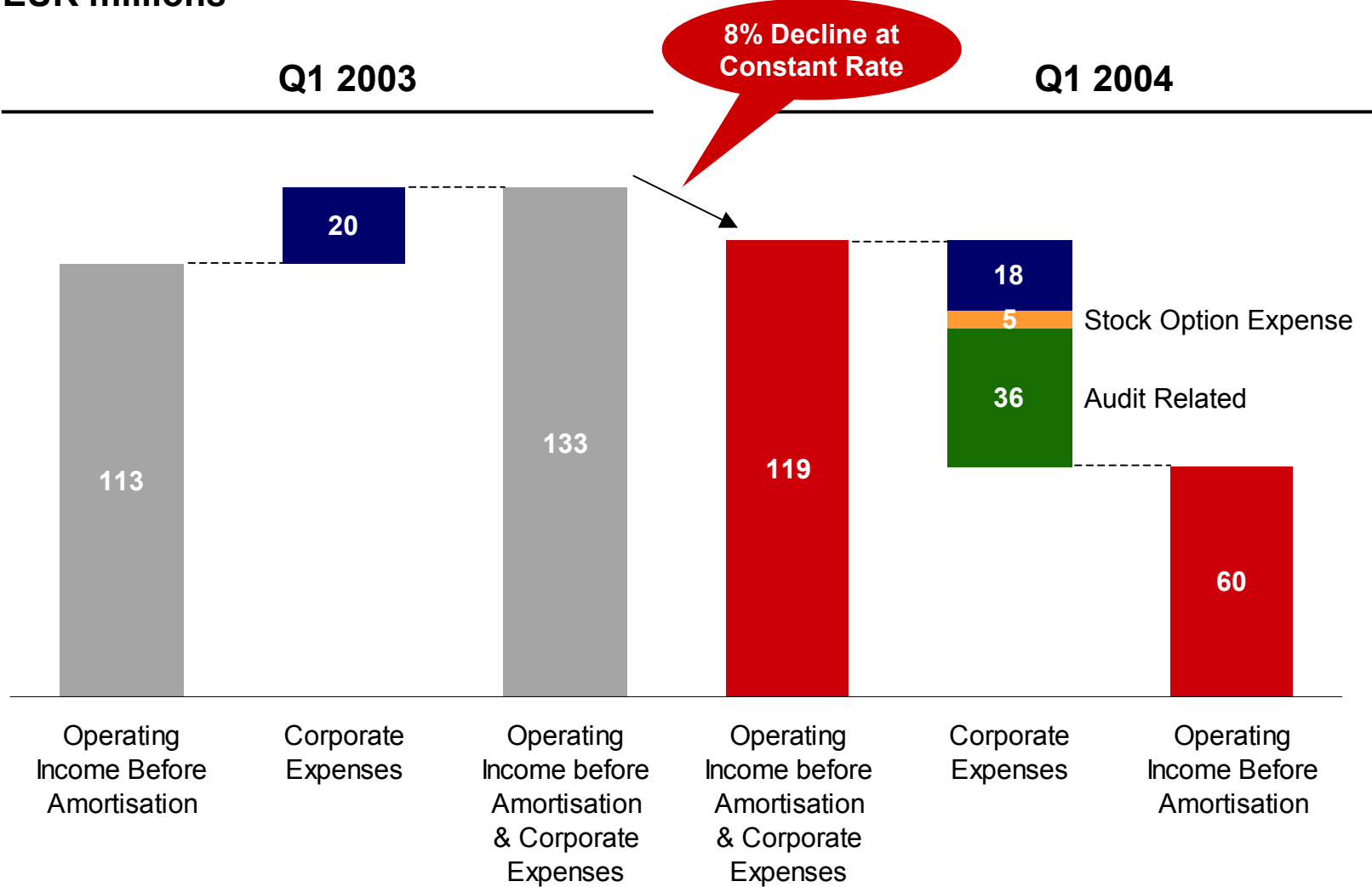
EUR millions

	Three Months Ended		Variance %	
	March 28, 2004	March 30, 2003	EUR	Constant
Net service revenues	3,807	3,832	(1%)	4%
Gross margin	633	679	(7%)	(1%)
SG&A	(573)	(566)	1%	8%
<b>Operating income before amortisation</b>	<b>60</b>	<b>113</b>	<b>(47%)</b>	<b>(45%)</b>
Amortisation of intangibles	(1)	(1)		
<b>Operating income</b>	<b>59</b>	<b>112</b>	<b>(47%)</b>	
Interest and other expenses	(13)	(24)		
Provision for income taxes	(16)	(24)		
<b>Net income</b>	<b>30</b>	<b>64</b>	<b>(53%)</b>	



# Main Items Impacting Q1 2004

EUR millions



# Q1 2004 Cash Flow Statement

EUR millions

	Three Months Ended	
	<u>March 28, 2004</u>	<u>March 30, 2003</u>
Net income	30	64
Depreciation	31	34
Change in operating assets/liabilities	15	(20)
Others	<u>11</u>	<u>10</u>
<b>Cash Flow From Operations</b>	<b>87</b>	<b>88</b>
<b>Cash Flow From / (Used in) Investing Activities (including marketable securities)</b>	<b>45</b>	<b>(18)</b>
<b>Cash Flow from Financing Activities</b>	<b>18</b>	<b>6</b>
Effect of exchange rate changes on cash	<u>7</u>	<u>(11)</u>
<b>Net Increase in Cash / Cash Equivalents</b>	<b><u>157</u></b>	<b><u>65</u></b>

# Q1 2004 Consolidated Balance Sheet

EUR millions

	<u>March 28, 2004</u>	<u>December 28, 2003</u>
<b>Assets</b>		
Cash and marketable securities	1,080	974
Trade accounts receivable	2,880	2,955
Other current assets	290	308
Property, plant and equipment	322	334
Goodwill & intangibles, net	1,321	1,295
Other assets	494	440
<b>Total</b>	<b><u>6,387</u></b>	<b><u>6,306</u></b>
<b>Liabilities &amp; Equity</b>		
Accounts payable and accrued expenses	2,733	2,774
Short- and long-term debt	1,880	1,856
Other liabilities	181	129
Shareholders' equity	1,593	1,547
<b>Total</b>	<b><u>6,387</u></b>	<b><u>6,306</u></b>
Net debt (includes off balance sheet debt) <sup>(1)</sup>	837	918

(1) Off balance sheet debt includes UK securitization program (Q1 2004: EUR 37 million, Q4 2003: EUR 36 million).

# Strategy and Outlook

**Jérôme Caille**

**Chief Executive Officer**

# Committed to Our Strategy

- **Growth exceeding the market**
  - Growth above market both organic and by acquisitions
- **Market leadership**
  - No 1 or No 2 in all major markets with 20%+ share in each market
  - Operational leadership through quality / cost management through technology
- **Optimized business mix**
  - Specialty business focus
  - Evolution from staffing to HR services
- **Supplier of choice and employer of choice**

# External Drivers of Growth

- **Economic recovery**
- **Increasing demand from clients for global workforce management solutions**
- **Labor regulation changes**
- **EU enlarged with 10 new member states**

# **Outlook: Well Positioned to Grow Leadership in the World of Work**

- **Accelerating sales growth**
- **Short term margin pressure due to competitive pricing as well as a change in business mix with a decrease in sales of the outplacement division**
- **Significant impact of audit-related costs**
- **Anticipated improvements in gross margins in the medium term through**
  - **Increase in the number of permanent placements**
  - **Recovery of the professional staffing sector**
  - **Accelerated growth in deregulated countries with higher margins**
- **Lower cost base and higher productivity to drive further operating gearing**

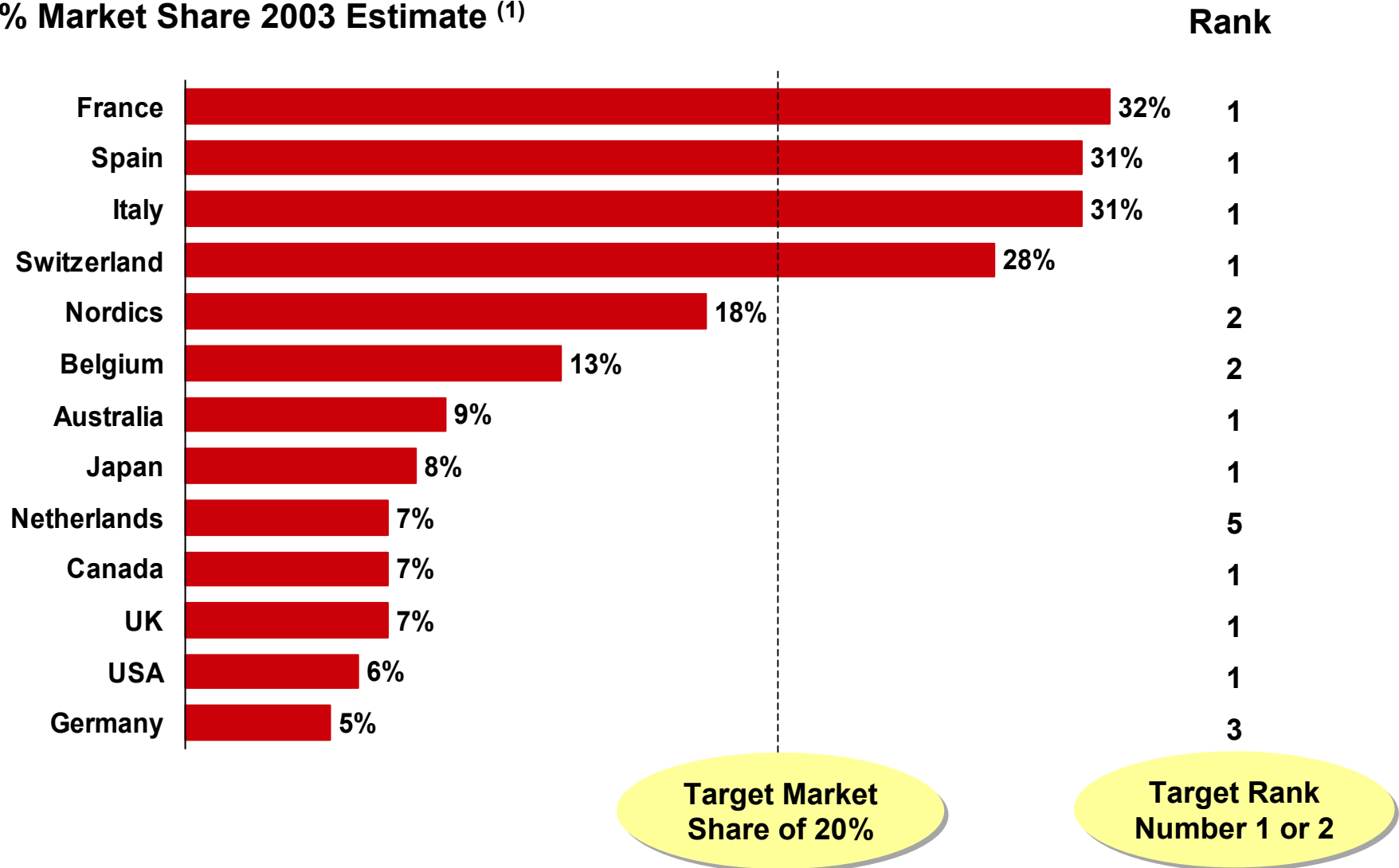
# Appendix





# Adecco Staffing Market Shares

% Market Share 2003 Estimate <sup>(1)</sup>



(1) The market shares above refer to mainstream staffing segment only; because of this change in approach some of the market shares reported here may not be comparable with previously reported market shares (e.g. UK).