

Adecco A/S

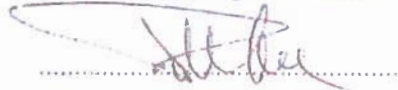
Falkoner Allé 1, 2000 Frederiksberg

CVR no. 12 93 23 75

Annual report 2018

Approved at the Company's annual general meeting on 31 May 2019

Chairman: TORBEN SUAVE

A handwritten signature in black ink, appearing to read 'Torben Suave', is written over a horizontal dotted line.

Building a better
working world



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Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Adecco A/S for the financial year 1 January - 31 December 2018.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018.

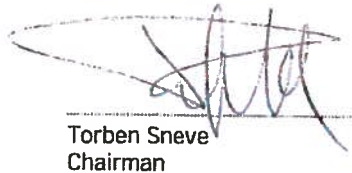
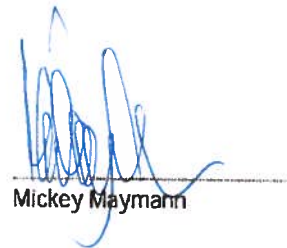

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 31 May 2019
Executive Board:


Mickey Maymann
CEO

Board of Directors:


Torben Sneve
Chairman
Stian Nygård
Mickey Maymann
Mads Hyre-Dybbro

Independent auditor's report

To the shareholders of Adecco A/S

Opinion

We have audited the financial statements of Adecco A/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Emphasis of matter in the financial statements

We draw attention to note 2 to the financial statements, which describes the material uncertainty associated with the outcome of the ultimate resolution of the transfer pricing dispute instituted by the Danish tax authorities (SKAT) and the outcome of legal proceedings instituted by 3F/BJMF against the Company. We have not modified our opinion in respect of this matter.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

Independent auditor's report

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- ▶ Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.


Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 31 May 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Claus Tanggaard Jacobsen
State Authorised Public Accountant
mne23314



Thomas Legarth
State Authorised Public Accountant
mne44099



Management's review

Company details

| | |
|----------------------------|---|
| Name | Adecco A/S |
| Address, Postal code, City | Falkoner Allé 1, 2000 Frederiksberg |
| CVR no. | 12 93 23 75 |
| Established | 1 April 1989 |
| Registered office | Frederiksberg |
| Financial year | 1 January - 31 December |
| Website | www.adecco.dk |
| Board of Directors | Torben Sneve, Chairman Stian Nygård Mickey Maymann Mads Hyre-Dybbro |
| Executive Board | Mickey Maymann, CEO |
| Auditors | Ernst & Young Godkendt Revisionspartnerselskab Osvold Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark |
| Bankers | Nordea Bank Mendes Gans |

Management's review

Financial highlights

| DKK'000 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---------|---------|---------|---------|-----------|
| Key figures | | | | | |
| Revenue | 494,919 | 638,954 | 939,507 | 883,747 | 1,009,517 |
| Gross margin | 452,299 | 596,145 | 891,554 | 841,346 | 967,932 |
| Profit before interest, tax and amortisation of goodwill (EBITA) | -48,625 | -18,854 | 6,524 | 5,722 | 6,863 |
| Ordinary operating profit/loss | -48,625 | -18,854 | 6,523 | 5,721 | 6,863 |
| Net financials | -751 | -1,118 | -1,384 | -532 | -1,012 |
| Profit/loss for the year | -49,376 | -29,717 | 5,139 | 5,196 | 5,831 |
| Balance sheet | | | | | |
| Total assets | 129,060 | 165,643 | 214,700 | 215,178 | 192,969 |
| Investment in property, plant and equipment | 0 | 706 | 1,996 | 511 | 1,430 |
| Equity | 39,048 | 17,324 | 47,041 | 41,902 | 36,706 |
| Financial ratios | | | | | |
| Operating margin | -9.8% | -3.0% | 0.7% | 0.6 % | 0.7 % |
| Gross margin | 91.4% | 93.3% | 94.9% | 95.2% | 95.9% |
| Return on assets | -33.0% | -9.9% | 3.0% | 2.8% | 3.5% |
| Current ratio | 160.1% | 107.3% | 118.4% | 116.2% | 114.8% |
| Return on equity | -175.2% | -92.3% | 11.6% | 13.2% | 17.3% |
| Other | | | | | |
| Average number of employees | 1,148 | 1,463 | 2,002 | 1,833 | 2,175 |

Financial ratios are calculated in accordance with the Danish Finance Society's recommendations. For terms and definitions, please see the accounting policies.

Management's review

Business review

As in previous years, the Company's core activities in the year under review were to render temporary staffing and recruitment assistance. The Company's key business segment is nationwide temporary staffing in the areas of office, canteen, storage & industry, IT, nursing, domestic help, construction, sales and demonstration.

Recognition and measurement uncertainties

Ongoing transfer pricing tax audit

In 2017, the appeal case was set for the Danish National Tax Tribunal, which supported SKAT's claim. The Company and the Adecco Group will continue to defend their position and contest the assessment of SKAT and the Danish National Tax Tribunal. The case has been taken further on to the High Court.

SKAT has raised similar claims for the income years 2010-2013 of DKK 1,194 thousand, which the Company has paid in 2018 in order to avoid interest on the disputed amount. The Company expects that SKAT may also review the period 2014-2018. The accumulated additional potential tax risk associated with the period 2014-2018 approximates DKK 5,645 thousand.

As a result of the ruling of the Danish National Tax Tribunal in 2017 and the uncertainty as to the timing and outcome of the ultimate resolution of the transfer pricing dispute, there is uncertainty as to the recognition and measurement of previous years' income taxes and the income tax provision.

The Company has assessed that the most likely outcome of the ultimate resolution of the transfer pricing dispute will not require further provisions in respect of prior years' income taxes in the income statement. Further reference is made to note 2.

Arbitration cases

During the years 2013-2018, Adecco has supplied associates to Copenhagen Metro Team, which is the main contractor on the Metro project in Copenhagen.

In March 2018, the Union (BJMF) opened three specific cases against Adecco in which they claimed that the realised work in comparison to the working plan was in breach of the collective agreement Jord- og Betonoverenskomsten. The case covers the period 2013-2016. Adecco has challenged the claims. In line with normal procedures, the cases will be handled in an Arbitration Court. Dependent on the outcome of the cases, it is likely that BJMF will use the cases as "test cases" and to the extent possible extrapolate the outcome to the remaining members of the Union.

The arbitration procedure has taken place during spring 2019 and a final meeting is scheduled for 12 June with a clear expectation to receive the final verdict around 19 June on the three specific cases. Further reference is made to note 2.

Based on the preliminary verdict from the Tribunal, it is Management's clear perception that the accrual made in 2018 is sufficient. The claim from the Union is significantly higher but is considered unrealistic and out of proportions for the nuisance by Management. This view is supported by Dansk Byggeri, who is leading the case for Adecco A/S.

The arbitration procedure has taken place during spring 2019 and a final meeting is scheduled for 12 June with a clear expectation to receive the final verdict around 19 June on the three specific cases. Further reference is made to note 2.

Management's review

Financial review

In 2018, the Company's revenue amounted to DKK 494,919 thousand against DKK 638,954 thousand last year. The income statement for 2018 shows a loss of DKK 49,376 thousand against a loss of DKK 29,717 thousand last year, and the balance sheet at 31 December 2018 shows equity of DKK 39,048 thousand. The decline in revenue is mainly driven by lower demand from large clients and finalisation of the Metro project in Copenhagen. The markets for staffing and recruitment is highly competitive, with low entry barriers, and consists of a significant number of competitors. The Company still experiences a significant price pressure on particularly the large clients segment putting the gross margin on some individual projects under pressure, which has an adverse effect on the financial performance. Second half of 2018 was used to adjust the cost base to the lower revenue. The adjustment will have effect as of 2019.

On this basis, Management considers the loss for 2018 as non-satisfactory.

Statutory CSR report

For the statutory report on corporate social responsibility according to the Danish Financial Statements Act §99a, Adecco A/S refers to the Adecco Group's 2018 Sustainability Report, which can be accessed at: <https://www.adecgroup.com/sustainability>

Account of the gender composition of Management

In Adecco A/S, it is our clear objective to ensure diversity in the staff composition - not least at executive level. We believe that diversity can contribute positively to the development and competitiveness of the organisation. Diversity relates to both gender, age and ethnic background and are all an integral part of our Global Code of Conduct. As of January 2019, the gender composition on the executive level is 40% women and 60% men. All members of the Board of Directors are men and it consists of the Regional Management (Regional Manager and Regional Finance Manager) and Local Executive Team (Country Manager and Country Finance Manager). Adecco A/S considers an equal split between the genders as the objective before 2023. However, the composition of the Board of Directors consists of employees of defined internal executive members. A change in the composition requires a change in the internal position, which did not take place during 2018.

As Adecco has a clear policy regarding equal opportunities for all in relation to promotion and career development, it is considered as natural that the gender composition will be at an equivalent level over the coming years (4 years).

At the same time, it should be emphasised that Adecco A/S, at all times, chooses to promote and appoint executive officers - at all levels - not based on gender, but on who is best suited for the job - professionally, technically and personally. As such, both genders are taken into considerations upon promotion and appointment of new executives.

Events after the balance sheet date

Except for the matters described in the section "Recognition and measurement uncertainties" above, no other significant events have occurred subsequent to the balance sheet date.

Outlook

In 2019, Adecco expects that the Company's earnings will improve. They will be driven by adjustment of the cost base as well as an increased focus on the small/medium segment with higher margins. The market for temporary staffing and recruitment assistants will once again be very competitive. In 2018, the Company invested resources in transforming the organisation to become even more agile to meet the increased competition. We expect that revenue for 2019 will be on the same level as in 2018 or with a decrease/increase in the range of +/- 10%.

Financial statements 1 January - 31 December

Income statement

| Note | DKK'000 | 2018 | 2017 |
|------|---|----------|----------|
| 4 | Revenue | 494,919 | 638,954 |
| | Other external expenses | -42,620 | -42,809 |
| | Gross profit | 452,299 | 596,145 |
| 5 | Staff costs | -497,839 | -612,995 |
| | Amortisation/depreciation of intangible assets and property, plant and equipment | -3,085 | -2,004 |
| | Profit/loss before net financials | -48,625 | -18,854 |
| | Financial income | 1 | 30 |
| | Financial expenses | -752 | -1,148 |
| | Profit/loss before tax | -49,376 | -19,972 |
| 6 | Tax for the year | 0 | -9,745 |
| | Profit/loss for the year | -49,376 | -29,717 |

Financial statements 1 January - 31 December

Balance sheet

| Note | DKK'000 | 2018 | 2017 |
|------|--|----------------|----------------|
| | ASSETS | | |
| | Non-current assets | | |
| 7 | Intangible assets | | |
| | Acquired software | 3,952 | 3,285 |
| | | <u>3,952</u> | <u>3,285</u> |
| 8 | Property, plant and equipment | | |
| | Other fixtures and fittings, tools and equipment | 885 | 1,464 |
| | Leasehold improvements | 204 | 372 |
| | | <u>1,089</u> | <u>1,836</u> |
| 9 | Financial assets | | |
| | Other receivables | 2,336 | 1,350 |
| | | <u>2,336</u> | <u>1,350</u> |
| | Total non-current assets | <u>7,377</u> | <u>6,471</u> |
| | Current assets | | |
| | Receivables | | |
| | Trade receivables | 91,500 | 125,543 |
| | Receivables from group entities | 2,724 | 1,721 |
| | Income taxes receivable | 2 | 0 |
| | Other receivables | 0 | 80 |
| 10 | Prepayments | 1,130 | 1,417 |
| | | <u>95,356</u> | <u>128,761</u> |
| | Cash | 26,327 | 30,411 |
| | Total current assets | <u>121,683</u> | <u>159,172</u> |
| | TOTAL ASSETS | <u>129,060</u> | <u>165,643</u> |

Financial statements 1 January - 31 December

Balance sheet

| Note | DKK'000 | 2018 | 2017 |
|------|-------------------------------|---------|---------|
| | EQUITY AND LIABILITIES | | |
| | Equity | | |
| 11 | Share capital | 10,003 | 10,002 |
| | Retained earnings | 29,045 | 7,322 |
| | Total equity | 39,048 | 17,324 |
| | Non-current liabilities | | |
| | Other provisions | 14,000 | 0 |
| | Total non-current liabilities | 14,000 | 0 |
| | Current liabilities | | |
| | Trade payables | 8,014 | 8,414 |
| | Payables to group entities | 214 | 52,752 |
| | Other payables | 67,784 | 87,153 |
| | Total current liabilities | 76,012 | 148,319 |
| | Total liabilities | 90,012 | 148,319 |
| | TOTAL EQUITY AND LIABILITIES | 129,060 | 165,643 |

- 1 Accounting policies
- 2 Uncertainties regarding recognition and measurement
- 3 Events after the balance sheet date
- 12 Contractual obligations and contingencies, etc.
- 13 Contingent assets
- 14 Collateral
- 15 Related parties
- 16 Fee to the auditors appointed by the Company in general meeting

Financial statements 1 January - 31 December

Statement of changes in equity

| Note | DKK'000 | Share capital | Retained earnings | Total |
|------|--|---------------|-------------------|---------|
| | Equity at 1 January 2017 | 10,002 | 37,039 | 47,041 |
| 17 | Transfer, see "Appropriation of profit/loss" | 0 | -29,717 | -29,717 |
| | Equity at 1 January 2018 | 10,002 | 7,322 | 17,324 |
| | Capital increase | 1 | 71,099 | 71,100 |
| 17 | Transfer, see "Appropriation of profit/loss" | 0 | -49,376 | -49,376 |
| | Equity at 31 December 2018 | 10,003 | 29,045 | 39,048 |

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Adecco A/S for 2018 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Omission of a cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The Company's cash flows are part of the consolidated cash flow statement for the Parent Company, Adecco S.A.

Reporting currency

The financial statements are presented in Danish kroner (DKK'000).

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the income statement as financial income or financial expenses.

Leases

The Company has chosen IAS 17 as interpretation for classification and recognition of leases.

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

Income statement

Revenue

The Company has chosen IAS 18 as interpretation for revenue recognition.

The Company generates revenue from the sale of temporary staffing services, permanent placement services, outsourcing services and other services.

Revenue related to temporary staffing services is 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 invoiced according to the agreed terms. Temporary staffing service revenue is recognised upon the rendering of the service.

Revenue related to permanent placement services is generally recognised at the time at which the candidate begins full-time employment, or as the fee is earned. An allowance provision is established based on historical information for any non-fulfillment of permanent placement obligations.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Revenue related to outsourcing services and other services is negotiated with the client on a project basis and is recognised upon rendering of the services. Revenue invoiced prior to providing the services is deferred and recognised in "Other current liabilities" until the services have been rendered.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, royalty, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pensions, as well as other social security contributions, etc., made to the Company's employees and temporary workers. The item is net of refunds made by public authorities.

Amortisation/depreciation and impairment

The item comprises amortisation/depreciation and impairment of intangible assets and property, plant and equipment.

The basis of amortisation/depreciation, which is calculated as cost less any residual value, is amortised/depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

| | |
|--|-----------|
| Acquired software | 3-5 years |
| Other fixtures and fittings, tools and equipment | 3-5 years |
| Leasehold improvements | 3-5 years |

The residual value is determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised. In case of changes in the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts that relate to the financial reporting period. The items comprise interest income and expenses, e.g. from group entities, financial expenses relating to realised and unrealised capital gains and losses, exchange gains and losses and amortisation of financial assets and liabilities.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Balance sheet

Intangible assets

Other intangible assets include software licences and other acquired intangible rights.

Other intangible assets are measured at cost less accumulated amortisation and impairment losses.

Property, plant and equipment

Property plant and equipment comprise other fixtures and fittings, tools and equipment as well as leasehold improvements.

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Costs include the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

Gains or losses are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses.

Impairment of non-current assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Receivables

Receivables are measured at amortised cost.

The Company has chosen IAS 39 as interpretation for impairment of financial receivables.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Cash

Cash comprise cash in banks.

Given the nature of the Group's cash pool arrangement, cash pool balances are not considered cash, but are recognised under "Receivables from group entities" or "Payables to group entities", as applicable.

Provisions

Provisions comprise expected expenses relating to restructurings, etc. Provisions are recognised when the Company has a legal or constructive obligation as a result of a past event at the balance sheet date and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions are measured at net realisable value or at fair value if the obligation is expected to be settled far into the future.

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Provisions for deferred tax are calculated based on the liability method of all temporary differences between carrying amounts and tax values, with the exception of temporary differences occurring at the time of acquisition of assets and liabilities neither affecting the results of operations nor the taxable income.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Other payables

Other payables are measured at net realisable value.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Financial ratios

The financial ratios stated under "Financial highlights" have been calculated as follows:

| | |
|--------------------|---|
| Operating margin | $\frac{\text{Operating profit (EBIT)} \times 100}{\text{Revenue}}$ |
| Gross margin ratio | $\frac{\text{Gross margin} \times 100}{\text{Revenue}}$ |
| Return on assets | $\frac{\text{Profit/loss from operating activities} \times 100}{\text{Average assets}}$ |
| Current ratio | $\frac{\text{Current assets} \times 100}{\text{Current liabilities}}$ |
| Return on equity | $\frac{\text{Profit/loss after tax} \times 100}{\text{Average equity}}$ |

2 Uncertainties regarding recognition and measurement

Ongoing transfer pricing audit

In 2013, the Danish tax authorities (SKAT) raised a claim for an amount of DKK 10,487 thousand against the Company regarding a transfer pricing dispute (the case) in respect of the income years 2006-2009. In order to avoid accrued interest on the disputed amount, should the outcome of the dispute, in whole or in part, be unfavorable for the Company, the Company decided to pay the claimed amount in 2013. In previous years, the Company appealed the case to the Danish National Tax Tribunal (Landsskatteretten) claiming that the position taken by the Company is in accordance with applicable tax rules.

In 2017, the appeal case was set for the Danish National Tax Tribunal, which supported SKAT's claim. The Company and the Adecco Group will continue to defend their position and contest the assessment of SKAT and the Danish National Tax Tribunal. The case has been taken further on to the High Court (Landsretten).

SKAT has raised similar claims for the income years 2010-2013 of DKK 1,194 thousand, which the Company has paid in 2018 in order to avoid interest on the disputed amount. The Company expects that SKAT may also review the period 2014-2018. The accumulated additional potential tax risk associated with the period 2014-2018 is approximately DKK 5,645 thousand.

As a result of the ruling of the Danish National Tax Tribunal in 2017 and the uncertainty as to the timing and outcome of the ultimate resolution of the transfer pricing dispute, there is uncertainty as to the recognition and measurement of previous years' income taxes and the income tax provision.

The Company has assessed that the most likely outcome of the ultimate resolution of the transfer pricing dispute will not require further provisions in respect of prior years' income taxes in the income statement.

Arbitration Cases

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During the years 2013-2018, Adecco has supplied associates to Copenhagen Metro Team, which is the main contractor on the Metro project in Copenhagen.

In March 2018, the Union (BJMF) opened three specific cases against Adecco in which they claimed the realised work in comparison with working plan was in breach of the collective agreement with Jord- og Betonoverenskomsten. The case covers the period 2013-2016. Adecco has challenged the claims. In line with normal procedures, the cases will be handled in an Arbitration Court. Dependent on the outcome of the cases, it is likely that BJMF will use the cases as "test cases" and to the extent possible extrapolate the outcome to the remaining members of the Union.

Based on the preliminary verdict from the Tribunal, it is Management's clear perception that the accrual made in 2018 is sufficient. The claim from the Union is significantly higher but is considered unrealistic and out of proportions for the nuisance by management. This view is supported by Dansk Byggeri, who is leading the case for Adecco A/S.

The arbitration procedure has taken place during spring 2019 and final meeting is scheduled for June 12th with a clear expectation to receive the final verdict around June 19th on the 3 specific cases.

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3 Events after the balance sheet date

Except for the matters described in note 2 above, no other significant events have occurred subsequent to the balance sheet date.

| DKK'000 | <u>2018</u> | <u>2017</u> |
|--|----------------|----------------|
| 4 Segment information | | |
| Breakdown of revenue by business segment: | | |
| Temporary staffing services | 456,280 | 597,138 |
| Permanent staffing, outsourcing and other services | <u>38,639</u> | <u>41,816</u> |
| | <u>494,919</u> | <u>638,954</u> |
| Breakdown of revenue by geographical segment: | | |
| Denmark | <u>494,919</u> | <u>638,954</u> |
| | <u>494,919</u> | <u>638,954</u> |

With reference to section 96 (1) of the Danish Financial Statements Act, the Company does not disclose customer segments of revenue as Management is of the opinion that such disclosure is of significant interest to its competitors and may, therefore, be highly detrimental to the Company.

| DKK'000 | <u>2018</u> | <u>2017</u> |
|---------------------------------------|----------------|----------------|
| 5 Staff costs | | |
| Wages/salaries | 419,572 | 515,293 |
| Pensions | 35,919 | 47,061 |
| Other social security costs | 30,146 | 43,583 |
| Other staff costs | <u>12,202</u> | <u>7,058</u> |
| | <u>497,839</u> | <u>612,995</u> |
| Average number of full-time employees | <u>1,148</u> | <u>1,463</u> |

By reference to section 98b(3), (ii), of the Danish Financial Statements Act, remuneration to Management is not disclosed.

| DKK'000 | <u>2018</u> | <u>2017</u> |
|------------------------------|-------------|--------------|
| 6 Tax for the year | | |
| Tax adjustments, prior years | <u>0</u> | <u>9,745</u> |
| | <u>0</u> | <u>9,745</u> |

Reference is made to note 2 and 3.

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Notes to the financial statements

7 Intangible assets

| DKK'000 | Acquired software |
|--|-------------------|
| Cost at 1 January 2018 | 30,011 |
| Additions in the year | 2,658 |
| Cost at 31 December 2018 | 32,669 |
| Impairment losses and amortisation at 1 January 2018 | 26,726 |
| Impairment losses in the year | 716 |
| Amortisation/depreciation in the year | 1,275 |
| Impairment losses and amortisation at 31 December 2018 | 28,717 |
| Carrying amount at 31 December 2018 | 3,952 |
| Amortised over | 3-5 years |

8 Property, plant and equipment

| DKK'000 | Other fixtures and fittings, tools and equipment | Leasehold improvements | Total |
|--|--|------------------------|--------|
| Cost at 1 January 2018 | 8,354 | 5,091 | 13,445 |
| Additions in the year | 336 | 11 | 347 |
| Cost at 31 December 2018 | 8,690 | 5,102 | 13,792 |
| Impairment losses and depreciation at 1 January 2018 | 6,890 | 4,719 | 11,609 |
| Amortisation/depreciation in the year | 915 | 179 | 1,094 |
| Impairment losses and depreciation at 31 December 2018 | 7,805 | 4,898 | 12,703 |
| Carrying amount at 31 December 2018 | 885 | 204 | 1,089 |
| Depreciated over | 3-5 years | 3-5 years | |

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Notes to the financial statements

9 Investments

| DKK'000 | <u>Other receivables</u> |
|-------------------------------------|--------------------------|
| Cost at 1 January 2018 | 1,350 |
| Additions | 1,195 |
| Disposals in the year | <u>-209</u> |
| Cost at 31 December 2018 | <u>2,336</u> |
| Carrying amount at 31 December 2018 | <u><u>2,336</u></u> |

10 Prepayments

Prepayments include accrual of expenses relating to subsequent financial years.

| DKK'000 | <u>2018</u> | <u>2017</u> |
|---------|-------------|-------------|
|---------|-------------|-------------|

11 Share capital

Analysis of the share capital:

| | | |
|--|----------------------|----------------------|
| 10,003 shares of DKK 1,000.00 nominal value each | <u>10,003</u> | <u>10,002</u> |
| | <u><u>10,003</u></u> | <u><u>10,002</u></u> |

Analysis of changes in the share capital over the past 5 years:

| DKK'000 | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Opening balance | 10,002 | 10,002 | 10,002 | 10,002 | 10,002 |
| Capital increase | <u>1</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| | <u><u>10,003</u></u> | <u><u>10,002</u></u> | <u><u>10,002</u></u> | <u><u>10,002</u></u> | <u><u>10,002</u></u> |

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12 Contractual obligations and contingencies, etc.

Other contingent liabilities

As discussed in note 2, the accumulated additional potential tax risk associated with the transfer pricing dispute for the period 2010-2018 approximates DKK 6,839 thousand.

Adecco A/S is party to a few pending legal actions and arbitration cases. In Management's opinion, the outcome of these legal actions will not further affect the Company's financial position apart from what has already been recognised in the balance sheet at 31 December 2018.

Other financial obligations

Other rent and lease liabilities:

| DKK'000 | 2018 | 2017 |
|----------------------------|-------|-------|
| Rent and lease liabilities | 7,446 | 8,700 |

Rent and lease liabilities include a rent obligation, totalling DKK 6,358 (2017: DKK 7,769 thousand), in interminable rent agreements with remaining contract terms of 0-5 years. Furthermore, the Company has liabilities under operating leases for cars and IT equipment, totalling DKK 1,088 (2017: DKK 930 thousand), with remaining contract terms of 2-3 years.

13 Contingent assets

The Company's tax loss carry-forwards total DKK 181,363 thousand (2017: DKK 149,370 thousand). The nominal value totals DKK 39,899 thousand (2017: DKK 32,861 thousand) using a tax rate of 22% (2017: 22%).

The Company's deferred tax asset has not been recognised in the balance sheet due to uncertainty as to the future utilisation of the tax losses.

14 Collateral

The Company has not put up any security or provided other collateral in assets at the balance sheet date.

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15 Related parties

Adecco A/S' related parties comprise the following:

Parties exercising control

| <u>Related party</u> | <u>Domicile</u> | <u>Basis for control</u> |
|----------------------|-----------------|---------------------------------------|
| Adecco Norway AS | Norway | Immediate Parent Company, shareholder |
| Adecco SA | Switzerland | Ultimate Parent Company |

Information about consolidated financial statements

| <u>Parent</u> | <u>Domicile</u> | <u>Requisitioning of the parent company's consolidated financial statements</u> |
|---------------|-----------------|---|
| Adecco SA | Switzerland | www.adecgroup.com |

Related party transactions

Adecco A/S was engaged in the below related party transactions:

| <u>DKK'000</u> | <u>2018</u> | <u>2017</u> |
|--|-------------|-------------|
| Royalty fees, management costs from parties exercising control | 11,713 | 15,834 |
| Management costs and other costs from other group entities | 3,483 | 4,859 |
| Payables to other group entities | 214 | 1,054 |
| Payables to the Adecco Group cash pool | 0 | 51,698 |
| Receivables to parties exercising controlling entities | 2,724 | 1,721 |

Information on the remuneration to management

Information on the remuneration to Management appears from note 5, "Staff costs".

Ownership

The following shareholders are registered in the Company's register of shareholders as holding minimum 5% of the votes or minimum 5% of the share capital:

| <u>Name</u> | <u>Domicile</u> |
|-------------|---------------------------------|
| Adecco AS | Rosenkrantzgate 16, Oslo, Norge |

| <u>DKK'000</u> | <u>2018</u> | <u>2017</u> |
|--|----------------|----------------|
| 16 Fee to the auditors appointed by the Company in general meeting | | |
| Statutory audit | 157 | 195 |
| Other assistance | 81 | 81 |
| | <u>238</u> | <u>276</u> |
| 17 Appropriation of profit/loss | | |
| Recommended appropriation of profit/loss | | |
| Retained earnings/accumulated loss | <u>-49,376</u> | <u>-29,717</u> |
| | <u>-49,376</u> | <u>-29,717</u> |