THE ADECCO GROUP

Making the future work for everyone

Half Year Report 2018

INTRODUCTION FROM THE CHIEF EXECUTIVE OFFICER

Leaders in the changing world of work

"In the first six months of 2018, we continued to invest in the transformation and digitalisation of the Adecco Group, within the framework of our Perform, Transform and Innovate agenda. On the Perform pillar, revenue growth remained good, up 5%, organically and trading days adjusted. The underlying trend in temporary staffing gross margin also improved, as we maintained our price discipline and were increasingly able to reflect in our bill rates the additional efforts required to find candidates in a talent scarce market.

The EBITA margin in the first half was negatively impacted by several non-underlying factors, particularly in Q1 2018, and by ongoing investments in our strategic initiatives. In the second half of 2018, we expect the Group margin trend to improve, and we are on track to deliver the EUR 50 million of productivity savings previously indicated, as part of the GrowTogether programme.

The investments we are making to digitalise the Adecco Group will significantly strengthen our competitive position, allowing us to grow our market share in our core businesses, and also expand our solutions into attractive adjacent markets. As the Group's transformation builds momentum, I am thankful to all of our colleagues around the world for their dedication and enthusiasm, and for embracing the many opportunities that the changing world of work offers."

Alain Dehaze,
Group Chief Executive Officer

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Continued growth and investments

Overview

The Adecco Group made continued progress in the first six months of 2018. Revenue momentum remained positive, with growth of 5%, organically[1] and trading days adjusted. Growth was broad-based and led by France, Iberia, Italy and Benelux & Nordics. Gross margin declined by 30 basis points (bps) compared to the first half of 2017. This was mainly due to a 40 bps decline in the temporary staffing gross margin, driven by a reduction in the CICE tax credit in France, price and mix effects, and the impact of fewer trading days. Selling, general, and administrative expenses (SG&A) excluding one-offs[2] grew 7% organically. As a percentage of revenues, SG&A excluding one-offs was 14.1%, compared to 13.8% a year ago, with investments in strategic initiatives representing approximately 25 bps of the increase. FTE employees were up 3% organically year-on-year, mainly because of headcount additions in the second half of 2017. The EBITA[3] margin excluding one-offs was 4.1%, a 70 bps decrease year-on-year driven by the lower gross margin, the impact of investments in strategic initiatives and the increase in FTE employees.

Free cash flow[4] was EUR 242, compared to EUR 311 in the first six months of last year. Free cash flow was lower year-on-year mainly due to lower EBITA and an increase in DSO. The Company paid EUR 38 for the purchase of treasury shares in the first six months of 2018, and distributed EUR 350 in dividends. Net debt[5] at 30 June 2018 was EUR 1,576, representing a ratio of 1.4x net debt to EBITDA[6] excluding one-offs.

In the first six months of 2018, revenue growth was 5%, organically and trading days adjusted. In Q2 2018, revenue growth slightly decelerated, to 4%, organically and trading days adjusted. Revenue growth in June and July combined was 4% organically and trading days adjusted.

			Variance	
in EUR	**HY 2018**	HY 2017	Reported	Organic
Summary of income statement information				
Revenues	**11,744**	11,702	0%	5%
Gross profit	**2,140**	2,169	-1%	3%
EBITA excluding one-offs[2, 8]	**484**	560	-13%	-9%
EBITA[8]	**454**	557	-19%	-14%
Net income attributable to Adecco Group shareholders	**300**	368	-18%	
Diluted EPS	**1.81**	2.16	-16%	
Gross margin	**18.2%**	18.5%	(30) bps	(30) bps
EBITA margin excluding one-offs[8]	**4.1%**	4.8%	(70) bps	(60) bps
EBITA margin[8]	**3.9%**	4.8%	(90) bps	(90) bps
Summary of cash flow and net debt information				
Free cash flow before interest and tax paid (FCFBIT)[9]	**375**	473		
Free cash flow (FCF)[9]	**242**	311		
Net debt	**1,576**	967		
Days sales outstanding	**53**	51		
Cash conversion[7, 8, 9]	**78%**	97%		
Net debt to EBITDA excluding one-offs[8]	**1.4x**	0.8x		

1 Organic growth is a non-US GAAP measure and excludes the impact of currency, acquisitions and divestitures.

2 In the first six months of 2018, SG&A included one-offs of EUR 30 in restructuring and acquisition costs; in the first six months of 2017 included EUR 3 restructuring costs.

3 EBITA is a non-US GAAP measure and refers to operating income before amortisation and impairment of goodwill and intangible assets.

4 Free cash flow is a non-US GAAP measure and comprises cash flows from operating activities less capital expenditures.

5 Net debt is a non-US GAAP measure and comprises short-term and long-term debt less cash and cash equivalents and short-term investments.

6 Net debt to EBITDA is a non–US GAAP measure and is calculated as net debt at periodic end divided by the last 4 quarters of EBITA excluding one-offs plus depreciation.

7 Cash conversion is a non-US GAAP measure and is calculated as the last 4 quarters of FCFBIT divided by the last 4 quarters of EBITA excluding one-offs.

8 Due to adoption of ASU 2017-07 – Presentation of net periodic pension and postretirement benefit cost in 2018, the 2017 figures were restated. Components of pension expense other than service cost of a EUR 1 gain previously shown in “Selling, general and administrative expenses”, are now shown in “Other income/(expenses), net”.

9 Due to the adoption of ASU 2016-18 – Statement of Cash Flows (Topic 230): Restricted cash in 2018, the 2017 figures were restated for changes during the period related to restricted cash. As a result, cash flows from operating activities increased by EUR 9 in HY 2017.

Group performance overview

Statements throughout this operating and financial review using the term "the Company" refer to the Adecco Group, which comprises Adecco Group AG, a Swiss corporation, its consolidated subsidiaries, as well as variable interest entities for which the Adecco Group is considered the primary beneficiary.

Revenues

In the first six months of 2018, revenues of EUR 11,744 were flat year-on-year on a reported basis and up 5% at constant currency rates. Acquisitions and divestments had a negligible impact on revenues compared to last year.

Revenue growth was broad-based across all service lines in the first six months of 2018. Revenues in temporary staffing were EUR 10,199, flat on a reported basis and up 4% organically, compared to the prior year. Permanent placement revenues were EUR 282 in the first six months of 2018, an increase of 12% on a reported basis, or 18% organically. Revenues from career transition amounted to EUR 175 in the first six months of 2018, a decrease of 13% on a reported basis or 8% organically.

Revenues grew organically in all major business lines in the first half of 2018. In General Staffing, revenues grew by 6%, with Office flat and Industrial up 9%, all on an organic basis. In Professional Staffing, revenues grew by 1%, comprising an increase of 3% in Medical & Science, 6% in Finance & Legal, flat in IT, and a decline of 4% in Engineering & Technical, all on an organic basis. In Solutions, revenues declined by 1%, comprising a growth of 19% in Business Process Outsourcing (BPO) and a decline of 7% in Career Transition and Talent Development (CTTD), all organically.

Gross profit

Gross profit amounted to EUR 2,140 in the first six months of 2018, down 1% on a reported basis and up 3% organically. The gross margin was 18.2%, down 30 bps compared to the first six months of 2017. Compared to the prior year, currency reduced gross margin by 15 bps, while acquisitions and divestments had a positive impact of 15 bps. On an organic basis, the gross margin was therefore down 30 bps. The temporary staffing gross margin was down 40 bps, which included: (i) price and mix effects, for approximately 10 bps; (ii) the reduction in the CICE tax credit in France from 7% to 6% of gross wages for approximately 15 bps; (iii) other impacts, for approximately 15 bps, including fewer working days and higher temporary associate sickness rates in Q1 2018. Career transition had a 20 bps negative impact on the overall gross margin compared to the prior year, Permanent placement had a 20 bps positive effect, and Other activities (mainly outsourcing) had a 10 bps positive impact, all on an organic basis.

Gross margin drivers YoY

in basis points	HY 2018	HY 2017
Temporary staffing	(40)	(40)
Permanent placement	20	0
Career transition	(20)	(10)
Other	10	10
Organic	**(30)**	**(40)**
Acquisitions and divestments	15	(10)
Currency	(15)	10
Reported	**(30)**	**(40)**

Selling, general, and administrative expenses (SG&A)

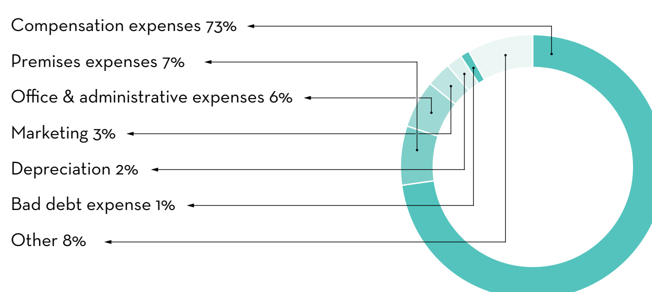
During the first six months of 2018, SG&A was impacted by investments in strategic initiatives and an increase in FTEs to support revenue growth. SG&A excluding one-offs was EUR 1,656 in the first six months of 2018, up 7% organically compared to the prior year. SG&A excluding one-offs as a percentage of revenues was 14.1%, compared to 13.8% a year ago, with investments in strategic initiatives contributing approximately 25 bps. Reported SG&A was EUR 1,686. FTE employees increased by 3% organically year-on-year. Compared to the first six months of 2017, the branch network was up 4% organically, as a result of strong growth in the onsite business.

In the first six months of 2018, one-offs of EUR 30 comprised restructuring costs of EUR 2 in North America, UK & Ireland General Staffing, EUR 6 in North America, UK & Ireland Professional Staffing, EUR 14 in Germany, Austria, Switzerland, EUR 1 in Career Transition & Talent Development, EUR 2 in Corporate, and M&A related acquisition costs of EUR 5 in Corporate. In the first six months of 2017, one-offs of EUR 3 comprised restructuring costs of EUR 1 in North America, UK & Ireland General Staffing and EUR 2 in North America, UK & Ireland Professional Staffing.

Compensation expenses were EUR 1,234 in the first six months of 2018, an increase of 8% in constant currency and representing 73% of total SG&A. Marketing expenses were EUR 49 in the first six months of 2018, compared to EUR 43 in the first six months of 2017. Bad debt expense increased to EUR 10 in the first six months of 2018 from EUR 9 in the same period of 2017.

SG&A breakdown

HY 2018



EBITA

EBITA excluding one-offs was EUR 484 in the first six months of 2018, down compared to the same period of 2017 by 9% organically and by 13% on a reported basis. The EBITA margin excluding one-offs was 4.1% in the first six months of 2018 compared to 4.8% in the first six months of 2017. This decrease is due to the lower gross margin, increased investments in the Company's strategic initiatives, and an increase in FTE employees to support revenue growth. The EBITA conversion ratio excluding one-offs (EBITA excluding one-offs divided by gross profit) was 22.6% in the first six months of 2018 compared to 25.8% in the same period of 2017. One-offs amounted to EUR 30 in the first six months of 2018 and EUR 3 in the same period of 2017. EBITA was EUR 454 in the first six months of 2018 compared to EUR 557 in first six months of 2017, a decrease of 19% reported or 14% organically. The EBITA margin was 3.9% in the first six months of 2018 and 4.8% in the same period of 2017.

Amortisation of intangible assets

Amortisation of intangible assets was EUR 20 compared to EUR 15 in in the first six months 2017.

Operating income

Operating income was EUR 434 in the first six months of 2018 compared to EUR 542 in the same period of 2017.

Interest expense and other income/(expenses), net

Interest expense was EUR 21 in the first six months of 2018 compared to EUR 26 in the first six months of 2017. Other income/(expenses), net includes interest income, foreign exchange gains and losses, proportionate net income of investee companies, and other non-operating income/(expenses), net. In first six months of 2018, other income/(expenses), net amounted to an income of EUR 7, compared to an income of EUR 3 in the same period of 2017.

Provision for income taxes

Provision for income taxes was EUR 119 in the first six months of 2018 compared to EUR 150 in the first six months of 2017. The 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. It is also affected by discrete items which may occur in any given year, but are not consistent from year to year. In the first six months of 2018, the effective tax rate was 28%, which included a negative impact of less than 1% from discrete events. In the first six months of 2017, the effective tax rate was 29%, which included a positive impact of less than 1% from discrete events.

Net income attributable to Adecco Group shareholders and EPS

Net income attributable to Adecco Group shareholders was EUR 300 in the first six months of 2018 compared to EUR 368 in the same period of 2017. Basic earnings per share (EPS) was EUR 1.81 in the first six months of 2018 compared to EUR 2.16 in the first six months of 2017.

Cash flow statement and net debt

Analysis of cash flow statements

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

in EUR	HY 2018	HY 2017[1]
Summary of cash flow information		
Cash flows from operating activities	**319**	352
Cash used in investing activities	**(486)**	(47)
Cash used in financing activities	**(296)**	(263)

1 Due to the adoption of ASU 2016-18 – Statement of Cash Flows (Topic 230): Restricted cash in 2018, the 2017 figures were restated for changes during the period related to restricted cash.

Cash flows from operating activities decreased to EUR 319 in the first six months of 2018 from EUR 352 in the same period of 2017 with the decrease mainly due to lower EBITA and higher DSO in the first six months of 2018 compared to the first six months of 2017. DSO was 53 days for the first six months of 2018 and 51 days in the first six months of 2017. Both years include the cash proceeds for the sale of a portion of the CICE receivables of EUR 224 in the first six months of 2018 and EUR 179 in same period of 2017.

Cash used in investing activities totalled EUR 486 compared to EUR 47 in the first six months of 2017. Capital expenditures amounted to EUR 77 in the first six months of 2018 and EUR 41 in the same period of 2017. In the first six months of 2018, cash used in investing activities also included an outflow of EUR 394 for the acquisitions of General Assembly and Vettery.

Cash used in financing activities totalled EUR 296, compared to EUR 263 in the first six months of 2017. In the first six months of 2018, the net increase of short-term debt totalled EUR 440, whereas, in the same period of 2017, the net increase of short-term debt totalled EUR 72. The Company paid dividends of EUR 350 and EUR 235 in the first six months of 2018 and the first six months of 2017, respectively. The Company purchased treasury shares for EUR 38 and EUR 100 in the first six months of 2018 and the first six months of 2017, respectively.

Net debt

Net debt was EUR 1,576 as of 30 June 2018, compared to EUR 994 as of 31 December 2017. The increase in net debt was mainly driven by the dividend payment and cash outflow related to acquisitions. At 30 June 2018, the ratio of net debt to EBITDA excluding one-offs was 1.4x, compared to 0.8x at 31 December 2017. The following table presents the calculation of net debt based upon financial measures in accordance with US GAAP.

in EUR	30 June 2018	31 December 2017
Net debt		
Short-term debt and current maturities of long-term debt	**490**	394
Long-term debt, less current maturities	**1,573**	1,562
Total debt	**2,063**	1,956
Less:		
Cash and cash equivalents	**487**	958
Short-term investments		4
Net debt	**1,576**	994

HY 2018 segment performance

From a business line perspective, General Staffing represented 76% of the Adecco Group revenues in the first six months of 2018 with the remaining 24% coming from Professional Staffing and Solutions. In the first six months of 2018, revenues increased in General Staffing by 6% and in Professional Staffing by 1%, both organically. In Solutions, revenues declined by 1% organically, with revenues in CTTD down 7% organically, and BPO up 19% organically.

France

In the first six months of 2018, revenues were EUR 2,787, up 9% organically. Revenues increased by 9% in General Staffing, which accounts for over 90% of revenues, while Professional Staffing was up 5%. Revenue growth continued to be strong in manufacturing, logistics and automotive. Permanent placement revenues were up 18%. EBITA was EUR 156 and the EBITA margin was 5.6%, down 70 bps, impacted by a reduction in the CICE tax credit from 7% to 6% of gross wages (approx. 60 bps impact) and investments in strategic initiatives.

North America, UK & Ireland General Staffing

Revenues in the first six months of 2018 were EUR 1,388, up 1% organically. North America General Staffing accounted for approximately 73% of revenues, and was up 1% organically. UK & Ireland General Staffing represented approximately 27% of revenues and was up 4% organically. Permanent placement revenues increased by 15% in North America General Staffing and declined by 3% in UK & Ireland General Staffing, both organically. EBITA excluding one-offs was EUR 37 with a margin of 2.7%, compared to an EBITA margin of 3.2% in the first six months of 2017, impacted by investments in strategic initiatives, particularly in IT.

North America, UK & Ireland Professional Staffing

In the first six months of 2018, revenues were EUR 1,716 down 2% organically. North America Professional Staffing accounts for over 63% of revenues and was flat organically. Growth in Medical & Science, Engineering & Technical and Finance & Legal was partly offset by a decline in IT. UK & Ireland Professional Staffing represents around 37% of revenues and was down 5% organically, mainly due to a decline in IT. Permanent placement revenues increased by 16% in North America Professional Staffing and by 13% in UK & Ireland Professional Staffing, both organically. Overall EBITA excluding one-offs was EUR 91 with a margin of 5.3%, down 60bps compared to the EBITA margin of 5.9% in the first six months of 2017, negatively impacted by strategic IT investments and M&A (Vettery).

Germany, Austria, Switzerland

Revenues in the first six months of 2018 were up 2% organically year-on-year at EUR 1,078. In Germany & Austria, revenues were down 1%, impacted by the ongoing consolidation of the Adecco and Tuja staffing brands, and regulatory changes. In Switzerland, revenues were up 16% organically. For the region, EBITA excluding one-offs was EUR 16, with an EBITA margin of 1.5%; a decrease of 210 bps compared to the prior year, impacted by fewer trading days, a higher sickness rate and strikes in Germany in Q1 2018.

Benelux & Nordics

In the first six months of 2018, revenues were EUR 1,041, an increase of 6% organically. In the Nordics, revenues were up 7%, led by double-digit growth in Norway while Sweden was slightly negative. Revenues in Benelux were up 5% with stronger growth in the Netherlands than in Belgium. In Benelux & Nordics, the EBITA margin excluding one-offs was down 110 bps at 2.2% impacted by negative price/mix effects, a higher sickness rate in Q1 2018 and lower subsidies in Belgium.

Italy

Revenues in the first six months of 2018 were EUR 998, up 14% organically. Growth was broad-based across all service lines, including temporary staffing, permanent placement, outsourcing and training. EBITA was EUR 79 and the EBITA margin was up 30 bps year-on-year to 7.9%, driven by operating leverage.

Japan

In the first six months of 2018, revenues were EUR 625, up 2% organically, with good growth in Professional Staffing and permanent placement. EBITA was EUR 46 and the EBITA margin was down 10 bps year-on-year at 7.3%, impacted by strategic IT investments.

Iberia

Revenues in the first six months of 2018 were up 9% organically to EUR 560, with good growth in Spain and strong growth in Portugal. The EBITA margin was up 40 bps year-on-year to 5.1%, driven by an improving business mix and good operating leverage.

Rest of World

In the first six months of 2018, revenues grew organically by 5% to EUR 1,342. Revenue growth was 11% in Australia & New Zealand, 15% in Latin America, 4% in Eastern Europe & MENA, and revenues were down 3% in Asia, and 15% in India, all organically. For the region, the EBITA margin excluding one-offs was 3.2%, up 20 bps compared to 3.0% in the first six months of 2017, due to operating leverage and continued focus on client profitability.

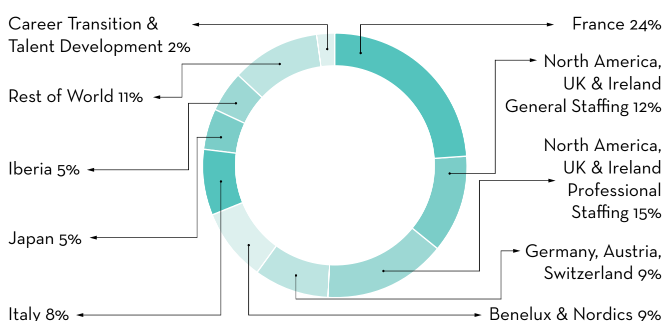
Career Transition & Talent Development

Revenues in the first six months of 2018 were EUR 209 down 7% organically. Lee Hecht Harrison revenues organically declined single digit in its largest markets of the USA and France, as well as in Canada, while declined double digit in the UK. This was partially offset by growth in Germany and Switzerland. General Assembly was consolidated as of 31 May 2018 and therefore made a limited contribution to segment revenues in the first half of 2018. The segment EBITA margin excluding one-offs in the first six months of 2018 was 23.5%, compared to the 28.6% EBITA margin in the same period of 2017, reflecting negative operating leverage and the consolidation of General Assembly.

Outlook

In the first six months of 2018, the positive revenue growth momentum continued. Revenues were up 5% organically and trading days adjusted. In Q2 2018, revenue growth slightly decelerated, to 4%, organically and trading days adjusted. Revenue growth in June and July combined was 4% organically and trading days adjusted.

2018 revenue split by segment



Revenues by segment and by business line

Revenues

in EUR	Revenues		Variance				% of total revenues	
	HY 2018	HY 2017	EUR	Constant currency	Organic	Organic TDA[1]	**HY 2018**	HY 2017
France	2,787	2,565	9%	9%	9%	9%	**24%**	22%
N. America, UK & I. General Staffing	1,388	1,498	-7%	1%	1%	1%	**12%**	13%
N. America, UK & I. Professional Staffing	1,716	1,902	-10%	-2%	-2%	-2%	**15%**	16%
Germany, Austria, Switzerland	1,078	1,070	1%	2%	2%	3%	**9%**	9%
Benelux & Nordics	1,041	995	5%	6%	6%	7%	**9%**	9%
Italy	998	876	14%	14%	14%	15%	**8%**	7%
Japan	625	661	-5%	3%	2%	4%	**5%**	6%
Iberia	560	512	9%	9%	9%	10%	**5%**	4%
Rest of World	1,342	1,394	-4%	5%	5%	5%	**11%**	12%
Career Transition & Talent Development	209	229	-9%	-2%	-7%	-7%	**2%**	2%
Adecco Group	**11,744**	**11,702**	**0%**	**5%**	**5%**	**5%**	**100%**	100%

1 TDA = trading days adjusted

Revenues by business line[1]

in EUR	Revenues		Variance			% of total revenues	
	HY 2018	HY 2017	EUR	Constant currency	Organic	**HY 2018**	HY 2017
Office	2,680	2,856	-6%	0%	0%	23%	25%
Industrial	6,244	5,867	6%	9%	9%	53%	50%
General Staffing	**8,924**	**8,723**	**2%**	**6%**	**6%**	**76%**	**75%**
Information Technology	1,252	1,322	-5%	0%	0%	11%	11%
Engineering & Technical	508	570	-11%	-4%	-4%	4%	5%
Finance & Legal	495	503	-2%	6%	6%	4%	4%
Medical & Science	271	262	4%	12%	3%	2%	2%
Professional Staffing	**2,526**	**2,657**	**-5%**	**2%**	**1%**	**21%**	**22%**
CTTD	209	229	-9%	-2%	-7%	2%	2%
BPO	85	93	-8%	0%	19%	1%	1%
Solutions	**294**	**322**	**-9%**	**-1%**	**-1%**	**3%**	**3%**
Adecco Group	**11,744**	**11,702**	**0%**	**5%**	**5%**	**100%**	**100%**

1 Breakdown of staffing revenues into Office, Industrial, Information Technology, Engineering & Technical, Finance & Legal, and Medical & Science is based on dedicated branches. CTTD comprises Career Transition & Talent Development services. BPO comprises Managed Service Programmes (MSP), Recruitment Process Outsourcing (RPO), and Digital.

EBITA by segment

EBITA and EBITA margin excluding one-offs

	EBITA excluding one-offs		EBITA margin excluding one-offs			% of EBITA[1]
in EUR	HY 2018	HY 2017[2]	HY 2018	HY 2017[2]	Variance	HY 2018
France	**156**	163	5.6%	6.3%	(70) bps	27%
N. America, UK & I. General Staffing	**37**	47	2.7%	3.2%	(50) bps	7%
N. America, UK & I. Professional Staffing	**91**	113	5.3%	5.9%	(60) bps	16%
Germany, Austria, Switzerland	**16**	38	1.5%	3.6%	(210) bps	3%
Benelux & Nordics	**23**	33	2.2%	3.3%	(110) bps	4%
Italy	**79**	67	7.9%	7.6%	30 bps	14%
Japan	**46**	49	7.3%	7.4%	(10) bps	8%
Iberia	**29**	24	5.1%	4.7%	40 bps	5%
Rest of World	**43**	42	3.2%	3.0%	20 bps	7%
Career Transition & Talent Development	**49**	65	23.5%	28.6%	(510) bps	9%
Corporate	**(85)**	(81)				
Adecco Group	**484**	**560**	**4.1%**	**4.8%**	**(70) bps**	**100%**

1 % of EBITA excluding one-offs and before Corporate.

2 Due to adoption of ASU 2017-07 – Presentation of net periodic pension and postretirement benefit cost in 2018, the 2017 figures were restated. Components of pension expense other than service cost of a EUR 1 gain previously shown in "Selling, general and administrative expenses", are now shown in "Other income/(expenses), net".

EBITA and EBITA margin by segment

	EBITA				EBITA margin		
			Variance %				Variance bps
in EUR	HY 2018	HY 2017[1]	EUR	Constant currency	HY 2018	HY 2017[1]	EUR
France	156	163	-4%	-4%	5.6%	6.3%	(70)
N. America, UK & I. General Staffing	35	46	-25%	-16%	2.5%	3.1%	(60)
N. America, UK & I. Professional Staffing	85	111	-23%	-14%	5.0%	5.8%	(80)
Germany, Austria, Switzerland	2	38	-95%	-95%	0.2%	3.6%	(340)
Benelux & Nordics	23	33	-30%	-30%	2.2%	3.3%	(110)
Italy	79	67	19%	19%	7.9%	7.6%	30
Japan	46	49	-7%	1%	7.3%	7.4%	(10)
Iberia	29	24	20%	20%	5.1%	4.7%	40
Rest of World	42	42	0%	9%	3.2%	3.0%	20
Career Transition & Talent Development	48	65	-27%	-19%	23.0%	28.6%	(560)
Corporate	(91)	(81)	11%	21%			
Adecco Group	**454**	**557**	**-19%**	**-15%**	**3.9%**	**4.8%**	**(90)**

1 Due to adoption of ASU 2017-07 – Presentation of net periodic pension and postretirement benefit cost in 2018, the 2017 figures were restated. Components of pension expense other than service cost of a EUR 1 gain previously shown in "Selling, general and administrative expenses", are now shown in "Other income/(expenses), net".

Forward-looking statements

Information in this Half Year 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 Half Year Report are based on information available to the Company as of 8 August 2018, and the Company assumes no duty to update any such forward-looking statements. The forward-looking statements in this Half Year 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 affecting 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.

Selected financial information

in millions, except share and per share information

For the six months ended 30 June (in EUR)	2018	2017
Statements of operations		
Revenues	11,744	11,702
Gross profit	2,140	2,169
Operating income[1]	434	542
Net income attributable to Adecco Group shareholders	300	368

As of (in EUR)	30.06.2018	31.12.2017
Balance sheets		
Cash and cash equivalents and short-term investments	487	962
Trade accounts receivable, net	4,640	4,440
Goodwill	3,244	2,895
Total assets	10,061	9,890
Short-term debt and current maturities of long-term debt	490	394
Accounts payable and accrued expenses	4,183	4,066
Long-term debt, less current maturities	1,573	1,562
Total liabilities	6,538	6,308
Total shareholders' equity	3,523	3,582

For the six months ended 30 June (in EUR)	2018	2017
Cash flows from operations		
Cash flows from operating activities[2]	319	352
Cash used in investing activities	(486)	(47)
Cash flows used in financing activities	(296)	(263)
Other indicators		
Capital expenditures	77	41

As of	30.06.2018	31.12.2017
Other indicators		
Net debt (in EUR)[3]	1,576	994
Additional statistics		
Number of FTE employees at end of period (approximate)	35,000	34,000

1 Due to adoption of ASU 2017-07 – Presentation of net periodic pension and postretirement benefit cost in 2018, the 2017 figures were restated. Components of pension expense other than service cost of a EUR 1 gain previously shown in "Selling, general and administrative expenses", are now shown in "Other income/(expenses), net".

2 Due to the adoption of ASU 2016-18 – Statement of Cash Flows (Topic 230): Restricted cash in 2018, the 2017 figures were restated for changes during the period related to restricted cash. As a result, cash flows from operating activities increased by EUR 9 in 2017.

3 Net debt is a non-US GAAP measure and comprises short-term and long-term debt, less cash and cash equivalents and short-term investments.

Consolidated balance sheets

in millions, except share and per share information

As of (in EUR)	Note	30.06.2018	31.12.2017
Assets			
Current assets:			
• Cash and cash equivalents		487	958
• Short-term investments			4
• Trade accounts receivable, net		4,640	4,440
• Other current assets		252	187
Total current assets		**5,379**	**5,589**
Property, equipment, and leasehold improvements, net		268	198
Equity method investments		183	173
Other assets		560	668
Intangible assets, net		427	367
Goodwill		3,244	2,895
Total assets		**10,061**	**9,890**
Liabilities and shareholders' equity			
Liabilities			
Current liabilities:			
• Accounts payable and accrued expenses		4,183	4,066
• Short-term debt and current maturities of long-term debt	4	490	394
Total current liabilities		**4,673**	**4,460**
Long-term debt, less current maturities	4	1,573	1,562
Other liabilities		292	286
Total liabilities		**6,538**	**6,308**
Shareholders' equity			
Adecco Group shareholders' equity:			
• Common shares		11	11
• Additional paid-in capital	5	571	579
• Treasury shares, at cost	5	(354)	(338)
• Retained earnings		3,541	3,613
• Accumulated other comprehensive income/(loss), net	5	(255)	(291)
Total Adecco Group shareholders' equity		**3,514**	**3,574**
Noncontrolling interests		9	8
Total shareholders' equity		**3,523**	**3,582**
Total liabilities and shareholders' equity		**10,061**	**9,890**

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

Consolidated statements of operations

in millions, except share and per share information

For the six months ended 30 June (in EUR)	Note	2018	2017[1]
Revenues	2, 12	11,744	11,702
Direct costs of services		(9,604)	(9,533)
Gross profit		**2,140**	**2,169**
Selling, general, and administrative expenses		(1,686)	(1,612)
Amortisation of intangible assets		(20)	(15)
Operating income	12	**434**	**542**
Interest expense		(21)	(26)
Other income/(expenses), net	9	7	3
Income before income taxes		**420**	**519**
Provision for income taxes	10	(119)	(150)
Net income		**301**	**369**
Net income attributable to noncontrolling interests		(1)	(1)
Net income attributable to Adecco Group shareholders		**300**	**368**
Basic earnings per share	11	**1.81**	**2.16**
Basic weighted-average shares	11	165,620,677	169,891,620
Diluted earnings per share	11	**1.81**	**2.16**
Diluted weighted-average shares	11	165,934,475	170,227,738

1 Due to adoption of ASU 2017-07 – Presentation of net periodic pension and postretirement benefit cost in 2018, the 2017 figures were restated. Components of pension expense other than service cost of a EUR 1 gain previously shown in "Selling, general and administrative expenses", are now shown in "Other income/(expenses), net".

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

Consolidated statements of comprehensive income

in millions, except share and per share information

For the six months ended 30 June (in EUR)	Note	2018	2017
Net income		**301**	369
Other comprehensive income/(loss), net of tax:			
• Currency translation adjustment of long-term intercompany loans (net of tax of, 2018: less than EUR 1, 2017: EUR 2)		**(2)**	(22)
• Currency translation adjustment of net investment hedges (net of tax of, 2018: less than EUR 1, 2017: EUR (1))		**(2)**	19
• Currency translation adjustment excluding long-term intercompany loans and net investment hedges (net of tax of, 2018: less than EUR 1, 2017: less than EUR 1)		**39**	(186)
• Change in fair value of securities (net of tax of, 2017: less than EUR 1)			(1)
• Change in net actuarial gain/(loss) on pensions including currency translation adjustment (net of tax of, 2018: less than EUR 1, 2017: less than EUR 1)	6	**1**	1
Total other comprehensive income/(loss)		**36**	(189)
Total comprehensive income		**337**	**180**
Less comprehensive income attributable to noncontrolling interests		**(1)**	(1)
Comprehensive income attributable to Adecco Group shareholders		**336**	**179**

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

Consolidated statements of cash flows

in millions, except share and per share information

For the six months ended 30 June (in EUR)	2018	2017[1]
Cash flows from operating activities		
Net income	301	369
Adjustments to reconcile net income to cash flows from operating activities:		
• Depreciation and amortisation	62	54
• Other charges	2	19
Changes in operating assets and liabilities, net of acquisitions:		
• Trade accounts receivable	(180)	(253)
• Accounts payable and accrued expenses	65	122
• Other assets and liabilities	69	41
Cash flows from operating activities	**319**	**352**
Cash flows from investing activities		
Capital expenditures	(77)	(41)
Acquisition of Vettery, net of cash and restricted cash acquired	(77)	
Acquisition of General Assembly, net of cash and restricted cash acquired	(317)	
Cash settlements on derivative instruments	7	
Other acquisition and investing activities, net	(22)	(6)
Cash used in investing activities	**(486)**	**(47)**
Cash flows from financing activities		
Net increase in short-term debt	440	72
Borrowings of long-term debt, net of issuance costs	2	
Repayment of long-term debt	(350)	
Dividends paid to shareholders	(350)	(235)
Purchase of treasury shares	(38)	(100)
Cash used in financing activities	**(296)**	**(263)**
Effect of exchange rate changes on cash, cash equivalents and restricted cash	**6**	**(51)**
Net decrease in cash, cash equivalents and restricted cash	**(457)**	**(9)**
Cash, cash equivalents and restricted cash:		
• Beginning of year	1,003	1,166
• End of period	546	1,157

1 Due to the adoption of ASU 2016-18 – Statement of Cash Flows (Topic 230): Restricted cash in 2018, the figures were restated for changes during the period related to restricted cash. As a result, cash flows from operating activities increased by EUR 9 in 2017.

Consolidated statements of cash flows continued

in millions, except share and per share information

The following table provides a reconciliation of cash, cash equivalents and restricted cash to the amounts reported in our consolidated balance sheets:

For the six months ended 30 June (in EUR)	2018	2017
Reconciliation of cash, cash equivalents and restricted cash at beginning of year:		
Current assets:		
• Cash and cash equivalents	958	1,123
• Restricted cash included in Other current assets	8	6
Noncurrent assets:		
• Restricted cash included in Other assets	37	37
Cash, cash equivalents and restricted cash at beginning of year:	1,003	1,166
Reconciliation of cash, cash equivalents and restricted cash at end of period:		
Current assets:		
• Cash and cash equivalents	487	1,108
• Restricted cash included in Other current assets	7	6
Noncurrent assets:		
• Restricted cash included in Other assets	52	43
Cash, cash equivalents and restricted cash at end of period	546	1,157
Supplemental disclosures of cash paid		
Cash paid for interest	20	20
Cash paid for income taxes	113	142

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

Consolidated statements of changes in shareholders' equity

in millions, except share and per share information

in EUR	Common shares	Additional paid-in capital	Treasury shares, at cost	Retained earnings	Accumulated other comprehensive income/(loss), net	Noncontrolling interests	Total shareholders' equity
1 January 2018	**11**	**579**	**(338)**	**3,613**	**(291)**	**8**	**3,582**
Adoption of ASU 2016-16[1]				(19)			(19)
1 January 2018 (upon adoption of ASU 2016-16)	**11**	**579**	**(338)**	**3,594**	**(291)**	**8**	**3,563**
Comprehensive income:							
Net income				300		1	301
Other comprehensive income/(loss)					36		36
Total comprehensive income							**337**
Stock-based compensation		6					6
Vesting of share awards		(14)	14				
Treasury shares purchased on second trading line			(25)				(25)
Other treasury share transactions			(5)				(5)
Cash dividends, CHF 2.50 per share				(353)			(353)
30 June 2018	**11**	**571**	**(354)**	**3,541**	**(255)**	**9**	**3,523**

1 The Company adopted ASU 2016-16 "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory" on 1 January 2018. Upon adoption, the 31 December 2017 "Other assets" were reduced by EUR 19 directly against "Retained earnings" which was also reduced by EUR 19.

in EUR	Common shares	Additional paid-in capital	Treasury shares, at cost	Retained earnings	Accumulated other comprehensive income/(loss), net	Noncontrolling interests	Total shareholders' equity
1 January 2017	**106**	**581**	**(40)**	**3,058**	**10**	**7**	**3,722**
Comprehensive income:							
Net income				368		1	369
Other comprehensive income/(loss)					(189)		(189)
Total comprehensive income							**180**
Stock-based compensation		7					7
Vesting of share awards		(16)	15				(1)
Treasury shares purchased on second trading line			(87)				(87)
Other treasury share transactions			(21)				(21)
Cash dividends, CHF 1.50 per share				(235)			(235)
30 June 2017	**106**	**572**	**(133)**	**3,191**	**(179)**	**8**	**3,565**

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

Notes to consolidated financial statements

in millions, except share and per share information

Note 1 – Summary of significant accounting policies

Basis of presentation and principles of consolidation

The consolidated half year financial statements include Adecco Group AG, a Swiss corporation, its consolidated subsidiaries as well as variable interest entities in which the Adecco Group is considered the primary beneficiary (collectively, the Company).

The Company prepares its consolidated half year financial statements using the same accounting principles and methods of computation that were applied in the audited consolidated financial statements as of 31 December 2017 and for the year then ended.

Certain information and footnote disclosures included in the audited consolidated financial statements as of 31 December 2017 have been condensed or omitted. As a result, the financial information in the condensed consolidated financial statements should be read in conjunction with the Company's Annual Report including the Company Report, the Corporate Governance, and the Remuneration Report for the fiscal year ended 31 December 2017.

The reporting currency of the Company is the Euro, which reflects the significance of the Company's Euro-denominated operations. Adecco Group AG's share capital is denominated in Swiss Francs and the Company declares and pays dividends in Swiss Francs.

In the opinion of management, the consolidated half year financial statements reflect all adjustments necessary to present fairly the consolidated balance sheets, the consolidated statements of operations, the consolidated statements of comprehensive income, the consolidated statements of cash flows, the consolidated statements of changes in shareholders' equity, and the accompanying notes.

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make judgements, assumptions, and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. On an ongoing basis, management evaluates its estimates, including those related to allowance for doubtful accounts, accruals and provisions, impairment of goodwill and indefinite-lived intangible assets, contingencies, pension accruals, and income taxes. 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 may differ from those estimates.

CICE (tax credit for competitiveness and employment)

At the end of 2012, the French government introduced a tax relief programme known as CICE (tax credit for competitiveness and employment) for all companies operating in France. This provides employers with a tax credit on employee salaries up to 2.5 times the minimum wage. For 2016, the rate of the tax credit was 6%, and for 2017 this rate was raised to 7%. As announced in December 2017 for 2018 the tax credit decreased back to 6% and from 2019 it will be replaced by social charge reductions. The CICE earned each year is creditable against current income tax payable in France with any remaining amount paid after three years. Given the Company's current tax situation in France, the Company does not expect to receive the CICE receivables recorded until three years after it is earned.

In June 2018, the Company sold a portion of the CICE receivables of EUR 226 for cash proceeds of EUR 224 and in June 2017, the Company sold a portion of the CICE receivables of EUR 180 for cash proceeds of EUR 179. Upon sale, the Company derecognised EUR 226 in June 2018 and EUR 180 in June 2017 of the CICE receivables as these transactions qualified for sale treatment in accordance with Accounting Standards Codification (ASC) 860, "Transfers and Servicing" (ASC 860), and the Company does not have any continuing involvement with the CICE receivables sold. The discount on the CICE receivables sold is recorded in interest expense in the consolidated statements of operations.

New accounting guidance

In February 2016, the FASB issued ASU 2016-02, "Leases" (Topic 842) that establishes a broad principle requiring a lessee to recognise in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. Entities are required to use a retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements or the beginning of the period of adoption through a cumulative-effect adjustment. Full retrospective application is prohibited. The guidance is effective for annual periods beginning after 15 December 2018. Early adoption is permitted. The Company plans to adopt this guidance as of 1 January 2019 retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment and is currently assessing the impact of this guidance on the consolidated financial statements.

Notes to consolidated financial statements continued

in millions, except share and per share information

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (ASU 2016-13). The new guidance requires the use of a "current expected credit loss" model for most financial assets. Under the new model, an entity recognises as an allowance its estimate of expected credit losses, rather than the current methodology requiring delay of recognition of credit losses until it is probable a loss has been incurred. The new guidance is effective for the Company for fiscal years beginning after 15 December 2020 including interim periods within those fiscal years. The Company plans to adopt this guidance as of 1 January 2021 and is currently assessing the impact of this guidance on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" (ASU 2017-04). The amendments in this ASU simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying value, which eliminates the current requirement to calculate a goodwill impairment charge by comparing the implied fair value of goodwill with its carrying amount. The amendments in this ASU are effective for annual or any interim goodwill impairment tests in fiscal years beginning after 15 December 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after 1 January 2017. The amendments in this ASU should be applied on a prospective basis. The Company does not expect this guidance to have a significant impact on the consolidated financial statements, upon adoption.

In July 2017, the FASB issued ASU 2017-11, "Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Non-public Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception". The amendments in Part I simplify the accounting for certain financial instruments with down round features. Part II replaces today's indefinite deferral of the guidance in Accounting Standards Codification (ASC) 480-102 for certain mandatorily redeemable financial instruments of certain non-public entities and certain mandatorily redeemable noncontrolling interests with a scope exception. The amendments in Part II of this ASU do not require any transition guidance because those amendments do not have an accounting effect. The amendments in this ASU (for Part I) are effective for annual periods, and interim periods within those annual periods, beginning after 15 December 2018. Early adoption is permitted, including adoption in any interim period. The Company will adopt this amendment as of 1 January 2019 and is currently assessing the impact of this guidance on the consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815)". The amendments in this ASU provide changes to enable entities to better portray the economics of their risk management activities in the financial statements and enhance the transparency and understandability of hedge results. The amendments also simplify the application of hedge accounting in certain situations. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after 15 December 2018. Early adoption is permitted. The amended presentation and disclosure guidance is required prospectively. The Company will adopt this amendment as of 1 January 2019 and is currently assessing the impact of this guidance on the consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income". The amendments in this ASU allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the United States Tax Cuts and Jobs Act of 2017. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after 15 December 2018. Early adoption is permitted. The Company will adopt this amendment as of 1 January 2019 and is currently assessing the impact of this guidance on the consolidated financial statements.

Presentation and reclassifications

Certain reclassifications have been made to prior period amounts or balances in order to conform to the current period presentation.

Notes to consolidated financial statements continued

in millions, except share and per share information

Note 2 – Revenues

Adoption of ASC Topic 606 – "Revenue from Contracts with Customers"

The Company adopted ASC Topic 606 as of 1 January 2018 using the modified retrospective approach. The Company's results for reporting periods beginning 1 January 2018 or later are presented under this guidance, while prior periods are not retrospectively adjusted and are presented in accordance with the Company's previous accounting policy under ASC Topic 605.

The cumulative effect of adopting ASC Topic 606 was not recorded upon adoption as it was not significant and did not impact the Company's retained earnings as of 1 January 2018 or the results of the Company's operations for the six months ended 30 June 2018.

Recognition of revenues

Revenues are recognised as the Company satisfies its obligations under a contract with a customer, which is when control of the promised services is transferred to the customer and in an amount, that reflects the expected consideration the Company is entitled to in exchange for those services. Revenues are recognised and reported net of any sales taxes.

The following table presents the Company's revenues disaggregated by type of service provided.

For the six months ended 30 June (in EUR)	2018	2017[1]
Temporary staffing	**10,199**	10,198
Permanent placement	**282**	252
Career transition	**175**	201
Other	**1,088**	1,051
Total revenues	**11,744**	11,702

1 Prior period amounts have not been adjusted under the modified retrospective method.

The following table presents the Company's revenues disaggregated by country and business line[2].

in EUR	France	USA	UK	Germany	Japan	Italy	Switzerland	Rest of the world	Total
Six months ended 30 June 2018	2,824	2,018	1,022	805	627	999	242	3,207	11,744
Six months ended 30 June 2017[1]	2,604	2,277	1,080	812	663	878	228	3,160	11,702

	Office	Industrial	Information Technology	Engineering & Technical	Finance & Legal	Medical & Sciences	Solutions	Total
Six months ended 30 June 2018	2,680	6,244	1,252	508	495	271	294	11,744
Six months ended 30 June 2017[1]	2,856	5,867	1,322	570	503	262	322	11,702

1 Prior period amounts have not been adjusted under the modified retrospective method.

2 Please refer to Note 12 for a description of business lines.

Notes to consolidated financial statements continued

in millions, except share and per share information

Temporary staffing

Revenues related to temporary staffing services are generally negotiated and invoiced on an hourly basis. 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 contract durations can range from less than one month to multiple years but generally may be terminated earlier if appropriate notice is provided. Temporary staffing service revenues are recognised over time upon rendering the services and in line with the Company's right to invoice the customer. The Company provides temporary staffing services in the following operating segments: France; North America, UK & Ireland General Staffing; North America, UK & Ireland Professional Staffing; Germany, Austria, Switzerland; Benelux & Nordics; Italy; Japan; Iberia; Australia & New Zealand; Latin America; Eastern Europe, Middle East & North Africa; Asia; and India.

Permanent placement

Revenues related to permanent placement services are generally recognised at the point in time the candidate begins full-time employment, or once the fee is earned and the Company has no further obligations to the customer. Allowance provisions are established based on historical information for any non-fulfilment of permanent placement obligations and presented in Other accrued expenses in Accounts payable and accrued expenses and recorded as a reduction of revenue. The Company provides permanent placement services in the following operating segments: France; North America, UK & Ireland General Staffing; North America, UK & Ireland Professional Staffing; Germany, Austria, Switzerland; Benelux & Nordics; Italy; Japan; Iberia; Australia & New Zealand; Latin America; Eastern Europe, Middle East & North Africa; Asia; and India.

Career transition

Revenues related to career transition are negotiated with the client on a project basis and are generally recognised over time upon rendering the services, such as consulting services where revenue is billed and recognised on an hourly basis or workshops and coaching sessions with stated fees per service. The Company also offers multi-month career transition packages or similar services in which participants are offered a range of services for a fixed price. Fees invoiced prior to providing services are deferred and recorded in Other accrued expenses in Accounts payable and accrued expenses until the services are rendered. These revenues are recognised based on historical usage of offered services by the participants over the duration of service period to best depict the transfer of services to the customer. Additionally, certain contracts may contain multiple performance obligations, in which case the Company allocates revenue to each performance obligation based on the standalone selling prices, generally determined based on the prices it would charge to other customers in similar circumstances. The Company provides career transition services in the Career Transition & Talent Development operating segment.

Other services

Revenues related to other services includes outsourcing, Managed Service Programmes (MSP), and Recruitment Process Outsourcing (RPO), digital and talent development. Other services are generally recognised over time as the services are performed in the amount to which the Company has a right to invoice. Fees invoiced prior to providing services are deferred and recorded in Other accrued expenses in Accounts payable and accrued expenses until the services are rendered. The Company provides other services in the following operating segments: France; North America, UK & Ireland General Staffing; North America, UK & Ireland Professional Staffing; Germany, Austria, Switzerland; Benelux & Nordics; Italy; Japan; Iberia; Career Transition & Talent Development; Australia & New Zealand; Latin America; Eastern Europe, Middle East & North Africa; Asia; and India.

Principal vs. agent

The Company determines whether it is a principal or an agent by evaluating if it obtains control of the specified services within an arrangement. For contracts with customers in which the Company is the principal the Company reports gross revenues and gross direct costs. Under arrangements where the Company is an agent, as is generally the case in most MSP contracts, revenues are reported on a net basis.

Discounts, rebates, and other transaction price adjustments are estimated at contract inception and recognised as reductions to sales over the duration of the contract. The Company uses historical experience to estimate these types of variable consideration and records a contract liability as the related revenues are recognised. The Company does not expect significant changes to its estimates of variable consideration to occur.

Payment terms in our contracts vary by the type and location of our customer and the services offered. Our client contracts are generally short-term in nature with a term of one year or less. The Company provides services in the normal course of business at arm's length terms to entities that are affiliated with certain of its officers, Board members, and significant shareholders through investment or board directorship.

Upon rendering services to its customers, the Company recognises its unconditional rights to consideration as receivables presented as Trade accounts receivable, net. The period between when services are performed, the customer is billed, and when payment is due is not significant.

Practical expedients and exemptions

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected duration of one year or less and (ii) contracts for which the Company recognises revenue at the amount to which it has the right to invoice for services performed. Revenues from long-term temporary staffing and outsourcing contracts will generally be recognised over the next one to three years based on the agreed-upon rates and levels of services performed.

Additionally, the Company recognises incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the contract asset would be one year or less.

Notes to consolidated financial statements continued

in millions, except share and per share information

Note 3 – Acquisitions

The Company made acquisitions in the first six months of 2018 and does not consider any of its acquisition transactions to be material, individually or in the aggregate, to its consolidated balance sheets or statements of operations.

The following table illustrates the aggregate impact of the 2018 acquisitions:

in EUR	2018
Impact of acquisitions	
Net tangible assets acquired	54
Identified intangible assets	70
Goodwill	301
Deferred tax assets/(liabilities), net	5
Total consideration	**430**

In February 2018, the Company acquired all outstanding shares of Vettery, Inc. (Vettery) which operates as a digital professional permanent recruitment marketplace for EUR 77, net of EUR 1 cash acquired. Goodwill of EUR 57 and intangible assets of EUR 18 were recorded in connection with Vettery. Vettery was consolidated by the Company as of 20 February 2018, and the results of Vettery operations have been included in the consolidated financial statements since 20 February 2018. The goodwill arising from the acquisition consists largely of acquired expertise and increased penetration in the US digital professional permanent recruitment market.

In May 2018, the Company acquired all outstanding shares of General Assembly Space, Inc. (General Assembly) for EUR 317, net of EUR 5 cash and EUR 7 restricted cash acquired. General Assembly provides dynamic digital skills training for individuals and corporations in business-critical areas such as coding, data science, user experience design and digital marketing. Goodwill of EUR 230 and intangible assets of EUR 42 were recorded in connection with General Assembly. General Assembly was consolidated by the Company as of 31 May 2018, and the results of General Assembly operations have been included in the consolidated financial statements since 31 May 2018. The goodwill arising from the acquisition consists largely of acquired expertise and increased penetration in the career transformation market.

Total acquisition related costs expensed in 2018 were not significant. Acquisition related costs are included in SG&A within the consolidated statements of operations.

Notes to consolidated financial statements continued

in millions, except share and per share information

Note 4 – Financing arrangements

The Company's long-term and short-term debt as of 30 June 2018 amounted to EUR 2,063, compared to EUR 1,956 as of 31 December 2017. Short-term debt as of 30 June 2018 amounted to EUR 490 and consisted of borrowings under the French commercial paper programme (EUR 340) and under other lines of credit (EUR 150). Short-term debt as of 31 December 2017 amounted to EUR 46.

Long-term debt

The Company's long-term debt as of 30 June 2018 and 31 December 2017 consists of the following:

in EUR	Principal at maturity	Maturity	Fixed interest rate	30.06.2018	31.12.2017
8-year guaranteed Euro medium-term notes	EUR 500	2024	1.0%	**498**	495
7-year guaranteed Euro medium-term notes	EUR 500	2022	1.5%	**499**	499
4-year guaranteed USD medium-term notes	USD 300	2021	2.625%	**252**	247
8-year Swiss Franc fixed rate notes	CHF 125	2020	2.625%	**108**	107
6-year guaranteed Euro medium-term notes	EUR 214	2019	2.75%	**214**	214
7-year guaranteed Euro medium-term notes	EUR 348	2018	4.75%		348
Other				**2**	
				1,573	1,910
Less current maturities					(348)
Long-term debt, less current maturities				**1,573**	**1,562**

Other credit facilities

Committed multicurrency revolving credit facility

In April 2018, the Company entered into a new committed 5-year EUR 600 multicurrency revolving credit facility with a maturity date of April 2023. The facility 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 0.225% and 0.55% per annum, depending on certain net debt-to-EBITDA ratios. The applicable margin levels set out above shall be subject to further variation in accordance with certain "ESG Score" provisions. In addition to the interest rate costs, a utilisation fee of 0.075%, 0.15%, or 0.30% applies for total utilisation of up to 33.33%, 66.67%, and above 66.67% of the facility amount, respectively. No utilisation fee shall be payable while the facility is unutilised. The letter of credit fee equals the applicable margin, and the commitment fee equals 35% of the applicable margin. As of 30 June 2018 the Company had EUR 86 of outstanding borrowings under this facility. On 31 December 2017, there were no outstanding borrowings under the credit facility.

Notes to consolidated financial statements continued

in millions, except share and per share information

Note 5 – Shareholders' equity

Authorised shares and appropriation of available earnings

As of 30 June 2018 and 31 December 2017, Adecco Group AG was authorised by its shareholders to issue up to 15,400,000 shares in connection with the issuance of financial instruments, principally convertible bonds. The shares represent conditional capital authorised without time limitation and remain available for share issuance upon conversion of financial instruments issued or to be issued in the future.

As of 30 June 2018 and 31 December 2017, the Board of Directors are authorised, until 30 April 2019, to increase the share capital to a maximum of CHF 1 through the issuance of up to 8,557,809 shares with a nominal value of CHF 0.10 per share.

In the first six months of 2018 and the first six months of 2017 the number of treasury shares acquired on the regular trading line amounted to 84,423 and 328,645, respectively, and the net consideration paid amounted to EUR 5 and EUR 21, respectively.

During the six months ended 30 June 2018 and the six months ended 30 June 2017, the Company awarded 11,082 and 10,194 treasury shares, respectively, to the Board of Directors as part of their compensation packages. In addition, in the first six months of 2018 and the first six months of 2017, 237,347 and 268,625 treasury shares, respectively, were used to settle share awards under the long-term incentive plan.

The Company launched the following share buyback programmes on a second trading line with the aim of subsequently cancelling the shares and reducing share capital:

- EUR 300 announced in March 2017 (completed in March 2018).

In the first six months of 2018 and the first six months of 2017 the number of treasury shares acquired under the share buyback programmes amounted to 378,760 and 1,276,050, respectively, and the net consideration paid amounted to EUR 25 and EUR 87, respectively.

In March 2018, the Company announced a new share buyback programme of up to EUR 150 with the aim of subsequently cancelling the shares and reducing share capital. Purchases under this EUR 150 share buyback programme have not yet begun.

At the Annual General Meeting of Shareholders of Adecco Group AG held on 19 April 2018 (2018 AGM), the shareholders approved the cancellation of 4,580,260 treasury shares acquired under the share buyback programme and the corresponding reduction of Adecco Group AG's share capital by 4,580,260 registered shares with a nominal value of CHF 0.10 each. The cancellation of 4,580,260 treasury shares was completed on 4 July 2018. Effective 4 July 2018 the share capital of the Company amounts to CHF 17 divided into 166,575,927 shares.

At the 2018 AGM, the shareholders approved a dividend for a total of CHF 2.50 per share outstanding in respect of the fiscal year 2017. The entire dividend of EUR 353 was directly distributed to shareholders from voluntary retained earnings in April 2018.

Notes to consolidated financial statements continued

in millions, except share and per share information

Accumulated other comprehensive income/(loss), net

The components of accumulated other comprehensive income/(loss), net of tax, are as follows:

in EUR	30.06.2018	31.12.2017
Currency translation adjustment	**(231)**	(266)
Pension-related adjustments	**(24)**	(25)
Accumulated other comprehensive income/(loss), net	**(255)**	**(291)**

In the first six months of 2018 an amount of EUR 1 (net of tax of less than EUR 1) was reclassified from accumulated other comprehensive income/(loss), net to line item "Other income / (expenses), net" in the statement of operations in connection with pension-related adjustments.

Note 6 – Employee benefit plans

For the six months ended 30 June 2018 and 30 June 2017, estimated net pension expense for the defined benefit plans are as follows:

	Swiss plan		Non-Swiss plans	
in EUR	2018	2017	2018	2017
Components of pension expense				
Service cost	**9**	8	**3**	3
Interest cost	**1**	1	**1**	1
Expected return on plan assets	**(3)**	(3)	**(1)**	(1)
Amortisation of prior years' service costs	**(1)**	(1)	**1**	1
Amortisation of net (gain)/loss			**1**	1
Pension expense, net	**6**	**5**	**5**	**5**

All other components of net defined pension expense except service costs are included in the line item "Other income/(expenses), net" in the statement of operations.

Notes to consolidated financial statements continued

in millions, except share and per share information

Note 7 – Financial instruments

In accordance with ASC 815, "Derivatives and Hedging" (ASC 815), all derivative instruments are initially recognised at fair value as either other current assets, other assets, accounts payable and accrued expenses, or other liabilities in the accompanying consolidated 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 recognised within the same line item in earnings. Any cash flow impact on settlement of these contracts is classified within the consolidated statements of cash flows according to the nature of the hedged item. For derivative instruments designated and qualifying as cash flow 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 shareholders' 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 recognised in earnings. The cash flow impact on settlement of these contracts is classified according to the nature of the hedged item. For derivative instruments designated and qualifying as net investment hedges, changes in the fair value of the derivative instruments are recorded as a component of accumulated other comprehensive income/(loss), net, in shareholders' equity to the extent they are considered effective. These gains or losses will remain in equity until the related net investment is sold or otherwise disposed. The cash flow impact on settlement of these contracts is classified as cash flows from investing activities.

For derivative instruments that are not designated or that do not qualify as hedges under ASC 815, the changes in the fair value of the derivative instruments are recognised in other income/(expenses), net, within the consolidated statements of operations. Any cash flow impact on settlement of these contracts is classified as cash flows from investing activities.

Risk and use of derivative instruments

The Company 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 manages exposure to changes in fair value of fixed interest long-term debt through the use of derivative instruments.

The main objective of holding derivative instruments is to minimise 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 centralised 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 limits the use of derivative instruments for trading and speculative purposes. Group management approves the hedging strategy and monitors the underlying market risks.

Notes to consolidated financial statements continued

in millions, except share and per share information

Fair value of non-derivative financial instruments

The following table shows the carrying value and the fair value of non-derivative financial instruments as of 30 June 2018 and 31 December 2017:

	30.06.2018		31.12.2017	
in EUR	Carrying value	Fair value	Carrying value	Fair value
Non-derivative financial instruments				
Current assets:				
• Cash and cash equivalents	487	487	958	958
• Short-term investments			4	4
• Trade accounts receivable, net	4,640	4,640	4,440	4,440
Current liabilities:				
• Accounts payable	795	795	766	766
• Short-term debt	490	490	46	46
• Current maturities of long-term debt			348	353
Non-current liabilities:				
• Long-term debt, less current maturities	1,573	1,623	1,562	1,622

The Company uses the following methods and assumptions to estimate the fair value of each class of non-derivative financial instruments:

- Cash equivalents, trade accounts receivable, net, accounts payable, and short-term debt

The carrying amount approximates the fair value given the short maturity of such instruments.

- Short-term investments

The fair value for these instruments is based on quoted market prices.

- Long-term debt, including current maturities

The fair value of the Company's publicly-traded long-term debt is estimated using quoted market prices (refer to Note 4 for details of debt instruments).

Notes to consolidated financial statements continued

in millions, except share and per share information

Fair value of derivative financial instruments

The following table shows the notional amount and the fair value of derivative financial instruments as of 30 June 2018 and 31 December 2017:

		Notional amount		Fair value	
in EUR	Balance sheet location	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Derivative assets					
Derivatives designated as hedging instruments under ASC 815:					
• Foreign currency contracts	Other current assets	75	194	1	3
• Interest rate swap	Other current assets		50		
• Interest rate swap	Other assets	300		4	
Derivatives not designated as hedging instruments under ASC 815:					
• Foreign currency contracts	Other current assets	488	740	6	8
Derivative liabilities					
Derivatives designated as hedging instruments under ASC 815:					
• Foreign currency contracts	Accounts payable and accrued expenses	286		(3)	
• Interest rate swap	Other liabilities	171		(3)	
Derivatives not designated as hedging instruments under ASC 815:					
• Foreign currency contracts	Accounts payable and accrued expenses	1,389	623	(19)	(8)
• Cross-currency interest rate swap	Other liabilities	243	242	(3)	(2)
Total net derivatives				(17)	1

In addition, as of 30 June 2018 and 31 December 2017, accrued interest receivable on the interest rate swaps of EUR 2 and less than EUR 1, respectively, was recorded in other current assets. Furthermore, as of 30 June 2018 and 31 December 2017, an accrued interest receivable on the cross-currency interest rate swaps of less than EUR 1 and less than EUR 1, respectively, was recorded in other current assets.

The fair value of the interest rate swap and foreign currency contracts is calculated by using the present value of future cash flows based on observable market inputs. The Company adds an adjustment for non-performance risk in the recognised measure of fair value of derivative instruments as well as a liquidity charge represented by the bid-ask spread of the outstanding derivatives. The non-performance adjustment reflects the Credit Default Swap (CDS) applied to the exposure of each transaction. The Company uses the counterparty CDS spread in case of an asset position and its own CDS spread in case of a liability position. As of 30 June 2018 and 31 December 2017, the total impact of non-performance risk and liquidity risk was an adjustment of less than EUR 1 and EUR 4, respectively.

Fair value hedges

An interest rate swap, with a notional amount of EUR 50 that has been designated as a fair value hedge of the 2018 notes issued by Adecco International Financial Services BV expired on settlement of the notes in April 2018.

Interest rate swaps, with notional amounts of USD 200 that contain a receipt of fixed interest rate amounts and payment of floating interest rate amounts, has been designated as a fair value hedge of the 2021 notes for USD 300 issued by Adecco International Financial Services BV. The outstanding contract has an original contract period of four years and expires in November 2021.

Interest rate swaps, with notional amounts of EUR 150 that contain a receipt of fixed interest rate amounts and payment of floating interest rate amounts, has been designated as a fair value hedge of the 2022 notes for EUR 500 issued by Adecco International Financial Services BV. The outstanding contract has an original contract period of five years and expires in November 2022.

Notes to consolidated financial statements continued

in millions, except share and per share information

Interest rate swaps, with notional amounts of EUR 150 that contain a receipt of fixed interest rate amounts and payment of floating interest rate amounts, has been designated as a fair value hedge of the 2024 notes for EUR 500 issued by Adecco International Financial Services BV. The outstanding contract has an original contract period of seven years and expires in December 2024.

For the six months of 2018, a gain on the hedged fixed rate notes attributable to the hedged benchmark interest rate risk and an offsetting loss on the related interest rate swap of EUR 2 have been recorded as interest expense. For the six months of 2017, a gain on the hedged fixed rate notes attributable to the hedged benchmark interest rate risk and an offsetting loss on the related interest rate swap of less than EUR 1 have been recorded as interest expense.

In the first six months of 2018 and 2017, the Company recorded a gain of less than EUR 1 and a gain of less than EUR 1, respectively, in interest expense related to the amortisation of terminated hedges.

Furthermore, the net swap settlements that accrue each period are also reported in interest expense. No gains or losses due to ineffectiveness in fair value hedge relationships were recorded in the first six months of 2018 or in the first six months of 2017. No significant gains or losses were excluded from the assessment of hedge effectiveness of the fair value hedges in the first six months of 2018 or the first six months of 2017.

Cash flow hedges

There was an effective portion of gains on cash flow hedges recognised in other comprehensive income/(loss), net, of less than EUR 1 as of 30 June 2018, and of less than EUR 1 as of 31 December 2017, respectively.

As of 30 June 2018 and 31 December 2017, no significant gains and losses relating to cash flow hedges are included as a component of accumulated other comprehensive income/(loss). No significant reclassifications into earnings of gains and losses that are reported in accumulated other comprehensive income/(loss), net, are expected within the next 12 months.

Net investment hedges

In 2018, the Company has entered into certain derivative contracts that are designated as net investment hedges under ASC 815. Forward foreign currency contracts are mainly used to hedge a portion of certain investments with operations in different currencies against Swiss Francs. There was an effective portion of gains on net investment hedges recognised in accumulated other comprehensive income/(loss), net of EUR (7) as of 30 June 2018, and net of EUR 18 as of 31 December 2017, respectively. No gains or losses were recorded due to ineffectiveness in the net investment hedge relationships as of 30 June 2018 nor 31 December 2017. As of 30 June 2018 and as of 31 December 2017, losses of EUR 1 and EUR 4, respectively, were excluded from the assessment of hedge effectiveness of the net investment hedges.

Other hedge activities

The Company has entered into certain derivative contracts that are not designated or do not qualify as hedges under ASC 815. Forward foreign currency contracts, cross-currency interest rate swaps, and foreign currency options are mainly used to hedge the net exposure of subsidiary funding advanced in the local operations' functional currency. Contracts are entered into in accordance with approved treasury policies and procedures and represent economic hedges. Gains and losses on these contracts are recognised in earnings and are included in other income/(expenses), net, in the accompanying consolidated statements of operations.

In connection with these activities, the Company recorded a net loss of EUR 1 and a net gain of EUR 4 in the six months ended 30 June 2018 and the six months ended 30 June 2017, respectively, as follows:

in EUR Derivative	Location of gain/(loss) on derivative recognised in earnings	Gain/(loss) on derivative recognised in earnings		Hedged item	Location of gain/(loss) on related hedged item recognised in earnings	Gain/(loss) on related hedged item recognised in earnings	
		2018	2017			**2018**	2017
Cross-currency interest rate swap	Other income/ (expenses), net	**(1)**	(2)	Loans, and receivables to/from subsidiaries	Other income/ (expenses), net	**1**	3
Foreign currency contracts	Other income/ (expenses), net	**(7)**	9	Cash, loans, and receivables to/from subsidiaries	Other income/ (expenses), net	**6**	(6)

Credit risk concentration

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash investments, short-term investments, trade accounts receivable, and derivative financial instruments. The Company places its cash and short-term investments in major financial institutions throughout the world, which management assesses to be of high credit quality, in order to limit the exposure of each investment.

Credit risk with respect to trade accounts receivable is dispersed due to the international nature of the business, the large number of customers, and the diversity of industries serviced. The Company's receivables are well diversified and management performs credit evaluations of its customers and, where available and cost-effective, utilises credit insurance.

To minimise counterparty exposure on derivative instruments, the Company enters into derivative contracts with several large multinational banks and limits the exposure in combination with the short-term investments with each counterparty.

Notes to consolidated financial statements continued

in millions, except share and per share information

Note 8 – Fair value measurement

The following table represents the Company's assets and liabilities that are measured at fair value on a recurring basis as of 30 June 2018 and 31 December 2017, consistent with the fair value hierarchy provisions of ASC 820 "Fair Value Measurements":

in EUR	Level 1	Level 2	Level 3	Total
30 June 2018				
Assets				
Available-for-sale securities			2	**2**
Derivative assets		11		**11**
Liabilities				
Derivative liabilities		28		**28**
31 December 2017				
Assets				
Available-for-sale securities	4		2	6
Derivative assets		11		11
Liabilities				
Derivative liabilities		10		10

Note 9 – Other income/(expenses), net

For the first six months of 2018 and the first six months of 2017, other income/(expenses), net, consist of the following:

in EUR	2018	2017[1]
Foreign exchange gain/(loss), net	**(5)**	1
Interest income	**5**	3
Proportionate net income of equity method investments	**7**	7
Other non-operating income/(expenses), net		(8)
Total other income/(expenses), net	**7**	**3**

1 Due to adoption of ASU 2017-07 – Presentation of net periodic pension and postretirement benefit cost in 2018, the 2017 figures were restated. Components of pension expense other than service cost of a EUR 1 gain previously shown in "Selling, general and administrative expenses", are now shown in "Other income/(expenses), net".

Notes to consolidated financial statements continued

in millions, except share and per share information

Note 10 – Income taxes

Adecco Group AG is incorporated in Switzerland and the Company operates in various countries with different tax laws and rates. A substantial portion of the Company's operations are outside Switzerland. Since the Company operates worldwide, the weighted-average effective tax rate will vary from year to year depending on the earnings mix by country. Income taxes for the first six months of 2018 were provided at a rate of 28%, based on the Company's current estimate of the annual effective tax rate. For the six months ended 30 June 2017, the tax rate was 29%.

The income tax rate in the first six months of 2018 and in the first six months of 2017 includes the negative impact of EUR 5 and positive impact of EUR 2, respectively, from tax disputes, prior year adjustments, the expiration of the statute of limitations, and other discrete events.

As of 30 June 2018 the total amount of unrecognised tax benefits recorded increased by EUR 11 compared to 31 December 2017 as a result of current year additions, and fluctuations in foreign currency exchange rates. As of 30 June 2017 the total amount of unrecognised tax benefits recorded increased by EUR 6 compared to 31 December 2016 as a result of current year additions, and fluctuations in foreign currency exchange rates.

The Company and its subsidiaries file income tax returns in multiple jurisdictions with varying statutes of limitations. Based on the outcome of examinations, or as a result of the expiration of the statute of limitations for specific jurisdictions, it is reasonably possible that the related unrecognised tax benefits for tax positions taken regarding previously filed tax returns could materially change in the next 12 months from those recorded as liabilities for uncertain tax positions in the Company's financial statements. An estimate of the range of the possible change cannot be made until issues are further developed or examinations close.

Significant estimates are required in determining income tax expense and benefits. Various internal and external factors may have favourable or unfavourable effects on the future effective tax rate. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations, results of tax audits, and changes in the overall level of pre-tax earnings.

Note 11 – Earnings per share

The following table sets forth the computation of basic and diluted earnings per share for the six months ended 30 June 2018 and 30 June 2017:

	2018		2017	
in EUR (except number of shares)	Basic	Diluted	Basic	Diluted
Numerator				
Net income attributable to Adecco Group shareholders	**300**	**300**	**368**	**368**
Denominator				
Weighted-average shares	165,620,677	165,620,677	169,891,620	169,891,620
Incremental shares for assumed conversions:				
• Employee stock-based compensation		313,798		336,118
Total average equivalent shares	165,620,677	165,934,475	169,891,620	170,227,738
Per share amounts				
Net earnings per share	**1.81**	**1.81**	**2.16**	**2.16**

Notes to consolidated financial statements continued

in millions, except share and per share information

Note 12 – Segment reporting

As outlined in Note 3 the Company acquired General Assembly and its results of operations have been included in the consolidated financial statements as of 31 May 2018. In terms of segment reporting this business has been merged into the segment previously called 'Lee Hecht Harrison' and the segment has been renamed to 'Career Transition & Talent Development' (CTTD).

The Company is organised in a geographical structure plus the global CTTD business, which corresponds to the primary segments. This structure is complemented by business lines. The segments consist of France; North America, UK & Ireland General Staffing; North America, UK & Ireland Professional Staffing; Germany, Austria, Switzerland; Benelux & Nordics; Italy; Japan; Iberia; Career Transition & Talent Development; and the Rest of World segments that comprise Australia & New Zealand; Latin America; Eastern Europe, Middle East & North Africa; Asia; and India segments. The business lines consist of General Staffing (Office, Industrial) and Professional Staffing (Information Technology, Engineering & Technical, Finance & Legal, Medical & Science), as well as Solutions. Solutions comprises Career Transition & Talent Development (CTTD), and Business Process Outsourcing (BPO) which includes Managed Service Programmes (MSP), Recruitment Process Outsourcing (RPO), and Digital. The classification of a specific branch into a business line for General Staffing and Professional Staffing is determined by the business line generating the largest revenue share in that specific branch.

The Company evaluates the performance of its segments based on operating income before amortisation of intangible assets, which is defined as the amount of income before amortisation of intangible assets, interest expense, other income/(expenses), net, and provision for income taxes. Corporate items consist of certain assets and expenses which are separately managed at the corporate level. Segment assets include current assets, property, equipment, and leasehold improvements, net, equity method investments, other assets, intangible assets, net, and goodwill, but exclude investments in subsidiaries and intercompany balances. The accounting principles used for the segment reporting are those used by the Company.

in EUR	France	N. America, UK & I. General Staffing	N. America, UK & I. Professional Staffing	Germany, Austria, Switzerland	Benelux and Nordics	Italy	Japan	Career transition & Talent development	Other	Corporate	Total
Six months ended 30 June 2018											
Revenues	2,788	1,388	1,716	1,078	1,041	998	625	209	1,901		11,744
Operating income before amortisation of intangible assets	156	35	85	2	23	79	46	47	71	(90)	454
Amortisation of intangible assets											(20)
Operating income											434
Interest expense, and other income/(expenses), net											(14)
Provision for income taxes											(119)
Net income											**301**

Notes to consolidated financial statements continued

in millions, except share and per share information

in EUR	France	N. America, UK & I. General Staffing	N. America, UK & I. Professional Staffing	Germany, Austria, Switzerland	Benelux and Nordics	Italy	Japan	Career transition & Talent development	Other	Corporate	Total
Six months ended 30 June 2017											
Revenues	2,565	1,498	1,902	1,070	995	876	661	229	1,906		11,702
Operating income before amortisation of intangible assets [1]	163	46	111	38	33	67	49	65	66	(81)	557
Amortisation of intangible assets											(15)
Operating income											542
Interest expense, and other income/(expenses), net [1]											(23)
Provision for income taxes											(150)
Net income											**369**

1 Due to adoption of ASU 2017-07 – Presentation of net periodic pension and postretirement benefit cost in 2018, the 2017 figures were restated. Components of pension expense other than service cost of a EUR 1 gain previously shown in "Selling, general and administrative expenses", are now shown in "Other income/(expenses), net".

in EUR	France	N. America, UK & I. General Staffing	N. America, UK & I. Professional Staffing	Germany, Austria, Switzerland	Benelux and Nordics	Italy	Japan	Career transition & Talent development	Other	Corporate	Total
30 June 2018											
Segment assets	1,817	1,477	1,915	1,241	764	405	415	907	1,062	58	10,061
31 December 2017											
Segment assets	1,831	1,507	1,775	1,187	748	385	406	547	1,075	429	9,890

Notes to consolidated financial statements continued

in millions, except share and per share information

Note 13 – Commitments and contingencies

Guarantees

The Company has entered into certain guarantee contracts and standby letters of credit that total EUR 795. 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.

Contingencies

In the ordinary course of business, the Company is involved in various legal actions and claims, including those related to social security charges, other payroll-related charges, and various employment-related matters. Although, the outcome of the legal proceedings cannot be predicted with certainty, the Company believes it has adequately reserved for such matters.

Note 14 – Subsequent events

At the Annual General Meeting of Shareholders of Adecco Group AG held on 19 April 2018 (2018 AGM), the shareholders approved the cancellation of 4,580,260 treasury shares acquired under the share buyback programme and the corresponding reduction of Adecco Group AG's share capital by 4,580,260 registered shares with a nominal value of CHF 0.10 each. The cancellation of 4,580,260 treasury shares was completed on 4 July 2018. Effective 4 July 2018 the share capital of the Company amounts to CHF 17 divided into 166,575,927 shares.

On 26 July 2018, the Company announced that it has entered into a definitive agreement to sell its equity interest in IQN/Beeline Holdings, LLC ("Beeline") to New Mountain Capital. The proposed transaction will result in a gain on sale for the Company of approximately EUR 110. The activities of Beeline were deconsolidated from the Company in December 2016, following the merger of Beeline with IQN. In the six months ended 30 June 2018 and in the year ended 31 December 2017, the Company did not recognise any earnings relating to its investment in Beeline. The transaction remains subject to customary closing conditions, including certain regulatory approvals. It is expected to close during the third quarter 2018.

The Company has evaluated subsequent events through 8 August 2018, the date the financial statements were available to be issued. No other significant events occurred subsequent to the balance sheet date but prior to 8 August 2018 that would have a material impact on the consolidated financial statements.

Non-US GAAP information and financial measures

Non-US GAAP information and financial measures

The Company uses non-US GAAP financial measures for management purposes. The principal non-US GAAP financial measures discussed herein are constant currency, organic growth, EBITA, EBITA excluding one-offs, conversion ratio, free cash flow, cash conversion, net debt, and net debt to EBITDA excluding one-offs, which are used in addition to, and in conjunction with results presented in accordance with US GAAP.

The aforementioned non-US GAAP financial measures should not be relied upon to the exclusion of US 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 US GAAP results, provide a more complete understanding of factors and trends affecting the Company's business.

Because non-US GAAP financial measures are not standardised, it may not be possible to compare the Company's measures with other companies' non-US 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.

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.

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 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.

Organic growth

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

EBITA

EBITA refers to operating income before amortisation and impairment of goodwill and intangible assets. Management believes that EBITA is important supplemental information because it focuses on the underlying growth and performance of the Company's business.

EBITA excluding one-offs

EBITA excluding one-offs refers to EBITA adjusted for items impacting comparability. Management believes that EBITA excluding one offs is important supplemental information because it excludes the effect of items that are not expected to recur in future periods, and therefore shows more clearly the underlying performance of the Company's business.

EBITDA

EBITDA refers to operating income before amortisation and impairment of goodwill and intangible assets and depreciation. Management believes that EBITDA is important supplemental information because it focuses on the underlying growth and performance of the Company's business excluding non-cash charges.

EBITDA excluding one-offs

EBITDA excluding one-offs refers to EBITDA adjusted for items impacting comparability. Management believes that EBITDA excluding one-offs is important supplemental information because it excludes the effect of items that are not expected to recur in future periods, and therefore shows more clearly the underlying performance of the Company's business excluding non-cash charges.

Conversion ratio

EBITA as a percentage of gross profit. Management believes that the conversion ratio is important supplemental information because this ratio displays the efficiency with which gross profit is converted to EBITA. The Company uses this metric to manage productivity and profitability.

Free cash flow (FCF)

Free cash flow (FCF) comprises cash flow from operating activities less capital expenditures. Management believes that FCF is important supplemental information because it represents the cash generated by the Company after the investments in assets necessary to support existing business activities and to pursue internal growth opportunities.

Cash conversion

Cash conversion is calculated as free cash flow before interest and tax paid (FCFBIT) divided by EBITA excluding one-offs. Management believes that cash conversion is important supplemental information because it represents how much underlying operating profit is converted into cash flows of the Company before the impact of interest and taxes paid.

Days sales outstanding (DSO)

Accounts receivable turnover. Management believes that DSO is important information as it represents the average time taken to collect accounts receivable.

Net debt

Net debt comprises short-term and long-term debt less cash and cash equivalents and short-term investments. Management believes that net debt is important supplemental information because it is one metric the Company uses to monitor outstanding debt obligations.

Net debt to EBITDA excluding one-offs

Management believes that net debt to EBITDA excluding one-offs is important supplemental information because it is one metric the Company uses to monitor its ability to meet outstanding debt obligations.

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