THE ADECCO GROUP

Driving momentum

2017 Half Year Report

Leading in the new world of work

"In the first six months of 2017, we made further progress on our strategic agenda to Perform, Transform, and Innovate, thanks to the engagement of our more than 33,000 colleagues. Our performance continued: revenue growth was robust, driven in particular by strength in France, Italy and Iberia. We maintained our focus on productivity, with an increase of only 1% in FTE employees to deliver 6% revenue growth. EBITA margin was 4.8% up 20 bps from the first six months of 2016, and cash conversion was strong.

Alongside driving our performance, we are continuing to transform and innovate to capture the opportunities we see in our markets. Implementation of our segmentation strategy is driving strong growth with small- and medium- sized clients and with our onsite delivery model for large clients. We are investing in IT infrastructure and Digital innovation: we signed a new global partnership agreement with Mya Systems, a leading AI player in HR Tech, and launched our digital Adia brand as well as our digital Active Placement model in Lee Hecht Harrison. Adia is the Adecco Group's new mobile-first, cloud-based, end-to-end platform targeting hospitality and events candidate profiles for the SME segment. Lee Hecht Harrison's new Active Placement model uses people and technology to extend the scope and increase the effectiveness of traditional career transition. These are great examples of our strategy in action to realise our vision of the future of work."

Alain Dehaze, Group Chief Executive Officer

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Strong margin and continued growth

Overview

The Adecco Group made continued progress in the first six months of 2017. Revenue momentum continued, with growth of 6%, organically[1] and trading days adjusted, the same as in Q4 2016. Growth was driven in particular by continuing strength in France, Italy, and Iberia. Gross margin declined by 40 basis points (bps) compared to the first six months of 2016. This was mainly due to a decline of 40 bps in the temporary staffing gross margin, driven by price and mix effects; this is similar to the trend experienced in 2016. The Company maintained its cost leadership, while investing for the future. Selling, general, and administrative expenses (SG&A) was well-controlled and productivity improved, with an increase of only 1% organically in full-time equivalent (FTE) employees to support the revenue growth. This strong productivity drove a 20 bps increase in EBITA[2] margin to 4.8%.

Free cash flow[3] was strong at EUR 302, underpinned by higher EBITDA and lower cash outflow for interest and other liabilities. This compares to free cash flow of EUR 104 in the first six months of last year, when the timing of payments had a negative impact on cash flow. The Company paid EUR 100 for the purchase of treasury shares in the first six months of 2017, and distributed EUR 235 in dividends. Net debt[4] at 30 June 2017 was EUR 967, representing a ratio of 0.8x net debt to EBITDA excluding one-offs[5].

In the first six months of 2017, revenue growth was 6%, a continuation of the 6% growth achieved in Q4 2016, organically and trading days adjusted. Positive momentum continued in June 2017, with a growth rate of 6%, organically and trading days adjusted.

			Variance	
in EUR	**HY 2017**	HY 2016	Reported	Organic
Summary of income statement information				
Revenues	**11,702**	11,028	6%	6%
Gross profit	**2,169**	2,082	4%	4%
EBITA excluding one-offs[6]	**561**	512	10%	9%
EBITA	**558**	510	9%	8%
Net income attributable to Adecco Group shareholders	**368**	334	10%	
Diluted EPS	**2.16**	1.96	10%	
Gross margin	**18.5%**	18.9%	(40) bps	(40) bps
EBITA margin excluding one-offs	**4.8%**	4.6%	20 bps	10 bps
EBITA margin	**4.8%**	4.6%	20 bps	10 bps
Summary of cash flow and net debt information				
Free cash flow before interest and tax paid (FCFBIT)	**464**	257		
Free cash flow (FCF)	**302**	104		
Net debt	**967**	1,409		
Days sales outstanding	**51**	51		
Cash conversion[7]	**97%**	80%		
Net debt to EBITDA excluding one-offs	**0.8x**	1.1x		

1 Organic growth is a non-US GAAP measure and excludes the impact of currency, acquisitions and divestitures.
2 EBITA is a non-US GAAP measure and refers to operating income before amortisation and impairment of goodwill and intangible assets.
3 Free cash flow is a non-US GAAP measure and comprises cash flows from operating activities less capital expenditures.
4 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.
5 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.
6 In the first six months of 2017, SG&A included one-offs of EUR 3 restructuring costs and in the first six months of 2016 EUR 2 integration costs.
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.

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 2017, revenues of EUR 11,702 were up 6% year-on-year on a reported basis. Currency fluctuations, acquisitions, and divestments had a negligible impact on revenues compared to last year. Organically, revenues increased by 6%.

Revenue growth was broad-based across all service lines in the first six months of 2017. Revenues in temporary staffing were EUR 10,215, up 6% on a reported basis and organically. This was partly due to an increase in the temporary staffing volume as temporary hours sold increased by 2% on an organic basis. Permanent placement revenues were EUR 253 in the first six months of 2017, an increase of 8% on a reported basis and organically. Revenues from career transition amounted to EUR 201 in the first six months of 2017, an increase of 6% or flat organically.

Revenues grew organically in most business lines in the first six months of 2017. In General Staffing, revenues grew by 7%, with Office and Industrial both up, 9% and 6%, respectively, all on an organic basis. In Professional Staffing, revenues grew by 2%, comprising an increase of 11% in Medical & Science, 4% in IT, and 3% in Engineering & Technical, and a decline of 6% in Finance & Legal, all on an organic basis. In Solutions, revenues grew by 3%, comprising growth of 16% in Business Process Outsourcing (BPO) and a decline of 1% in Career Transition and Talent Development, all organically.

Gross profit

Gross profit amounted to EUR 2,169 in the first six months of 2017, up 4% on a reported basis and organically. The gross margin was 18.5%, down 40 bps compared to the first six months of 2016. Compared to the prior year, currency added 10 bps to gross margin, while acquisitions and divestments had a 10 bps negative impact, meaning that on an organic basis, the gross margin was down 40 bps. The temporary staffing gross margin was down 40 bps, which was a function of: (i) an underlying decline of approximately 30 bps, split equally between pricing and mix effects; and (ii) a one-off benefit which contributed approximately 10 bps to gross profit in the first six months of 2016. Career transition had a 10 bps negative impact on the overall gross margin compared to the prior year, permanent placement had a neutral effect, and other activities (mainly outsourcing) had a positive impact of 10 bps, all on an organic basis.

Gross margin drivers YoY

in basis points	HY 2017	HY 2016
Temporary staffing	(40)	(25)
Permanent placement	0	10
Career transition	(10)	0
Other	10	(5)
Organic	**(40)**	**(20)**
Acquisitions and divestments	(10)	10
Currency	10	10
Reported	**(40)**	**0**

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

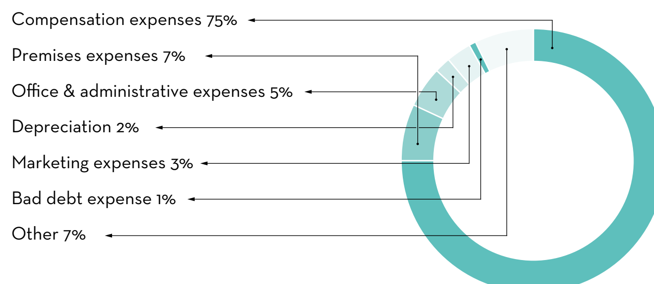
During the first six months of 2017, the Company maintained its emphasis on cost control. SG&A excluding one-offs were EUR 1,608 in the first six months of 2017, up 2% organically compared to the prior year. SG&A excluding one-offs as a percentage of revenues was 13.7%, compared to 14.2% a year ago. Reported SG&A as of 30 June 2017 was EUR 1,611. In the first six months of 2017, FTE employees increased by 1% organically year-on-year. Compared to the first six months of 2016, the branch network was down 2% organically.

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. In the first six months of 2016, one-offs of EUR 2 comprised integration costs of EUR 2 in Lee Hecht Harrison related to the acquired Penna business.

Compensation expenses were EUR 1,203 in the first six months of 2017, an increase of 3% in constant currency and representing 75% of total SG&A. Marketing expenses were EUR 43 in the first six months of 2017, compared to EUR 41 in the first six months of 2016. Bad debt expense decreased to EUR 9 in the first six months of 2017 from EUR 11 in the same period of 2016.

SG&A breakdown

HY 2017



EBITA

EBITA excluding one-offs was EUR 561 in the first six months of 2017, up compared to the same period of 2016 by 9% organically and by 10% on a reported basis. The EBITA margin excluding one-offs was 4.8% in the first six months of 2017 compared to 4.6% in the first six months of 2016. This increase is mainly due to improved productivity, which more than offset the lower gross margin and costs incurred for selected investments in the Company's strategic initiatives. The EBITA conversion ratio excluding one-offs (EBITA excluding one-offs divided by gross profit) was 25.9% in the first six months of 2017 compared to 24.6% in the same period of 2016. One-offs amounted to EUR 3 in the first six months of 2017 and EUR 2 in the same period of 2016. EBITA was EUR 558 in the first six months of 2017 compared to EUR 510 in first six months of 2016, an increase of 9% or 8% organically. The EBITA margin was 4.8% in the first six months of 2017 and 4.6% in the same period of 2016.

Amortisation of intangible assets

Amortisation of intangible assets was EUR 15 compared to EUR 18 in in the first six months 2016.

Operating income

Operating income was EUR 543 in the first six months of 2017 compared to EUR 492 in the same period of 2016.

Interest expense and other income/(expenses), net

Interest expense was EUR 26 in the first six months of 2017 compared to EUR 31 in the first six months of 2016. 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 2017, other income/(expenses), net amounted to an income of EUR 2, compared to an income of EUR 5 in the same period of 2016.

Provision for income taxes

Provision for income taxes was EUR 150 in the first six months of 2017 compared to EUR 131 in the first six months of 2016. 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 2017, the effective tax rate was 29%, which included a positive impact of less than 1% from discrete events. In the first six months of 2016, the effective tax rate was 28%, which included a positive impact of 1% from discrete events.

Net income attributable to Adecco Group shareholders and EPS

Net income attributable to Adecco Group shareholders was EUR 368 in the first six months of 2017 compared to EUR 334 in the same period of 2016. Basic earnings per share (EPS) was EUR 2.16 in the first six months of 2017 compared to EUR 1.96 in the first six months of 2016. The increase compared to the prior year reflects the higher net income attributable to Adecco Group shareholders and the lower average number of shares outstanding.

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 2017	HY 2016
Summary of cash flow information		
Cash flows from operating activities	**343**	136
Cash used in investing activities	**(47)**	(105)
Cash used in financing activities	**(263)**	(327)

Cash flows from operating activities increased to EUR 343 in the first six months of 2017 from EUR 136 in the same period of 2016. The increase is mainly due to higher EBITA and lower cash outflows for interest, and other liabilities in the first six months of 2017 compared to the first six months of 2016. DSO was 51 days for the first six months of 2017 and in the first six months of 2016. Both years include the cash proceeds for the sale of a portion of the CICE receivables of EUR 179 in the first six months of 2017 and EUR 169 in same period of 2016.

Cash used in investing activities totalled EUR 47 compared to EUR 105 in the first six months of 2016. Capital expenditures amounted to EUR 41 in the first six months of 2017 and EUR 32 in the same period of 2016. In the first six months of 2016, cash used in investing activities also included an outflow of EUR 122 for the acquisition of Penna and an inflow of EUR 56 related to cash settlements on derivative instruments.

Cash used in financing activities totalled EUR 263, compared to EUR 327 in the first six months of 2016. In the first six months of 2017, the net increase of short-term debt totalled EUR 72, whereas, in the same period of 2016, the net increase of short-term debt totalled EUR 382 partially offset by the repayment of long-term debt of EUR 316. The Company paid dividends of EUR 235 and EUR 372 in the first six months of 2017 and the first six months of 2016, respectively. The Company purchased treasury shares for EUR 100 and EUR 20 in the first six months of 2017 and the first six months of 2016, respectively. In July 2017, the Company made a second dividend payment for EUR 139.

Net debt

Net debt was EUR 967 as of 30 June 2017, compared to EUR 887 as of 31 December 2016. At 30 June 2017, the ratio of net debt to EBITDA excluding one-offs was 0.8x, compared to 0.7x at 31 December 2016. The following table presents the calculation of net debt based upon financial measures in accordance with US GAAP.

in EUR	30 June 2017	31 December 2016
Net debt		
Short-term debt and current maturities of long-term debt	**754**	345
Long-term debt, less current maturities	**1,322**	1,670
Total debt	**2,076**	2,015
Less:		
Cash and cash equivalents	**1,108**	1,123
Short-term investments	**1**	5
Net debt	**967**	887

HY 2017 segment performance

Effective 1 April 2017, the Company realigned its organisational structure to align with changes in Executive Committee responsibilities. The Company's operations in North America and UK & Ireland have been combined and are now managed according to the business lines General Staffing (GS) and Professional Staffing (PS). Prior year information has been restated to conform to the current year presentation.

France

In the first six months of 2017, revenues were EUR 2,565, up 8%. Revenues increased by 9% in General Staffing, which accounts for over 90% of revenues, and Professional Staffing remained flat. Revenue growth continued to be strong in construction and logistics and very strong in automotive. Permanent placement revenues in France were up 11%. EBITA was EUR 161 and the EBITA margin was 6.3%, up 30 bps or up 60 bps underlying compared to the prior year. In the first six months of 2016, the EBITA margin of 6.0% included a favourable item related to prior years' social security charges, which added approximately 30 bps to the EBITA margin.

North America, UK & Ireland General Staffing

Revenues in the first six months of 2017 were EUR 1,498, up 1% organically. North America General Staffing accounts for over 70% of revenues, and was down 2% organically. UK & Ireland General Staffing represents approximately 30% of revenues, and was up 12% organically, with strong growth in retail and in local government. Permanent placement revenues increased by 9% in North America General Staffing and declined by 9% in UK & Ireland General Staffing, both organically. Overall EBITA excluding one-offs was EUR 47 with a margin of 3.1%, compared to the EBITA margin of 3.4% in the first six months of 2016.

North America, UK & Ireland Professional Staffing

In the first six months of 2017, revenues were EUR 1,902, up 1% organically. North America Professional Staffing accounts for over 60% of revenues and was up 2% organically. Growth was driven by good demand in Medical & Science and Engineering & Technical, partly offset by declines in Finance & Legal. UK & Ireland Professional Staffing represents almost 40% of revenues and was down 1% organically. Permanent placement revenues increased by 3% in North America Professional Staffing and decreased by 20% in UK & Ireland Professional Staffing, both organically. Overall EBITA excluding one-offs was EUR 113 with a margin of 5.9%, up 40 bps compared to the EBITA margin of 5.5% in the first six months of 2016.

Germany, Austria, Switzerland

Revenues in the first six months of 2017 were flat year-on-year at EUR 1,070. In Germany & Austria, revenues were down 1%, while in Switzerland, revenues were up 4% organically. For the region, EBITA was EUR 40, with an EBITA margin of 3.8%. This is a decrease of 90 bps compared to the prior year, partly driven by higher sickness rates.

Benelux & Nordics

In the first six months of 2017, revenues were EUR 995, an increase of 7% organically. In the Nordics, revenues were up 7%, led by strong growth in Sweden and good growth in Norway. Revenues in Benelux were up 8%; Belgium continued to deliver broad-based growth, and the Netherlands achieved double-digit revenue growth in Q2 2017 thanks to a strong sequential development and the weak prior year base. In Benelux and Nordics, the EBITA margin was flat at 3.3%.

Italy

Revenues in the first six months of 2017 were EUR 876, up 26%, representing continued market outperformance. Growth was broad-based across all service lines, including temporary staffing, permanent placement, outsourcing and training. EBITA was EUR 67 and the EBITA margin was 7.6%, the same as the first six months of 2016.

Japan

In the first six months of 2017, revenues were EUR 661, up 4% organically, with good growth in Professional Staffing. EBITA was EUR 49 and the EBITA margin was up 50 bps year-on-year at 7.4%, helped by the positive mix effects from growth in Professional Staffing and permanent placement.

Iberia

Revenues in the first six months of 2017 were up 10% to EUR 512, with good growth in Spain and strong growth in Portugal. The EBITA margin was up 60 bps year-on-year to 4.7%, driven by good cost development.

Rest of World

In the first six months of 2017, revenues grew organically by 7% to EUR 1,394. Revenue growth was 4% in Australia & New Zealand, 9% in Latin America, 6% in Eastern Europe & MENA, 9% in Asia, and 6% in India, all organically. For the region, the EBITA margin was 3.0%, up 30 bps compared to 2.7% in the first six months of 2016.

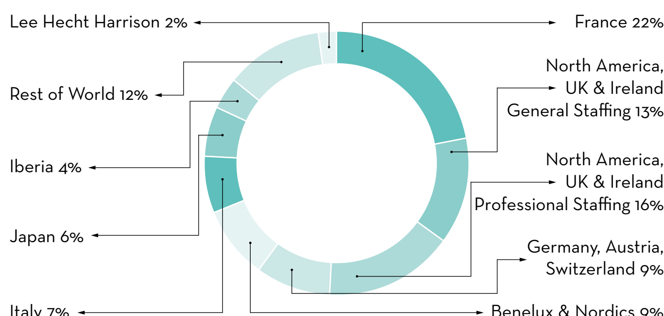
Lee Hecht Harrison

Lee Hecht Harrison is the global leader in Career Transition and Talent Development, with revenues of EUR 229 in the first six months of 2017. Organically, revenues declined by 1%, with single digit declines in its largest markets of the USA, France, and Canada, partially offset by growth in the UK and some smaller markets. The EBITA margin in the first six months of 2017 was 28.6%, compared to the 29.7% EBITA margin excluding one-offs in the same period of 2016, due to the mix impact from the consolidation of Penna.

Outlook

In the first six months of 2017, revenue growth was 6%, a continuation of the 6% growth achieved in Q4 2016, organically and trading days adjusted. Positive momentum continued in June 2017, with a growth rate of 6%, organically and trading days adjusted.

2017 revenue split by segment



Revenues by segment and by business line

Revenues

in EUR	Revenues HY 2017	Revenues HY 2016	Variance EUR	Variance Constant currency	Variance Organic	Variance Organic TDA[1]	% of total revenues HY 2017	% of total revenues HY 2016
France	2,565	2,366	8%	8%	8%	8%	22%	21%
N. America, UK & I. General Staffing	1,498	1,487	1%	1%	1%	1%	13%	14%
N. America, UK & I. Professional Staffing	1,902	1,912	(1)%	(1)%	1%	1%	16%	17%
Germany, Austria, Switzerland	1,070	1,062	1%	1%	0%	0%	9%	10%
Benelux & Nordics	995	909	10%	10%	7%	7%	9%	8%
Italy	876	693	26%	26%	26%	26%	7%	6%
Japan	661	612	8%	8%	4%	3%	6%	6%
Iberia	512	466	10%	10%	10%	9%	4%	4%
Rest of World	1,394	1,304	7%	7%	7%	7%	12%	12%
Lee Hecht Harrison	229	217	5%	5%	(1)%	(1)%	2%	2%
Adecco Group	**11,702**	**11,028**	**6%**	**6%**	**6%**	**6%**	**100%**	**100%**

1 TDA = trading days adjusted

Revenues by business line[1]

in EUR	Revenues HY 2017	Revenues HY 2016[2]	Variance EUR	Variance Constant currency	Variance Organic	% of total revenues HY 2017	% of total revenues HY 2016
Office	2,856	2,629	9%	8%	9%	25%	24%
Industrial	5,867	5,486	7%	7%	6%	50%	50%
General Staffing	**8,723**	**8,115**	**7%**	**7%**	**7%**	**75%**	**74%**
Information Technology	1,322	1,314	1%	4%	4%	11%	12%
Engineering & Technical	570	546	4%	3%	3%	5%	5%
Finance & Legal	503	496	1%	2%	(6)%	4%	4%
Medical & Science	262	231	13%	11%	11%	2%	2%
Professional Staffing	**2,657**	**2,587**	**3%**	**4%**	**2%**	**22%**	**23%**
CTTD	229	217	5%	4%	(1)%	2%	2%
BPO	93	109	(15)%	(16)%	16%	1%	1%
Solutions	**322**	**326**	**(1)%**	**(3)%**	**3%**	**3%**	**3%**
Adecco Group	**11,702**	**11,028**	**6%**	**6%**	**6%**	**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. BPO included Vendor Management System (VMS) until December 2016, when VMS activities were deconsolidated following the merger with IQNavigator.

2 Certain reclassifications have been made in order to conform to the current period presentation.

EBITA by segment

EBITA and EBITA margin excluding one-offs

in EUR	EBITA excluding one-offs HY 2017	EBITA excluding one-offs HY 2016	EBITA margin excluding one-offs HY 2017	EBITA margin excluding one-offs HY 2016	EBITA margin excluding one-offs Variance	% of EBITA[1] HY 2017
France	161	142	6.3%	6.0%	30 bps	25%
N. America, UK & I. General Staffing	47	51	3.1%	3.4%	(30) bps	7%
N. America, UK & I. Professional Staffing	113	104	5.9%	5.5%	40 bps	18%
Germany, Austria, Switzerland	40	50	3.8%	4.7%	(90) bps	6%
Benelux & Nordics	33	30	3.3%	3.3%	0 bps	5%
Italy	67	53	7.6%	7.6%	0 bps	10%
Japan	49	43	7.4%	6.9%	50 bps	8%
Iberia	24	19	4.7%	4.1%	60 bps	4%
Rest of World	42	35	3.0%	2.7%	30 bps	7%
Lee Hecht Harrison	65	64	28.6%	29.7%	(110) bps	10%
Corporate	(80)	(79)				
Adecco Group	**561**	**512**	**4.8%**	**4.6%**	**20 bps**	**100%**

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

EBITA and EBITA margin by segment

in EUR	EBITA HY 2017	EBITA HY 2016	EBITA Variance % EUR	EBITA Variance % Constant currency	EBITA margin HY 2017	EBITA margin HY 2016	EBITA margin Variance bps EUR
France	161	142	14%	14%	6.3%	6.0%	30
N. America, UK & I. General Staffing	46	51	(9)%	(10)%	3.1%	3.4%	(30)
N. America, UK & I. Professional Staffing	111	104	6%	5%	5.8%	5.5%	30
Germany, Austria, Switzerland	40	50	(20)%	(20)%	3.8%	4.7%	(90)
Benelux & Nordics	33	30	9%	10%	3.3%	3.3%	0
Italy	67	53	26%	26%	7.6%	7.6%	0
Japan	49	43	15%	11%	7.4%	6.9%	50
Iberia	24	19	26%	26%	4.7%	4.1%	60
Rest of World	42	35	21%	23%	3.0%	2.7%	30
Lee Hecht Harrison	65	62	5%	2%	28.6%	28.8%	(20)
Corporate	(80)	(79)					
Adecco Group	**558**	**510**	**9%**	**9%**	**4.8%**	**4.6%**	**20**

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 9 August 2017, 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.

THE ADECCO GROUP

Selected financial information

in millions, except share and per share information

For the six months ended 30 June (in EUR)	2017	2016
Statements of operations		
Revenues	**11,702**	11,028
Gross profit	**2,169**	2,082
Operating income	**543**	492
Net income attributable to Adecco Group shareholders	**368**	334

As of (in EUR)	30.06.2017	31.12.2016
Balance sheets		
Cash and cash equivalents and short-term investments	**1,109**	1,128
Trade accounts receivable, net	**4,399**	4,268
Goodwill	**2,928**	3,051
Total assets	**10,003**	10,099
Short-term debt and current maturities of long-term debt	**754**	345
Accounts payable and accrued expenses	**4,037**	4,031
Long-term debt, less current maturities	**1,322**	1,670
Total liabilities	**6,438**	6,377
Total shareholders' equity	**3,565**	3,722

For the six months ended 30 June (in EUR)	2017	2016
Cash flows from operations		
Cash flows from operating activities	**343**	136
Cash used in investing activities	**(47)**	(105)
Cash flows used in financing activities[1]	**(263)**	(327)
Other indicators		
Capital expenditures	**41**	32

As of	30.06.2017	31.12.2016
Other indicators		
Net debt (in EUR)[2]	**967**	887
Additional statistics		
Number of FTE employees at end of period (approximate)	**33,000**	33,000

1 Certain reclassifications have been made to prior years' amounts or balances in order to conform to the current year presentation.

2 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	30.06.2017	31.12.2016
Assets			
Current assets:			
• Cash and cash equivalents		1,108	1,123
• Short-term investments		1	5
• Trade accounts receivable, net		4,399	4,268
• Other current assets		244	214
Total current assets		**5,752**	**5,610**
Property, equipment, and leasehold improvements, net		168	167
Equity method investments		179	189
Other assets		479	554
Intangible assets, net		497	528
Goodwill		2,928	3,051
Total assets		**10,003**	**10,099**
Liabilities and shareholders' equity			
Liabilities			
Current liabilities:			
• Accounts payable and accrued expenses		4,037	4,031
• Short-term debt and current maturities of long-term debt	2	754	345
Total current liabilities		**4,791**	**4,376**
Long-term debt, less current maturities	2	1,322	1,670
Other liabilities		325	331
Total liabilities		**6,438**	**6,377**
Shareholders' equity			
Adecco Group shareholders' equity:			
• Common shares		106	106
• Additional paid-in capital	3	572	581
• Treasury shares, at cost	3	(133)	(40)
• Retained earnings		3,191	3,058
• Accumulated other comprehensive income/(loss), net	3	(179)	10
Total Adecco Group shareholders' equity		**3,557**	**3,715**
Noncontrolling interests		8	7
Total shareholders' equity		**3,565**	**3,722**
Total liabilities and shareholders' equity		**10,003**	**10,099**

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	2017	2016
Revenues	10	11,702	11,028
Direct costs of services		(9,533)	(8,946)
Gross profit		**2,169**	**2,082**
Selling, general, and administrative expenses		(1,611)	(1,572)
Amortisation of intangible assets		(15)	(18)
Operating income	10	**543**	**492**
Interest expense		(26)	(31)
Other income/(expenses), net	7	2	5
Income before income taxes		**519**	**466**
Provision for income taxes	8	(150)	(131)
Net income		**369**	**335**
Net income attributable to noncontrolling interests		(1)	(1)
Net income attributable to Adecco Group shareholders		**368**	**334**
Basic earnings per share	9	**2.16**	**1.96**
Basic weighted-average shares	9	169,891,620	170,245,955
Diluted earnings per share	9	**2.16**	**1.96**
Diluted weighted-average shares	9	170,227,738	170,440,257

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	2017	2016
Net income		369	335
Other comprehensive income/(loss), net of tax:			
• Currency translation adjustment of long-term intercompany loans (net of tax of, 2017: EUR 2, 2016: EUR 2)		(22)	(22)
• Currency translation adjustment of net investment hedges (net of tax of, 2017: EUR (1), 2016: less than EUR 1)		19	
• Currency translation adjustment excluding long-term intercompany loans and net investment hedges (net of tax of, 2017: less than EUR 1, 2016: less than EUR 1)		(186)	(49)
• Change in fair value of securities (net of tax of, 2017: less than EUR 1, 2016: less than EUR 1)		(1)	1
• Change in net actuarial gain/(loss) on pensions including currency translation adjustment (net of tax of, 2017: less than EUR 1, 2016: less than EUR 1)	4	1	2
Total other comprehensive income/(loss)		(189)	(68)
Total comprehensive income		**180**	**267**
Less comprehensive income attributable to noncontrolling interests		(1)	(1)
Comprehensive income attributable to Adecco Group shareholders		**179**	**266**

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)	2017	2016
Cash flows from operating activities		
Net income	369	335
Adjustments to reconcile net income to cash flows from operating activities:		
• Depreciation and amortisation	54	60
• Other charges	19	2
Changes in operating assets and liabilities, net of acquisitions:		
• Trade accounts receivable	(253)	(286)
• Accounts payable and accrued expenses	122	(9)
• Other assets and liabilities	32	34
Cash flows from operating activities	**343**	**136**
Cash flows from investing activities		
Capital expenditures	(41)	(32)
Acquisition of Penna, net of cash acquired		(122)
Cash settlements on derivative instruments		56
Other acquisition and investing activities, net	(6)	(7)
Cash used in investing activities	**(47)**	**(105)**
Cash flows from financing activities		
Net increase in short-term debt	72	382
Repayment of long-term debt		(316)
Dividends paid to shareholders	(235)	(372)
Purchase of treasury shares	(100)	(20)
Other financing activities, net		(1)
Cash used in financing activities	**(263)**	**(327)**
Effect of exchange rate changes on cash	**(48)**	**(10)**
Net decrease in cash and cash equivalents	**(15)**	**(306)**
Cash and cash equivalents:		
• Beginning of year	1,123	1,137
• End of period	1,108	831
Supplemental disclosures of cash paid		
Cash paid for interest	20	34
Cash paid for income taxes	142	119

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 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**

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 2016	**108**	**721**	**(258)**	**2,782**	**(13)**	**6**	**3,346**
Comprehensive income:							
Net income				334		1	335
Other comprehensive income/(loss)					(68)		(68)
Total comprehensive income							**267**
Stock-based compensation		6					6
Vesting of share awards		(13)	12				(1)
Treasury shares purchased on second trading line			(11)				(11)
Other treasury share transactions			(2)				(2)
Cash dividends, CHF 2.40 per share		(139)		(233)			(372)
30 June 2016	**108**	**575**	**(259)**	**2,883**	**(81)**	**7**	**3,233**

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 (formerly Adecco S.A.), 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 2016 and for the year then ended.

Certain information and footnote disclosures included in the audited consolidated financial statements as of 31 December 2016 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 2016.

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%. 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 2017, the Company sold a portion of the CICE receivables of EUR 180 for cash proceeds of EUR 179 and in June 2016, the Company sold a portion of the CICE receivables of EUR 170 for cash proceeds of EUR 169. Upon sale, the Company derecognised EUR 180 in June 2017 and EUR 170 in June 2016 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 May 2014, the FASB issued an Accounting Standards Update (ASU) 2014-09 "Revenue from Contracts with Customers" (Topic 606): Revenue Recognition (ASU 2014-09) that establishes a broad principle that would require an entity to recognise revenue to depict the performance of services or transfer of promised goods to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services or goods. This guidance requires retrospective adoption either to each prior reporting period presented or as a cumulative effective adjustment as of the date of adoption, and is effective for the first interim period within annual reporting periods beginning after 15 December 2017. Early adoption is permitted from the first interim period within annual reporting periods beginning after 15 December 2016. While the Company continues to evaluate the impact of this guidance on its consolidated financial statements, it currently does not expect this guidance to have a significant impact upon adoption and will adopt this new guidance on 1 January 2018.

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 modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. 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 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 October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory" (ASU 2016-16). The amendment under ASU 2016-16 requires that an entity recognise the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This guidance requires modified retrospective adoption via a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption, and is effective for the first interim period within annual reporting periods beginning after 15 December 2017. Early adoption is permitted from the first interim period within annual reporting periods beginning after 15 December 2016. The Company will adopt this amendment as of 1 January 2018 and is currently assessing the impact of this guidance on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows" (Topic 230): Restricted Cash (ASU 2016-18). The amendment under ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash and cash equivalents, and amounts generally described as restricted cash or restricted cash equivalent. This guidance requires a retrospective transition method adoption to each period presented as of the date of adoption, and is effective for the first interim period within annual reporting periods beginning after 15 December 2017. Early adoption is permitted. The Company will adopt this amendment as of 1 January 2018 and is currently assessing the impact of this guidance on the consolidated statements of cash flows.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business" (ASU 2017-01). The amendments in this ASU clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The amendments in this ASU are effective for fiscal years beginning after 15 December 2017, including interim periods within those fiscal years. Early application is permitted. The amendments in this ASU should be applied prospectively on or after the effective date. No disclosures are required at transition. The Company will adopt this amendment as of 1 January 2018 and does not expect this guidance to have a significant impact on the consolidated financial statements upon adoption.

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 2019. 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 March 2017, the FASB issued ASU 2017-07, "Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost". The amendment in this ASU changes how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. The amendments in this ASU are effective for the first interim period within annual reporting periods beginning after 15 December 2017. Early adoption is permitted. The Company will adopt this amendment as of 1 January 2018 and is currently assessing the impact of this guidance on the consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting." The amendment in this ASU clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Modification accounting will only be required if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The amendments in this ASU are effective prospectively for fiscal years beginning after 15 December 2017, including interim periods within those fiscal years. Early adoption is permitted. The Company will adopt this amendment as of 1 January 2018 and does not expect this guidance to have a significant impact on the consolidated financial statements upon adoption.

Presentation and reclassifications

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

Note 2 • Financing arrangements

The Company's long-term and short-term debt as of 30 June 2017 amounted to EUR 2,076, compared to EUR 2,015 as of 31 December 2016. Short-term debt as of 30 June 2017 amounted to EUR 87 and consisted of borrowings under the French commercial paper programme (EUR 74) and under other lines of credit (EUR 13). Short-term debt as of 31 December 2016 amounted to EUR 18.

Long-term debt

The Company's long-term debt as of 30 June 2017 and 31 December 2016 consists of the following:

in EUR	Principal at maturity	Maturity	Fixed interest rate	30.06.2017	31.12.2016
8-year guaranteed Euro medium-term notes	EUR 500	2024	1.0%	494	494
7-year guaranteed Euro medium-term notes	EUR 500	2022	1.5%	499	499
8-year Swiss Franc fixed rate notes	CHF 125	2020	2.625%	114	116
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%	347	347
5-year Swiss Franc fixed rate notes	CHF 350	2017	1.875%	320	327
Other				1	
				1,989	**1,997**
Less current maturities				(667)	(327)
Long-term debt, less current maturities				**1,322**	**1,670**

Other credit facilities

Committed multicurrency revolving credit facility

The Company maintains a committed EUR 600 multicurrency revolving credit facility with a maturity date of October 2020. 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 0.35% and 1.05% per annum, depending on certain debt-to-EBITDA ratios. A utilisation fee of 0.10%, 0.20%, and 0.40% applies on top of the interest rate, for cash drawings of up to 33.33%, 66.67%, and above 66.67%, respectively, of the total commitment not used for letters of credit. The letter of credit fee equals the applicable margin, and the commitment fee equals 35% of the applicable margin. As of 30 June 2017 and 31 December 2016, there were no outstanding borrowings under the credit facility. As of 30 June 2017, the Company had EUR 586 available under the facility after utilising the Euro equivalent of EUR 14 in the form of letters of credit.

Notes to consolidated financial statements continued

in millions, except share and per share information

Note 3 • Shareholders' equity

Authorised shares and appropriation of available earnings

As of 30 June 2017 and 31 December 2016, Adecco Group AG had 4,166,804 shares of conditional capital reserved for issuance of common shares to employees and members of the Board of Directors upon the exercise of stock options. In addition, as of 30 June 2017 and 31 December 2016, 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. No options were outstanding as of 30 June 2017.

In the first six months of 2017 and the first six months of 2016 the number of treasury shares acquired on the regular trading line amounted to 328,645 and 45,000, respectively, and the net consideration paid amounted to EUR 21 and EUR 3, respectively.

During the six months ended 30 June 2017 and the six months ended 30 June 2016, the Company awarded 10,194 and 12,430 treasury shares, respectively, to the Board of Directors as part of their compensation packages. In addition, in the first six months of 2017 and the first six months of 2016, 268,625 and 240,643 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 250 in November 2014 (completed in January 2016).
- EUR 300 in March 2017.

In the first six months of 2017 and the first six months of 2016 the number of treasury shares acquired under the share buyback programmes amounted to 1,276,050 and 188,000, respectively, and the net consideration paid amounted to EUR 87 and EUR 11, respectively.

At the Annual General Meeting of Shareholders of Adecco Group AG held on 20 April 2017 (2017 AGM), the shareholders approved two dividends for a total of CHF 2.40 per share outstanding. A dividend of CHF 1.50 was directly distributed to shareholders from voluntary retained earnings in May 2017 for EUR 235. The second dividend which resulted in a reduction of CHF 0.90 of the nominal value of the Adecco Group AG share was distributed to shareholders on 24 July 2017 and amounted to EUR 139.

At the 2017 AGM, the shareholders approved the reduction of CHF 0.90 of the nominal value of the Adecco Group AG share, which became effective on 18 July 2017. As of 18 July 2017, the share capital of the Company amounts to CHF 17 divided into 171,156,187 shares with a nominal value of CHF 0.10 per share.

Effective 18 July 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, as approved by the shareholders at the 2017 AGM.

On 18 July 2017, as approved by the shareholders at the 2017 AGM, the 4,166,804 shares of conditional capital reserved for issuance of common shares to employees and members of the Board of Directors upon the exercise of stock options were cancelled.

Accumulated other comprehensive income/(loss), net

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

in EUR	30.06.2017	31.12.2016
Currency translation adjustment	(142)	47
Change in fair value of marketable securities		1
Pension-related adjustments	(37)	(38)
Accumulated other comprehensive income/(loss), net	**(179)**	**10**

In the first six months of 2017 an amount of EUR 1 (net of tax of less than EUR 1) was reclassified from accumulated other comprehensive income/(loss), net to SG&A in the statement of operations in connection with pension-related adjustments.

Note 4 • Employee benefit plans

For the six months ended 30 June 2017 and 30 June 2016, estimated net pension expense for the defined benefit plans are as follows:

	Swiss plan		Non-Swiss plans	
in EUR	2017	2016	2017	2016
Components of pension expense				
Service cost	8	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	
Amortisation of net (gain)/loss		2	1	
Pension expense, net	**5**	**8**	**5**	**3**

Note 5 • 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.

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 2017 and 31 December 2016:

	30.06.2017		31.12.2016	
in EUR	Carrying value	Fair value	Carrying value	Fair value
Non-derivative financial instruments				
Current assets:				
• Cash and cash equivalents	1,108	1,108	1,123	1,123
• Short-term investments	1	1	5	5
• Trade accounts receivable, net	4,399	4,399	4,268	4,268
Current liabilities:				
• Accounts payable	762	762	799	799
• Short-term debt	87	87	18	18
• Current maturities of long-term debt	667	684	327	334
Non-current liabilities:				
• Long-term debt, less current maturities	1,322	1,375	1,670	1,755

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 2 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 2017 and 31 December 2016:

		Notional amount		Fair value	
in EUR	Balance sheet location	30.06.2017	31.12.2016	30.06.2017	31.12.2016
Derivative assets					
Derivatives designated as hedging instruments under ASC 815:					
• Foreign currency contracts	Other current assets	**499**		**17**	
• Interest rate swap	Other current assets	**50**		**1**	
• Interest rate swap	Other assets		50		1
Derivatives not designated as hedging instruments under ASC 815:					
• Foreign currency contracts	Other current assets	**803**	445	**10**	11
• Cross-currency interest rate swap	Other current assets		48		5
Derivative liabilities					
Derivatives not designated as hedging instruments under ASC 815:					
• Foreign currency contracts	Other accrued expenses	**595**	1,256	**(14)**	(29)
• Cross-currency interest rate swap	Other liabilities	**44**		**(2)**	
Total net derivatives				**12**	**(12)**

In addition, as of 30 June 2017 and 31 December 2016, accrued interest receivable on the interest rate swap of less than EUR 1 and less than EUR 1, respectively, was recorded in other current assets. Furthermore, as of 30 June 2017 and 31 December 2016, an accrued interest receivable on the cross-currency interest rate swap 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 2017 and 31 December 2016, the total impact of non-performance risk and liquidity risk was an adjustment of EUR 1 and EUR 5, respectively.

Fair value hedges

An interest rate swap, with a notional amount of EUR 50 that contains a receipt of fixed interest rate amounts and payment of floating interest rate amounts, has been designated as a fair value hedge of the 2018 notes for EUR 500 (outstanding notional amount after bond buyback of EUR 348) issued by Adecco International Financial Services BV. The outstanding contract has an original contract period of six years and expires in April 2018.

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. For the six months of 2016, 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 2017 and 2016, the Company recorded a gain of less than EUR 1 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 significant gains or losses due to ineffectiveness in fair value hedge relationships were recorded in the first six months of 2017 or in the first six months of 2016. No significant gains or losses were excluded from the assessment of hedge effectiveness of the fair value hedges in the first six months of 2017 or the first six months of 2016.

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 2017, and of EUR 1 as of 31 December 2016, respectively.

As of 30 June 2017 and 31 December 2016, no significant gains 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 2017, 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 19 as of 30 June 2017. No gains or losses were recorded due to ineffectiveness in the net investment hedge relationships as of 30 June 2017. As of 30 June 2017, losses of EUR 2 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 gain of EUR 4 and a net gain of EUR 4 in the six months ended 30 June 2017 and the six months ended 30 June 2016, 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	
		2017	2016			2017	2016
Cross-currency interest rate swap	Other income/ (expenses), net	(2)	(1)	Loans, and receivables to/from subsidiaries	Other income/ (expenses), net	3	1
Foreign currency contracts	Other income/ (expenses), net	9	22	Cash, loans, and receivables to/from subsidiaries	Other income/ (expenses), net	(6)	(18)

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.

Note 6 • 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 2017 and 31 December 2016, consistent with the fair value hierarchy provisions of ASC 820 "Fair Value Measurements":

in EUR	Level 1	Level 2	Level 3	Total
30 June 2017				
Assets				
Available-for-sale securities	1		1	2
Derivative assets		28		28
Liabilities				
Derivative liabilities		16		16
31 December 2016				
Assets				
Available-for-sale securities	5		1	6
Derivative assets		17		17
Liabilities				
Derivative liabilities		29		29

Note 7 • Other income/(expenses), net

For the first six months of 2017 and the first six months of 2016, other income/(expenses), net, consist of the following:

in EUR	2017	2016
Foreign exchange gain/(loss), net	1	5
Interest income	3	2
Proportionate net income of equity method investments	7	5
Other non-operating income/(expenses), net	(9)	(7)
Total other income/(expenses), net	**2**	**5**

Note 8 • 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 2017 were provided at a rate of 29%, based on the Company's current estimate of the annual effective tax rate. For the six months ended 30 June 2016, the tax rate was 28%.

The income tax rate in the first six months of 2017 and in the first six months of 2016 includes the positive impact of EUR 2 and EUR 4, respectively, from tax disputes, prior year adjustments, the expiration of the statute of limitations, and other discrete events.

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. As of 30 June 2016 the total amount of unrecognised tax benefits recorded increased by EUR 5 compared to 31 December 2015 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 9 • Earnings per share

The following table sets forth the computation of basic and diluted earnings per share for the six months ended 30 June 2017 and 30 June 2016:

	2017		2016	
in EUR (except number of shares)	**Basic**	**Diluted**	Basic	Diluted
Numerator				
Net income attributable to Adecco Group shareholders	**368**	**368**	**334**	**334**
Denominator				
Weighted-average shares	**169,891,620**	**169,891,620**	**170,245,955**	**170,245,955**
Incremental shares for assumed conversions:				
• Employee stock-based compensation		336,118		194,302
Total average equivalent shares	**169,891,620**	**170,227,738**	**170,245,955**	**170,440,257**
Per share amounts				
Net earnings per share	**2.16**	**2.16**	**1.96**	**1.96**

Notes to consolidated financial statements continued

in millions, except share and per share information

Note 10 • Segment reporting

Effective 1 April 2017 the Company realigned its organisational structure to align with the changes in Executive Committee responsibilities. The Company's operations in North America and UK & Ireland have been combined and are now managed according to the business lines General Staffing and Professional Staffing. Prior year information has been restated to conform to the current year presentation.

The Company is organised in a geographical structure plus the global business Lee Hecht Harrison, 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 and Nordics; Italy; Japan; Iberia; Lee Hecht Harrison; and the Rest of World segments that comprise Australia & New Zealand; Latin America; Eastern Europe, Middle East & North Africa; Asia; and India. 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. BPO included Vendor Management System (VMS) until December 2016, when VMS activities were deconsolidated following the merger with IQNavigator. 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	Lee Hecht Harrison	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	161	46	111	40	33	67	49	65	66	(80)	558
Amortisation of intangible assets											(15)
Operating income											543
Interest expense, and other income/(expenses), net											(24)
Provision for income taxes											(150)
Net income											**369**

in EUR	France	N. America, UK & I. General Staffing	N. America, UK & I. Professional Staffing	Germany, Austria, Switzerland	Benelux and Nordics	Italy	Japan	Lee Hecht Harrison	Other	Corporate	Total
Six months ended 30 June 2016											
Revenues	2,366	1,487	1,912	1,062	909	693	612	217	1,770		11,028
Operating income before amortisation of intangible assets	142	51	104	50	30	53	43	62	54	(79)	510
Amortisation of intangible assets											(18)
Operating income											492
Interest expense, and other income/(expenses), net											(26)
Provision for income taxes											(131)
Net income											**335**

in EUR	France	N. America, UK & I. General Staffing	N. America, UK & I. Professional Staffing	Germany, Austria, Switzerland	Benelux and Nordics	Italy	Japan	Lee Hecht Harrison	Other	Corporate	Total
30 June 2017											
Segment assets	1,585	1,506	1,872	1,266	731	379	386	575	1,068	635	10,003
31 December 2016											
Segment assets	1,567	1,666	1,980	1,233	706	315	377	593	1,048	614	10,099

Notes to consolidated financial statements continued

in millions, except share and per share information

Note 11 • Commitments and contingencies

Guarantees

The Company has entered into certain guarantee contracts and standby letters of credit that total EUR 717, including those letters of credit issued under the multicurrency revolving credit facility (EUR 14). 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 12 • Subsequent events

The Company has evaluated subsequent events through 9 August 2017, the date the financial statements were available to be issued. The CHF 0.90 dividend, approved at the 2017 AGM, from the reduction of the nominal value of the Adecco Group AG share occurred on 18 July 2017. Starting from this date the share capital of the Company amounts to CHF 17 divided into 171,156,187 shares with a nominal value of CHF 0.10 per share. The CHF 0.90 dividend from the reduction of the nominal value of the Adecco Group AG share was distributed to shareholders on 24 July 2017 and amounted to EUR 139. No other significant events occurred subsequent to the balance sheet date but prior to 9 August 2017 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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