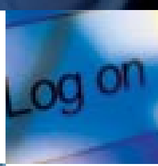
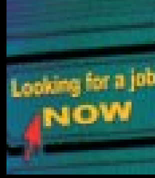
# HALF-YEAR REPORT 2003





Making people successful in a changing world




# Every 24 hours

the Adecco Group's network
connects
650,000 Associates with
100,000 business Clients
through its network of
29,000 employees and
5,800 offices in
67* territories around the world.

Adecco S.A. is a Forbes 500 company and the global leader in HR Solutions and is No. 1 or 2 in 12 of the world's top 13 staffing markets that account for 95% of the industry revenues. Managed by a multinational team with expertise in markets spanning the globe, the Adecco Group delivers an unparalleled range of flexible staffing and career resources to corporate Clients and qualified Associates.

Adecco S.A. is registered in Switzerland and is listed on the Swiss Exchange (ADEN/ trading on Virt-x: 1213860), NYSE (ADO), Euronext Premier Marché (12819).

**As of July 1, 2003*

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## SELECTED FINANCIAL HIGHLIGHTS

EUR millions, except share and per share information

| | Six months ended | |
|---|---|---|
| | **June 29, 2003** | **June 30, 2002** |
| ***Statements of Operations:*** | | |
| Net service revenues | 7,866 | 8,436 |
| Operating income before amortisation 1) | 248 | 253 |
| Operating income | 246 | 252 |
| Net income before amortisation 1) | 152 | 137 |
| Net income | 150 | 136 |
| | | |
| ***Per Share:*** | | |
| Net income per share | | |
| Basic | 0.80 | 0.73 |
| Diluted | 0.79 | 0.72 |
| Net income per share before amortisation 1) | | |
| Basic | 0.81 | 0.74 |
| Diluted | 0.81 | 0.72 |
| Weighted average shares | 186,698,165 | 186,426,299 |
| Diluted shares | 192,084,638 | 193,583,191 |
| | | |
| ***Cash Flow:*** | | |
| Cash flow from operating activities | 185 | 66 |
| Cash flow used in investing activities | (28) | (132) |
| Cash flow used in financing activities | (23) | (89) |

1) Operating income before amortisation and net income before amortisation are not meant to portray net income or cash flow in accordance with U.S. generally accepted accounting principles or cash available to shareholders. They may not be comparable to similarly entitled items reported by other companies.

# FINANCIAL REVIEW

## OPERATIONAL RESULTS

### *Group Performance*

In the first half of 2003, the Adecco Group reported net service revenues of EUR 7,866 million, operating income of EUR 246 million (including amortisation of intangibles amounting to EUR 2 million) and net income of EUR 150 million. Currency fluctuations had a materially adverse effect on net service revenue and net income in EUR since the average exchange rate for the USD, GBP and JPY were significantly weaker against the EUR.

The Adecco Group's net service revenues decreased by 7% to EUR 7,866 million from EUR 8,436 million for the six-month period ended June 29, 2003 compared with the six-month period ended June 30, 2002. In local currency, net service revenues increased by 1%.

Gross margin as a percentage of net service revenues decreased by 0.8% from 18.2% in the first half of 2002 to 17.4% in the first half of 2003 as a result of combination of lower temporary staffing margins, currency mix changes, lower average fees for permanent placement and business mix changes.

Operating income decreased by EUR 6 million or 2% to EUR 246 million for the first half of 2003 compared to the first half of 2002.

For the first six months of 2003, selling, general and administrative expenses, which consist primarily of personnel costs, office and administration, rent, marketing and other expenses, decreased by 13%, or EUR 163 million compared to the first half of 2002, to EUR 1,123 million. The ratio of selling, general & administrative expenses as a percentage of net service revenues has improved by 0.9%, from 15.2% for the first six months of 2002 to 14.3% for the first six months of 2003. These cost reductions have been achieved by implementing a reduction of the headcount by approximately 10% since June 2002 and by maintaining a tight control over all other operating costs.

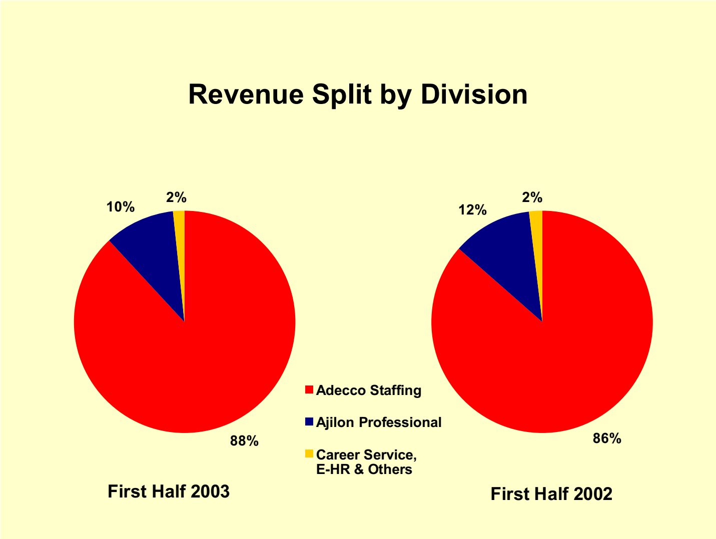
Net income increased by EUR 14 million or 10% from EUR 136 million for the six months ended June 30, 2002 to EUR 150 million for the six months ended June 29, 2003, enhanced by a reduction in interest expense of EUR 20 million. This reduction results from the reduced level of debt, decrease in interest rates and the reclassification of bank charges of EUR 4 million in the second quarter of 2003, from interest expense to operating expense.

Since the start of the 2003 fiscal year the Adecco Group presents its financial statements in Euro. The 2002 financial information has been recast from Swiss Francs to Euro for comparative purposes.

### *Divisional Performance*

Net service revenues and operating income before amortisation by division are presented as follows:

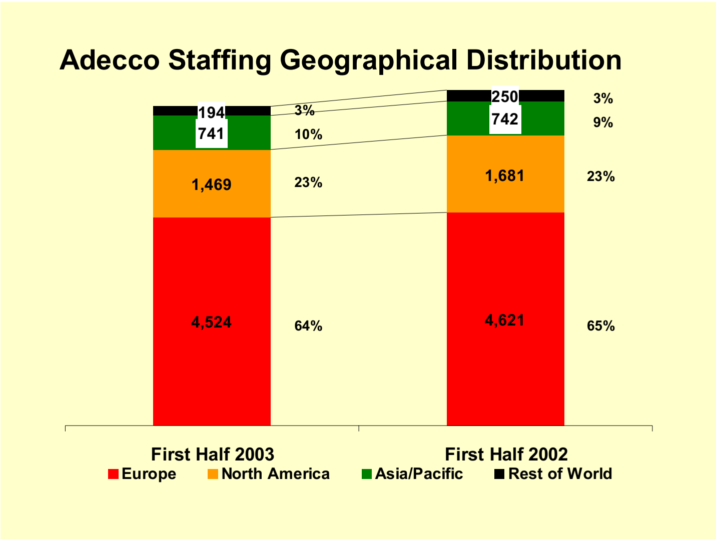
| | **Net Service Revenues** | | **Operating Income before Amortisation** | |
|---|---|---|---|---|
| EUR millions | Six Months Ended | | Six Months Ended | |
| | June 29, 2003 | June 30, 2002 | June 29, 2003 | June 30, 2002 |
| Adecco Staffing | 6,928 | 7,294 | 229 | 222 |
| Ajilon Professional | 806 | 985 | 29 | 22 |
| Career Services | 119 | 153 | 37 | 51 |
| e-HR & Others | 13 | 4 | (1) | (4) |
| Corporate Expenses | | | (46) | (38) |
| **Adecco Group** | **7,866** | **8,436** | **248** | **253** |



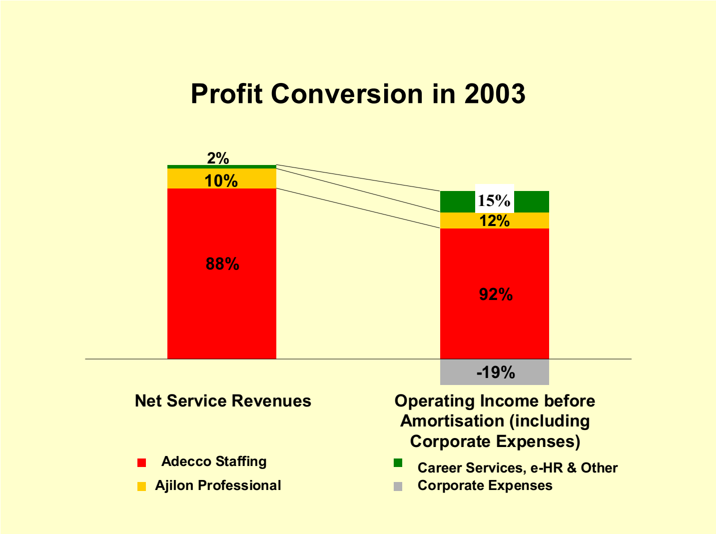

*The Adecco Group's business portfolio spans generalist, professional/specialist industry sectors, outplacement services and other services. The division-based structure facilitates the company's penetration and development into high growth, high profit areas of business.*

***Adecco Staffing Division*** contributed 88% and 86% of net service revenues for the first six months of 2003 and 2002 respectively. In 2003, Adecco Staffing Division reported revenues of EUR 6,928 million for the first six months, a decline of EUR 366 million or 5% in EUR (increase of 2% in local currency) compared with the first six months of 2002. The division's operating income before amortisation increased by EUR 7 million or 3% to EUR 229 million (increase of 9% in local currency) compared with the same period in 2002. The major accomplishment in this division during the first half of 2003 is the restoration and expansion of the operating gearing (measured in local currency), despite the pressure on gross margin. In local currency the growth of net service revenues of 2% was converted into an improvement of operating income before amortisation of 9%.

In Europe, measured in local currency, the decline in net service revenues of Adecco France, Adecco Italy, Adecco Belgium, Adecco Netherlands, Adecco Switzerland and Adecco Germany in the first half of 2003 compared with the same period of 2002 was partially offset by net service revenues growth in Adecco UK and Adecco Spain. Operating income before amortisation improved in the majority of the European countries. Net service revenues in Adecco USA grew by 8% in local currency but profitability was affected by higher costs for workers compensation and unemployment insurance. In the Asia Pacific Area, Japan gained market share with growth of net service revenues of 11 % and demonstrated operating gearing with 25 % growth of operating income before amortisation, all in local currency.




*The Adecco Group continues to reinforce its presence in traditional markets and to pioneer the concept of Staffing and Human Resources services in emerging markets.*
*The geographical distribution of Adecco Staffing net service revenues remained almost unchanged between 2002 and 2003.*

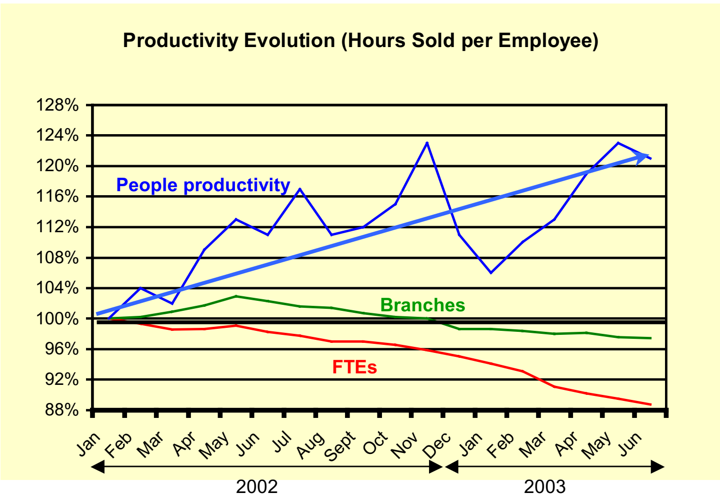



*In the first half of year 2003, Adecco Staffing remained the main profit contributor, followed by Career Services with its strong gearing effect. Profitability in the Ajilon Professional division has improved over the past year.*

***Ajilon Professional Division*** contributed 10% and 12% to the net service revenues for the first six months of 2003 and 2002 respectively. In the first half of 2003, net service revenues declined by EUR 179 million or 18%, to EUR 806 million compared to the first half of 2002, a 7% decrease in local currency. The division's profitability recovered by 1.4 % in local currency (ratio of operating income before amortisation to net service revenues), an increase from 2.2% in 2002 to 3.6% in 2003, resulting from aggressive cost reduction initiatives over the past year.

***LHH Career Services Division*** contributed 2% to the net service revenues for the first six months of 2003 and 2002 and 15% and 20% respectively to the Adecco Group's net income. The division's net service revenues decreased from EUR 153 million in the first six months of 2003 to EUR 119 million in the first six months of 2002 and the operating income before amortisation decreased from EUR 51 million to EUR 37 million. The improving employment market in the US has resulted in a cyclical reduction in the demand for outplacement services.

***e-HR & Others*** reported for the first half of 2003 revenues of EUR 13 million and an operating loss before amortisation of EUR 1 million.




*Productivity improvement in the current environment means balancing the branch network and employees to the current level of business and also be well positioned to benefit from any upturn.*

## **FINANCIAL POSITION AND LIQUIDITY**

For the first six months of 2003, the cash flows from operating activities increased to EUR 185 million from EUR 66 million in the first six months of 2002. The increase of accounts receivables of EUR 211 million and the increase of accounts payable and accrued expenses of EUR 116 million between June 29, 2003 and December 29, 2002 are mainly due to timing of cash receipts and payments between the Adecco Group's cut off date and the last day of the calendar month.
Capital expenditures of EUR 31 million for the six-month period ended June 29, 2003, representing mainly investments in computer equipment and software, decreased by EUR 20 million compared to the six-month period ended June 30, 2002, reflecting the reduced level of investment.
Cash flows from financing activities include EUR 75 million dividends in respect to fiscal year 2002 that were paid to the shareholders during the second quarter of 2003 and an inflow from cash settlements of forward exchange contracts of EUR 100 million.

Repayment of debt and currency impact reduced net debt by EUR 226 or 16% to EUR 1,184 million as of June 29, 2003 compared with net debt amounting to EUR 1,410 million as of December 29, 2002.

As of the end of March 2003, the Adecco Group has refinanced the existing CHF 1,000 million multicurrency revolving credit facility that allows the borrowings of a maximum of EUR 580 million. As of June 29, 2003 no funds have been drawn under the new facility.
On July 23, 2003, the Adecco Group has launched a bond issue of CHF 900 million due in 2013 and convertible into shares of Adecco S.A. The bonds are structured as zero coupon convertible bonds, with a yield to maturity of 1.5% and a conversion price of CHF 94.50. The multicurrency revolving credit facility and the proceeds of the bond will be used for general purposes, to further strengthen the Adecco Group's financial position and support the long-term strategy.

## **OUTLOOK**

In the current very challenging market environment, the Adecco Group will continue to focus on those parameters that are within the Group's control such as improving productivity and operating gearing through aggressive sales and marketing activities, tighter cost controls and further investment in people and technology.

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## CONSOLIDATED BALANCE SHEETS

| EUR millions | As of June 29, 2003 | As of December 29, 2002 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash and cash equivalents | 323 | 212 |
| Trade accounts receivable, net | 3,023 | 2,906 |
| Other current assets | 297 | 334 |
| Total current assets | 3,643 | 3,452 |
| Property, equipment and leasehold improvements, net | 381 | 435 |
| Other assets | 446 | 456 |
| Intangibles, net | 13 | 15 |
| Goodwill, net | 1,359 | 1,462 |
| **Total assets** | **5,842** | **5,820** |
| **LIABILITIES** | | |
| Current Liabilities | | |
| Short-term debt and current maturities of long-term debt | 177 | 228 |
| Accounts payable and accrued expenses | 2,907 | 2,815 |
| Total current liabilities | 3,084 | 3,043 |
| Long-term debt | 1,294 | 1,335 |
| Other liabilities | 92 | 103 |
| **Total liabilities** | 4,470 | 4,481 |
| **SHAREHOLDERS' EQUITY** | | |
| Common shares and participation certificates | 116 | 116 |
| Additional paid-in capital | 1,978 | 1,978 |
| Accumulated deficit | (758) | (833) |
| Accumulated other comprehensive income | 42 | 84 |
| | 1,378 | 1,345 |
| Less: Treasury stock, at cost | (6) | (6) |
| Total shareholders' equity | 1,372 | 1,339 |
| **Total liabilities and shareholders' equity** | **5,842** | **5,820** |

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

## CONSOLIDATED STATEMENTS OF OPERATIONS

| EUR millions, except share and per share data | Six months ended June 29, 2003 | Six months ended June 30, 2002 |
|---|---|---|
| Net service revenues | 7,866 | 8,436 |
| Direct costs of services | (6,495) | (6,897) |
| Gross margin | 1,371 | 1,539 |
| | | |
| Selling, general & administrative expenses | (1,123) | (1,286) |
| Amortisation of intangibles | (2) | (1) |
| Operating income | 246 | 252 |
| | | |
| Interest income | 5 | 6 |
| Interest expense | (40) | (60) |
| Other income (expense), net | (5) | (6) |
| Income before income taxes and minority interest | 206 | 192 |
| | | |
| Provision for income taxes | (56) | (56) |
| | | |
| **Net income** | **150** | **136** |
| | | |
| Net income per share | | |
| Basic | 0.80 | 0.73 |
| Diluted | 0.79 | 0.72 |
| | | |
| Weighted average shares | 186,698,165 | 186,426,299 |
| Diluted shares | 192,084,638 | 193,583,191 |

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| EUR millions | Six months ended June 29, 2003 | Six months ended June 30, 2002 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | 150 | 136 |
| Adjustments to reconcile net income to net cash and cash equivalents from operating activities | | |
| Amortisation | 2 | 1 |
| Depreciation | 66 | 71 |
| Utilisation of restructuring reserve | (1) | (5) |
| Other charges | 18 | 31 |
| Changes in operating assets and liabilities | | |
| Trade accounts receivable | (211) | (76) |
| Accounts payable and accrued expenses | 116 | (42) |
| Other current assets | 47 | (40) |
| Non-current assets and liabilities | (2) | (10) |
| **Cash flows from operating activities** | **185** | **66** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Additions to property, equipment and leasehold improvements | (31) | (52) |
| Proceeds from sales of property and equipment | - | 1 |
| Purchase price of jobpilot AG acquisition, net of cash acquired | - | (58) |
| Other acquisitions and investing activities | 3 | (23) |
| **Cash flows used in investing activities** | **(28)** | **(132)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Net increase (decrease) in short-term debt | (49) | (343) |
| Increase in long-term debt | - | 389 |
| Repayment of long-term debt | (8) | (23) |
| Dividends paid to shareholders | (75) | (129) |
| Common stock options exercised | - | 13 |
| Other financing activities | 109 | 4 |
| **Cash flows used in financing activities** | **(23)** | **(89)** |
| **Effect of exchange rate changes on cash** | **(23)** | **(28)** |
| Net increase / (decrease) in cash and cash equivalents | 111 | (183) |
| Cash and cash equivalents: | | |
| Beginning of period | 212 | 373 |
| End of period | 323 | 190 |
| Cash paid for taxes | 48 | 52 |
| Cash paid for interest | 29 | 45 |

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

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of Presentation and Principles of Consolidation***

Adecco S.A. prepared its 2003 consolidated half-year financial report using the same accounting principles and methods of computation that were applied in the audited consolidated financial statements as of December 29, 2002 and for the year then ended, with the exception of changes described below in this note.

The financial information to the Condensed Financial Statements should be read in conjunction with the Adecco Group's Annual Report 2002, Financial Review and Corporate Governance and the 2002 Annual Report on form 20-F for the fiscal year ended December 29, 2002.

***Change of Group Reporting Currency***

Since the start of the 2003 fiscal year the Adecco Group presents its financial statements in Euro. The 2002 financial information has been recast from Swiss Francs to Euro for comparative purposes.

The share capital of Adecco S.A is denominated in Swiss Francs.

***Stock Based Compensation***

The Adecco Group applies APB Opinion No. 25 "Accounting for Stock Issued to Employees" and its related interpretations in accounting for its stock options plans.

Had compensation cost for the Adecco Group's stock-based compensation plans been determined based on the fair value of the grant dates for awards under those plans consistent with Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation", the Adecco Group's net income and net income per share would have changed to the pro forma amounts indicated in the following table:

| EUR millions | Six Months Ended | |
|---|---|---|
| | June 29, 2003 | June 30, 2002 |
| **Net income:** | | |
| - As reported | 150 | 136 |
| Stock compensation (net of tax benefit) under SFAS No. 123 | (29) | (28) |
| - Pro forma | 121 | 108 |
| **Basic net income per share:** | | |
| - As reported | 0.80 | 0.73 |
| - Pro forma | 0.65 | 0.58 |
| **Diluted net income per share:** | | |
| - As reported | 0.79 | 0.72 |
| - Pro forma | 0.64 | 0.57 |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model and the following weighted-average assumptions:

| | Six Months Ended | |
|---|---|---|
| | June 29, 2003 | June 30, 2002 |
| Expected lives (years) | 3.9 | 3.9 |
| Risk-free interest rate | 1.58% | 1.72% |
| Expected volatility | 50% | 59% |
| Expected dividend (CHF) | 1 | 1 |

The weighted-average fair value per option granted for the first six months of 2003 and 2002 was CHF 39 and CHF 18 per share.

***New Accounting Standards***

*Accounting for Asset Retirement Obligations*

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations", which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. The Adecco Group adopted SFAS No. 143 effective January 1, 2003 and the adoption had no material impact on the consolidated results of operations and financial position.

*Accounting for Costs Associated with Exit or Disposal Activities*
In June 2002, the FASB issued SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities”, effective for exit or disposal activities initiated after December 31, 2002. SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity be recognised and measured initially at fair value only when the liability is incurred. The Adecco Group will apply SFAS No. 146 for restructuring plans initiated after December 31, 2002.

During 2003, the FASB issued various new standards and amendments to existing pronouncements: in April 2003, the FASB issued SFAS No. 149 “Amendment of Statement 133 on Derivative Instruments and Hedging Activities”, in May 2003, the FASB issued SFAS No. 150 “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity” and in January 2003, the FASB issued an Interpretation (FIN) No. 46 “Consolidation of Variable Interest Entities”.
The Adecco Group will adopt the above new standards as of the earliest date required and it is not expected that the adoption of new standards will have a material impact on the 2003 consolidated results of operations and financial position.

## NOTE 2 – FINANCING ARRANGEMENTS

As of the end of March 2003, the Adecco Group has refinanced the existing CHF 1,000 million multicurrency revolving credit facility (“existing facility”). The new multi-currency revolving credit facility (“new facility”) issued by a syndicate of banks allows the borrowings of a maximum of EUR 580 million. The new facility has a term of five years and will be used for general corporate purposes including refinancing of advances and letters of credit outstanding under the existing facility. The interest rate is based on LIBOR plus a margin between 0.45% and 0.6% and has a utilisation fee of between 0.025% and 0.075% depending on the level and timing of borrowings and the debt to EBITDA ratio. Existing letters of credit amounting to EUR 97 million have been transferred from the existing facility to the new facility.
As of June 29, 2003, no funds have been drawn under the new facility.

On July 23, 2003 Adecco Financial Services (Bermuda) Ltd., a fully owned subsidiary of the Adecco Group, launched a zero-coupon bond (the “bonds”) having expected proceeds of CHF 900 million. The bonds are convertible at the option of the bondholder into 9,523,809 shares of Adecco S.A. at the conversion price of CHF 94.50 per share. The debt is convertible any time after October 6, 2003 until maturity. The bonds mature on August 26, 2013, for an accreted principal amount (the “accreted principal”) of CHF 5,802.7, resulting in a yield to maturity of 1.5%. The bondholder has the option to redeem their bonds on August 26, 2010 at the accreted principal of 110.98% of the original investment (CHF 1,099 million for all bonds outstanding). In addition, Adecco S.A. has the option to recall the bonds at any time after the end of year seven for the accreted principal. The debt is guaranteed by Adecco S.A. and is unsubordinated.

## NOTE 3 – SHAREHOLDERS’ EQUITY

The Annual General Meeting of Shareholders of Adecco S.A. was held on April 16, 2003.
The shareholders approved a dividend of CHF 0.60 per common share in respect of the fiscal year 2002. The total dividend of EUR 75 million was paid in the second quarter of 2003.
Additionally, the shareholders extended the existing board of directors authorisation to increase the share capital by CHF19 million by issuing up to 19 million common shares for special capital market transactions, such as acquisitions until April 25, 2005.

The components of accumulated other comprehensive income are as follows:

| EUR millions | As of June 29, 2003 | As of December 29, 2002 |
|---|---|---|
| Currency translation adjustment | 52 | 97 |
| Unrealised gain / (loss) on cash flow hedging activities | (3) | (5) |
| Minimum pension liability adjustment | (7) | (8) |
| **Total** | **42** | **84** |

## NOTE 4 – INCOME TAXES

The Adecco Group operates in various countries with different tax laws and rates, therefore the effective tax rate may vary from year to year due to change in the mix of taxable income among countries.
Income taxes for the first half of 2003 were provided at a rate of 27%, based on the Adecco Group's current estimate of the annual effective tax rate. For the six months ended June 30, 2002 the effective tax rate was 29%. The change in the estimated effective tax rate for 2003 is due to changes in the mix of taxable income between countries and a reduction in estimated valuation allowances to be recorded in 2003 against current year operating losses.

## NOTE 5 – SEGMENT REPORTING

Adecco evaluates the performance of its reportable segments based on operating income before amortisation, which is defined as the amount of profit or loss before interest, income taxes, impairment of goodwill, amortisation of intangibles, restructuring expenses, one-time items and corporate expenses.
During 2002, the Adecco Group had four divisions. Additionally, since the beginning of fiscal year 2003, corporate expenses are reported separately from the divisions operating income before amortisation. In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", the Adecco Group has restated prior year information.

### *Segment Information by Division*

| EUR millions | **Revenues** Six Months Ended | | **Operating Income before Amortisation** Six Months Ended | |
|---|---|---|---|---|
| | June 29, 2003 | June 30, 2002 | June 29, 2003 | June 30, 2002 |
| Adecco Staffing | 6,928 | 7,294 | 229 | 222 |
| Ajilon Professional | 806 | 985 | 29 | 22 |
| Career Services | 119 | 153 | 37 | 51 |
| e-HR & Others | 13 | 4 | (1) | (4) |
| Corporate Expenses | | | (46) | (38) |
| **Adecco Group** | **7,866** | **8,436** | **248** | **253** |

### *Segment Information by Geographical Areas*

| EUR millions | **Revenues** Six Months Ended | | **Operating Income before Amortisation** Six Months Ended | |
|---|---|---|---|---|
| | June 29, 2003 | June 30, 2002 | June 29, 2003 | June 30, 2002 |
| Europe | 4,941 | 5,085 | 201 | 167 |
| North America | 1,936 | 2,303 | 59 | 87 |
| Asia/Pacific | 795 | 798 | 33 | 30 |
| Rest of the World | 194 | 250 | 1 | 7 |
| Corporate Expenses | | | (46) | (38) |
| **Adecco Group** | **7,866** | **8,436** | **248** | **253** |

# Addresses

Registered Office

**Adecco S.A. (Holding)**
1275 Chéserex
Switzerland

Contact Details

**Adecco management & consulting S.A.**
Sägereistrasse 10
PO Box
CH - 8152 Glattbrugg
Switzerland
Tel: +41 1 878 88 88
Fax: +41 1 829 88 88

**Corporate Communications**
Tel: +41 1 878 88 37
Fax: +41 1 829 88 39
press.info@adecco.com

**Investor Relations**
Tel: +41 1 878 88 84
Fax: +41 1 829 88 84
investor.relations@adecco.com

**Adecco on the Internet**
http://www.adecco.com

**Ajilon on the Internet**
http://www.ajilon.com

**Lee Hecht Harrison on the Internet**
http://www.LHH.com

**jobpilot on the Internet**
http://www.jobpilot.com

A full office address list can be found on www.adecco.com