Leading in the new world of work

Dear Adecco Group shareholders,

Our new Executive Committee has completed its first full year leading our Company, and it has been a good year for The Adecco Group. Our financial results were steady and solid. We maintained organic[1] revenue growth of 4%, despite the subdued economic environment in 2016. With our 5.0% EBITA[2] margin excluding one-offs[3], we continued to deliver the leading profitability amongst our industry peers, while investing for the future. We generated good cash flow, and we ended the year with a strong balance sheet. As important as our financial performance, we have also been taking the steps necessary to turn our long-term vision for the Company into a reality.

The Adecco Group is the world's leading provider of workforce solutions. Every day, we put more people and more jobs together than anyone else. It is a good business: it generates substantial free cash flow that can be reinvested or returned to shareholders; and returns on capital are strong. The Adecco Group has been at the forefront of the workforce solutions industry for more than 50 years, and is well-positioned to remain there as the industry evolves.

Emerging on the horizon is a new world of work. It brings exciting opportunities for The Adecco Group. Economic, social and technological changes are causing clients and candidates to think differently about jobs and about each other. We foresee a time, only a few years in the future, when the employment market will have evolved significantly – as will the role of workforce solutions providers like The Adecco Group. If we move promptly and decisively, we will be amongst the leaders of this transition – and the leaders of the changed and expanded industry we expect to emerge over time.

The Board of Directors and the Executive Committee have firmly seized this mandate. To maintain and expand our leadership position in the current marketplace, and prepare for the changing world of work, we are developing our business in several areas. Our agenda for doing this has three levels: Perform, Transform, and Innovate.

With Perform, we are strengthening our current operations and enhancing our competitive position, by reinforcing our operating disciplines and improving our efficiency. Actions we are taking include enhancing our IT infrastructure and optimising our portfolio of businesses through performance improvement measures and carefully selected acquisitions and divestments. We are also streamlining our brands, to maximise market power and generate economies of scale. These actions will make us a more valuable service provider, both to those who seek employees and to those who seek employment.

With Transform, we are evolving our business to enhance the solutions and experience that we provide to our clients, candidates, associates and colleagues. We are expanding our capabilities in professional staffing and solutions and in permanent placement. We are also introducing new delivery models and enhancing digitisation across all business lines, reducing manual processes and shrinking our paperwork burden. This will allow us to operate with greater speed, flexibility, transparency, insights, and cost-effectiveness. These actions will benefit us over a two- to three-year timeframe.

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 is defined as operating income before amortisation and impairment of goodwill and intangible assets.

3 In 2016, EBITA included one-offs of EUR 36 million.

As earnings grow over time, so our dividend per share will also grow. And we are committed to holding our DPS at least in line with the prior year, even if EPS temporarily declines.

With Innovate, we are developing and acquiring new approaches and capabilities to capture the opportunities in the changing world of work. We are exploring and experimenting, and we are engaged in multiple pilot projects and market tests. These will help us to address a much larger segment of the workforce, to offer new services to employers, to change our relationship with workers, and to monetise our data. These initiatives give us the opportunity to increase our scale and profitability. And whilst ours will always be a cyclical business, they may also reduce the degree of this cyclicality and possibly raise the bar for existing and potential new competitors. Our horizon here is about five years, but some changes could come faster.

We are pursuing this strategic agenda within the context of our ongoing commitment to invest in the business and return excess capital to shareholders. We have a progressive dividend policy, which comprises two components. First, as earnings grow over time, our dividend per share (DPS) will also grow, within the bounds of a pay-out ratio of 40-50% of adjusted earnings per share (EPS). Second, we are committed to holding our Swiss Franc DPS at least in line with the prior year, even if EPS temporarily declines and the pay-out ratio is exceeded.

At the Annual General Meeting of Shareholders (AGM) on 20 April 2017, the Board of Directors will propose a dividend of CHF 2.40 to shareholders, in line with the prior year. This represents a pay-out ratio of 50% of 2016 adjusted EPS. The amount of the total dividend distribution will be split into two payments. One dividend distribution of CHF 1.50 per registered share will be made from the available earnings; the ex-date for this dividend distribution is 28 April 2017. A second dividend distribution of CHF 0.90 per registered share will be made from a reduction in the nominal value of the Adecco Group AG share, and is therefore expected to be exempt from Swiss withholding tax; the ex-date for this dividend distribution is expected to be 11 July 2017.

In addition to our annual dividend payments, at the end of each year we will review our financial position and excess capital will be returned to shareholders. At 31 December 2016, net debt[4] reduced to EUR 887 million, driven by solid cash flow generation and supported by the EUR 72 million of net proceeds received related to the merger of our Beeline business with IQNavigator. The ratio of net debt to EBITDA[5] excluding one-offs reduced to 0.7x at year end. Given this position, the Board of Directors decided to launch a share buyback programme of up to EUR 300 million.

We end this letter where our Company begins – with The Adecco Group's mission to empower people, fuel economies, and enrich societies. Fulfilling this mission benefits not only shareholders, but employees, candidates, clients, and society at large. In this report, we provide details of the material factors impacting all dimensions of our business, and how our passion for our purpose creates value for all stakeholders of The Adecco Group.

Once again we thank you, our valued shareholders, for your trust and support, as we thank all the clients, associates, colleagues and social partners who work with The Adecco Group worldwide. We enter 2017 with confidence and we look forward to reporting our progress in the coming year.

Rolf Dörig
Chairman of the Board

Alain Dehaze
Chief Executive Officer

We are developing our business with a strategic agenda that has three levels:

Perform

Enhance our competitive position, by reinforcing our foundations, streamlining our business and brand portfolio, and improving our efficiency.

Transform

Evolve our business to enhance the solutions and experience that we provide to our clients, candidates, associates and colleagues.

Innovate

Develop and acquire new approaches and capabilities to capture the opportunities in the changing world of work.

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