Financial Statements

Adecco Financial Services (North America), LLC
Years Ended December 31, 2020 and 2019
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

Adecco Financial Services (North America), LLC

Financial Statements

Years Ended December 31, 2020 and 2019

Contents

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Report of Independent Auditors

The Board of Directors
Adecco Financial Services (North America), LLC

We have audited the accompanying financial statements of Adecco Financial Services (North America), LLC, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations and comprehensive (loss) income, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Adecco Financial Services (North America), LLC at December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 31, 2021

Adecco Financial Services (North America), LLC

Balance Sheets

	December 31 2020	December 31 2019
Assets		
Current assets:		
Cash	$ 100	$ –
Due from Group companies	98,255,292	87,724,689
Interest receivables from Group companies	2,881,860	2,917,365
Total current assets	101,137,252	90,642,054
Long-term loans to Group companies	355,799,969	355,799,969
Total assets	$ 456,937,221	$ 446,442,023
Liabilities		
Current liabilities:		
Accrued expenses	$ 1,206,212	$ 1,217,595
Total current liabilities	1,206,212	1,217,595
Long-term debt	125,416,033	119,231,118
Derivative	20,103,274	5,831,800
Total liabilities	146,725,519	126,280,513
Equity		
Additional paid-in capital	302,344,969	302,344,969
Retained earnings	36,965,037	26,489,658
Accumulated other comprehensive loss	(29,098,304)	(8,673,117)
Total equity	310,211,702	320,161,510
Total liabilities and equity	$ 456,937,221	$ 446,442,023

See accompanying notes to financial statements.

Adecco Financial Services (North America), LLC

Statements of Operations and Comprehensive (Loss) Income

	Year Ended December 31	
	2020	**2019**
Interest Income from Group Companies	$ 16,060,095	$ 16,808,391
Interest expense	(5,179,029)	(4,898,306)
Financial income	10,881,066	11,910,085
Operating expense	(20,493)	(1,407)
Other expenses	(385,194)	(363,262)
Financial expenses	(405,687)	(364,669)
Net income	10,475,379	11,545,416
Other comprehensive loss	(20,425,187)	(7,717,613)
Total comprehensive (loss) income	$ (9,949,808)	$ 3,827,803

See accompanying notes to financial statements.

Adecco Financial Services (North America), LLC

Statements of Cash Flows

	Year Ended December 31	
	2020	**2019**
Cash flows from operating activities		
Net income	$ 10,475,379	$ 11,545,416
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Changes in assets and liabilities:		
Interest receivables from Group companies	35,505	(748,062)
Accrued expenses	(11,383)	1,061,989
Net cash provided by operating activities	10,499,501	11,859,343
Cash flows from investing activities		
Due from Group companies	(10,530,603)	(21,566,815)
Long-term loans to Group companies	–	(53,456,000)
Net cash used by investing activities	(10,530,603)	(75,022,815)
Cash flows from financing activities		
Borrowings of long-term debt, net of issuance costs	26,744	63,154,115
Net cash provided by financing activities	26,744	63,154,115
Effect of exchange rate changes on cash	4,458	9,357
Net increase in cash	100	–
Cash at the beginning of the year	–	–
Cash at the end of the year	$ 100	$ –

See accompanying notes to financial statements.

1. The Business and Summary of Significant Accounting Policies

Organization and Basis of Presentation

Adecco Financial Services (North America), LLC (hereafter “AFS” or the “Company”) was formed on September 26, 2017, as a limited liability company. The Company is a wholly owned subsidiary of Adecco, Inc., whose principal business is providing human resource services, including temporary staffing, permanent placement, outsourcing, career transition, and other services to businesses and organizations in North America. The principal activity of AFS is to raise funds for Adecco Group AG (hereafter “Group”), Parent of Adecco, Inc.

Basis of Presentation

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgements, and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company bases its estimates on historical experience and on various other market specific assumptions that are believed to be reasonable under the circumstances. The results of these estimates form the basis for making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Financial Instruments

In accordance with Accounting Standards Codification (ASC) 815, *Derivatives and Hedging* (ASC 815), all derivative instruments are initially recognized at fair value as either other current assets, other assets, other accrued expenses, or other liabilities in the accompanying balance sheets, regardless of the purpose or intent for holding the derivative instruments. The derivatives are subsequently remeasured to fair value at the end of each reporting period. For derivative instruments designated and qualifying as fair value hedges, changes in the fair value of the derivative instruments, as well as the changes in the fair value of the hedged item attributable to the hedged risk, are recognized within the same line item in earnings. Any cash flow impact on settlement of these contracts is classified within the statements of cash flows according to the nature of the hedged item. For derivative instruments designated and qualifying as cash flow

1. The Business and Summary of Significant Accounting Policies (continued)

hedges, the effective portion of the changes in the fair value of derivative instruments is initially recorded as a component of accumulated other comprehensive income/loss, net, in equity and reclassified into earnings in the same period during which the hedged transaction impacts earnings. The ineffective portion of the change in fair value of the derivative instruments is immediately recognized in earnings. The cash flow impact on settlement of these contracts is classified according to the nature of the hedged item.

Fair Value of Assets and Liabilities

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement is determined based on the assumptions that market participants would use in pricing the asset or liability. In accordance with ASC 820, *Fair Value Measurement*, the Company uses a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from independent sources (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the Company's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs for the asset or liability, which are typically based on the Company's own assumptions, as there is little, if any, related market activity.

Long-Term Loans

The long-term loans are stated at cost using the effective interest rate unless stated otherwise. The initial recognition is at fair value. At the end of each reporting period, the Company tests whether there is any indication of loans granted and other assets being subject to impairment. If any such indications are present, the recoverable amount of these assets is determined. An asset is subject to impairment if its carrying amount exceeds its recoverable amount. An impairment loss is directly recognized as an expense in the income statement. As of December 31, 2020 and December 31, 2019, no impairment loss was recognized.

1. The Business and Summary of Significant Accounting Policies (continued)

Revenue Recognition

The Company generates interest income from loans issued to Group companies. Interest from loans is recognized on a time proportion basis as stated in each respective loan agreement.

Income Tax

Earnings of the Company are taxed directly to the members; accordingly, the accompanying financial statements do not reflect a provision or liability for federal income taxes. All potential accrued interest and penalties for income taxes, if any, are reported within the financial statements of the Company's parent, Adecco, Inc.

2. Long-Term Loans to Group Companies

The Company's long-term loans to Group companies as of December 31, 2020 and December 31, 2019 consist of the following:

Group Company	Maturity Date	Annual Interest Rate	Principal
Adecco USA, Inc.	11/1/2022	4.00%	$ 185,338,947
Modis, Inc.	11/1/2022	4.74	117,005,022
ADO Staffing, Inc.	10/3/2033	5.80	53,456,000
			$ 355,799,969

Interest rates mentioned are also the effective interest rates, as loans are issued at par 100% and repaid at par 100% and there are no transaction costs for these loans.

3. Interest Receivables From Group Companies

The Company's interest receivables from Group companies consist of the following:

	December 31	
	2020	2019
Group Company		
Adecco USA, Inc.	$ 1,214,815	$ 1,235,126
Modis, Inc.	909,145	924,340
ADO Staffing, Inc	757,900	757,899
	$ 2,881,860	$ 2,917,365

Interest on the long-term loans with Adecco USA, Inc. and Modis, Inc. is payable and due to the Company in annual installments commencing on November 1, 2018 and continuing each year thereafter until loan maturity.

Interest on the long-term loan with ADO Staffing, Inc. is payable and due to the Company on April 3 and October 3 each year commencing on October 3, 2018 and continuing until loan maturity.

4. Equity

The summary of changes in equity for the years ended December 31, 2020 and 2019 is as follows:

Balance as of December 31, 2018	$ 316,333,707
Net income	11,545,416
Other comprehensive loss	(7,717,613)
Balance as of December 31, 2019	320,161,510
Net income	10,475,379
Other comprehensive loss	(20,425,187)
Balance as of December 31, 2020	$ 310,211,702

5. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss (OCL) are as follows:

	December 31	
	2020	2019
Change in fair value of cash flow hedge	$ (14,271,474)	$ (6,100,125)
Foreign exchange effect on debt	(6,153,713)	(1,617,488)
Net change in OCL during year	(20,425,187)	(7,717,613)
OCL balance at beginning of year	(8,673,117)	(955,504)
OCL balance at end of year	$ (29,098,304)	$ (8,673,117)

6. Interest Income From Companies

The Company's interest income from Group companies consists of the following:

	Year Ended December 31	
	2020	2019
Group Company		
Adecco USA, Inc.	$ 7,413,558	$ 7,413,558
Modis, Inc.	5,546,038	5,546,038
ADO Staffing, Inc.	3,100,499	3,848,795
	$ 16,060,095	$ 16,808,391

7. Related-Party Transactions

The Company's long-term loans were issued to Adecco USA, Inc. and Modis, Inc., which are wholly owned subsidiaries of Adecco, Inc. See Notes 2, 3, and 6 for additional disclosures related to the loans.

The Company participates in a cash pooling arrangement with Group companies and the entire accounts receivable balance is related to this arrangement.

Group companies may provide services to related affiliates without charging for such services.

8. Financial Instruments

Risk and Use of Derivative Instruments

Group conducts business in various countries and funds its subsidiaries in various currencies and is therefore exposed to the effects of changes in foreign currency exchange rates. In order to mitigate the impact of currency exchange rate fluctuations, the Company assesses its exposure to currency risk and hedges certain risks through the use of derivative instruments. The Company has also issued fixed rate long-term notes. Accordingly, the Company may manage exposure to changes in fair value of fixed rate long-term debt through the use of derivative instruments.

The main objective of holding derivative instruments is to minimize the volatility of earnings arising from these exposures in the absence of natural hedges. The responsibility for assessing exposures, as well as entering into and managing derivative instruments, is centralized in the Company's treasury department. The activities of the treasury department are covered by corporate policies and procedures approved by the Board of Directors, which limit the use of derivative instruments for trading and speculative purposes. Group management approves the hedging strategy and monitors the underlying market risks.

Fair Value of Derivative Financial Instruments

The following table shows the notional amount and fair value of derivative financial instruments designated as hedging instruments under ASC 815 and classified within non-current liabilities on the balance sheets as of December 31, 2020 and December 31, 2019:

	Notional Amount		Fair Value	
	2020	2019	2020	2019
Cross-currency interest rate swap	$125,863,449	$119,708,044	$(20,103,274)	$(5,831,800)

Level 2 inputs were used to measure the fair value of the cross-currency interest rate swap.

A cross-currency interest rate swap, with notional amounts of JPY $6 billion (approximately USD $55 million) that contain a receipt of fixed interest rate amount in JPY and payment of fixed interest rate amount in USD, has been designated as a cash flow hedge of the 2033 notes for JPY $6 billion issued by the Company. The outstanding contract has a coupon rate of 1.05%, an original contract period of fifteen years, and expires in October 2033.

8. Financial Instruments (continued)

A cross-currency interest rate swap, with notional amounts of JPY $7 billion (approximately USD $63 million) that contain a receipt of fixed interest rate amount in JPY and payment of fixed interest rate amount in USD, has been designated as a cash flow hedge of the 2039 notes for JPY $7 billion issued by the Company. The outstanding contract has a coupon rate of 1.14%, an original contract period of twenty years, and expires in April 2039.

Losses of $14,271,474 and $6,100,125 related to the cash flow hedge are included as a component of accumulated other comprehensive loss as of December 31, 2020 and 2019, respectively. No gains or losses were recorded in 2020 or 2019 due to ineffectiveness of the cash flow hedge relationships and no gains or losses were excluded from the assessment of hedge effectiveness in the cash flow hedge relationships. No significant reclassifications into earnings of gains or losses that are reported in accumulated other comprehensive loss, net is expected within the next 12 months.

See Note 9 for further discussion of the cash flow hedge.

9. Financing Arrangements

On April 10, 2018, the Company and Group executed a EUR $600 million multicurrency credit facility agreement with Credit Suisse International, and the funds will be used towards the general corporate purposes of Group. The credit facility agreement will terminate on April 10, 2025, and borrowings are subject to an interest rate of 0.275%, which is defined as Margin, plus LIBOR or, in relation to any loan in euros, EURIBOR. The Margin will be adjusted based on debt to EBITDA ratios, as set forth in the credit facility agreement. As of December 31, 2020, there were no outstanding borrowings under the credit facility.

On October 3, 2018, the Company issued JPY $6 billion (approximately USD $55 million), medium-term 15-year notes with a coupon of 1.05% guaranteed by Group due on October 3, 2033. There is no public listing of the notes. The proceeds were primarily used for general corporate purposes. Concurrently, the Company entered into a cross-currency swap (CCS) with Group. The CCS is classified within non-current liabilities on the balance sheet at a fair value of $7,488,487 and $3,507,604 as of December 31, 2020 and 2019, respectively. See Note 8 for further discussion on the CCS.

9. Financing Arrangements (continued)

On April 12, 2019, the Company issued JPY $7 billion (approximately USD $63 million), medium-term 20-year notes with a coupon of 1.14% due April 12, 2039, which were guaranteed by Group within the framework of Group's Euro Medium-Term Note Programme. The proceeds were used primarily for general corporate purposes. Currently, the Company entered a CCS with Merrill Lynch International. See Note 8 for further discussion on the CCS.

Payments of long-term debt are due as follows:

	2021	2022	2023	2024	2025	Thereafter	Total
Payments due by year	$ –	$ –	$ –	$ –	$ –	$ 125,863,449	$ 125,863,449

Long-term debt on the balance sheet includes $447,416 of unamortized debt issuance costs.

10. Subsequent Events

The Company has performed an evaluation of subsequent events through March 31, 2021, the date the accompanying financial statements were available to be issued.

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