E ON AG
Form 6-K
August 15, 2007

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 6-K
REPORT OF FOREIGN ISSUER
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934
For the month of August, 2007
E.ON AG
(Translation of Registrant s Name into English)
E.ON AG
E.ON-Platz 1
D-40479 Düsseldorf
Germany
(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F þ Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No þ

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

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E.ON AG Interim Report II/2007

January 1 June 30, 2007

Adjusted EBIT up 7 percent

Upstream operations considerably expanded

Wind farms in Spain and Portugal acquired

Outlook for full year 2007 unchanged: 5 to 10 percent increase in adjusted EBIT expected

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E.ON Group Financial Highlights

Through the fiscal year ended December 31, 2006, E.ON prepared its consolidated financial statements in accordance with generally accepted accounting principles in the United States (U.S. GAAP), but has adopted International Financial Reporting Standards (IFRS), which are applicable in the European Union, as its primary set of accounting principles as of January 1, 2007. Unless otherwise indicated, the financial data for periods beginning after January 1, 2007, reflected in this presentation have been prepared in accordance with IFRS. This report may contain references to certain financial measures (including forward-looking measures) that are not calculated in accordance with either IFRS or U.S. GAAP and are therefore considered non-GAAP financial measures within the meaning of the U.S. federal securities laws. E.ON presents a reconciliation of these non-GAAP financial measures to the most comparable U.S. GAAP measure or target, either in this presentation or on its website at www.eon.com. Management believes that the non-GAAP financial measures used by E.ON, when considered in conjunction with (but not in lieu of) other measures that are computed in accordance with IFRS or U.S. GAAP, enhance an understanding of E.ON s liquidity and profitability. A number of these non-GAAP financial measures are also commonly used by securities analysts, credit rating agencies, and investors to evaluate and compare the periodic and future operating performance and value of E.ON and other companies with which E.ON competes. These non-GAAP financial measures should not be considered in isolation as a measure of E.ON s profitability or liquidity and should be considered in addition to, rather than as a substitute for, net income, cash provided by operating activities, and the other income or cash flow data prepared in accordance with IFRS or U.S. GAAP. In particular, there are material limitations associated with our use of non-GAAP financial measures, including the limitations inherent in our determination of each of the relevant adjustments. The non-GAAP financial measures used by E.ON may differ from, and not be comparable to, similarly titled measures used by other companies.

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Interim Report II/2007

Dear Shareholders,

The E.ON Group s positive development continued in the second quarter of 2007. We increased sales by 4 percent in the first six months of 2007, from last year s 34.2 billion to 35.6 billion, and adjusted EBIT by 7 percent, from 5.1 billion to 5.4 billion. Net income attributable to shareholders of E.ON AG increased by 26 percent to 4 billion. We continue to expect the E.ON Group s full-year adjusted EBIT to surpass the prior-year level. We expect an increase of 5 to 10 percent.

In late May 2007, we presented our package of initiatives for the E.ON Group s further strategic development. The key topics are strategy and organizational structure, growth, enhancing profitability, and managing our capital structure. We re taking a more European approach towards managing our businesses, particularly trading and power generation, in order to seize the earnings and growth opportunities created by the integration of Europe s energy markets. We re combining all our European trading activities power, gas, coal, oil, and CO_2 emission allowances in a new unit called E.ON Energy Trading. Similarly, a new unit will manage the construction of new coal-fired and gas-fired power plants across Europe. We re also combining and considerably expanding E.ON s renewable-energy and climate-protection activities. We re hard at work implementing these projects. Our acquisition of Dong s wind farms in Spain and Portugal last week represents a decisive step towards achieving these objectives.

At the same time, E.ON will grow significantly. By the end of 2010, we plan to initiate investments totaling 60 billion, 70 percent of which are to achieve further growth. A key focus is the construction of technologically advanced and climate-friendly power plants, for which we ve earmarked 12 billion. We plan to invest 3 billion in renewable energy. We estimate that the acquisition of Endesa assets in Europe and Viesgo will amount to about 10 billion. Together, these investments will increase our generating capacity in Europe by about 50 percent by 2010, further expanding the European footprint of our already excellent and balanced generation portfolio. These investments will also help protect the earth s climate. Our ambitious goal is to reduce, by 2030, our carbon-dioxide emissions per megawatt-hour by about 50 percent compared with 1990 levels. To get there, we intend to substantially expand our renewables capacity and significantly increase our investment in new technological developments. Our new coal-fired power plants will set standards for reducing carbon emissions and will be fitted for subsequent carbon capture and storage (CCS). We re already involved in projects in Germany, the United States, the United Kingdom, and Sweden to develop the advanced technologies necessary to make CCS operational. We intend to invest 10 billion in our gas business. First, we re building new storage facilities, pipelines, and LNG terminals. Second, we re significantly expanding our position as a gas producer. In late July, we acquired 28 percent of Skarv and Idun, important natural gas fields in the Norwegian North Sea. Total investments of just under 2 billion to acquire a stake in the fields and to tap their reserves will bring us a big step towards achieving our goal of sourcing 10 billion cubic meters (bcm) of natural gas from our own production portfolio. For ten years after production begins, our annual share of the fields production will be about 1.4 bcm, enough gas to supply a city of 2.5 million people for one year.

To manage our capital structure going forward, we re using a new steering metric called debt factor, which is equal to the ratio between economic net debt and adjusted EBITDA. At 1.5, E.ON s debt factor at year end 2006 is significantly lower than that of comparable European energy companies. In order to have a more efficient capital structure, we ve defined 3 as our target debt factor. We intend to actively manage our capital structure going forward. If, as is currently the case, our debt factor is significantly below the target, we ll take on more debt through, for example, a higher dividend yield, special dividends, or share buybacks. Our priority, however, will always be on making value-enhancing investments. We aim to achieve a more efficient capital structure by the end of 2008. Our investment program will significantly increase our debt. We re supplementing this program with a roughly 7 billion share buyback which we began in late June 2007 and will complete by the end of 2008.

Our package of initiatives lays the groundwork for the continued successful development of our company, from which you, our shareholders, will benefit.

Sincerely yours,

Dr. Wulf H. Bernotat

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Interim Report II/2007

E.ON Stock

E.ON stock (including the dividend) finished the first six months of 2007 up 24 percent, significantly outperforming other European blue chips as measured by the EURO STOXX 50 (+10 percent) and its peer index, the STOXX Utilities (+11 percent). The trading volume of E.ON stock climbed by nearly 40 percent year on year to 70.3 billion, making E.ON the fourth most-traded stock in the DAX index of Germany s top 30 blue chips. As of June 29, 2007, E.ON was the second-largest DAX stock in terms of market capitalization.

E.ON stock is listed on the New York Stock Exchange as American Depositary Receipts (ADRs). The conversion ratio between E.ON ADRs and E.ON stock is three to one. The value of three E.ON ADRs is effectively that of one share of E.ON stock.

On June 27, 2007, E.ON began its previously announced share buyback program under which it will buy 7 billion of its own stock by the end of 2008, with roughly half being purchased this year. The shares will subsequently be cancelled, thereby reducing E.ON s capital stock. The share buyback program is an important step towards optimizing E.ON s capital structure. It will also increase the attractiveness of E.ON stock, since it will positively influence earnings per share and the dividend yield.

Visit eon.com for the latest information about E.ON stock.

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Interim Report II/2007
Interim Group Management Report

Business and Operating Environment

Conversion of Group Reporting Policies to International Financial Reporting Standards (IFRS)

Through the end of the 2006 financial year, E.ON AG prepared its Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Effective January 1, 2007, we apply International Financial Reporting Standards (IFRS), which deviate substantially from U.S. GAAP in a number of respects. Detailed explanatory notes on the conversion of Group Reporting Policies to IFRS and IFRS reconciliations can be found on pages 34 and 52-59 of the Condensed Consolidated Interim Financial Statements and on pages 60-61. Until we publish complete Consolidated Financial Statements under IFRS for the year ending December 31, 2007, the financial information in this report will remain preliminary due to possible changes to individual reporting standards.

Energy Price Developments

Throughout the first half of 2007, European power and natural gas markets were driven by three main factors:

- international oil, coal, and Co_2 prices
- warm weather
- the hydrological balance in the Nordic region.

Although prices declined on most European gas and power markets in the first weeks of the year, they rose again starting in March in response to higher coal, oil, and phase-two Co_2 prices.

The price of Brent crude oil increased significantly beginning in January due to renewed tension in the Middle East and Nigeria and lower oil-product inventories in the United States. At the end of June, Brent was quoted at $71 per barrel, about $17 per barrel higher than in January.

Coal prices have moved continually higher this year, particularly in the second quarter. In June, coal was selling for $81 per metric ton, the highest level since June 2004. The increase was mainly due to sustained strong demand in the Pacific market, high freight rates (which account for about 35 percent of the price of coal), and loading problems in Australian ports.

Germany s average natural gas import prices, which are indexed mainly to heating oil prices, decreased during the first months of 2007 but over the coming months are expected to reflect the oil price increases seen since January.

Unseasonably warm winter weather pushed down U.K. natural gas prices in January and February. With rising oil prices, U.K. gas prices increased in March but since then have remained almost unchanged as a result of good supply.

Despite high storage inventories, U.S. natural gas prices moved higher due to unusually warm weather (which increased the demand for peaking power provided by gas-fired generating units) and updated hurricane forecasts.

Two factors caused Co_2 prices for phase one (2005-2007) of the European Emissions Trading Scheme (ETS) to stabilize at less than 1 per metric ton. First, installations affected by the ETS will be able to meet their carbon-emission cap. It is widely expected that phase one of the ETS will be oversupplied. Second, phase-one allowances cannot be used for phase two (2008-2012).

Phase-two prices increased in response to high oil and gas prices and the EU Commission s decision to reduce the caps on installations proposed by the member states. In addition, member states will be able to import significantly fewer credits for emission reductions achieved outside the EU.

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Interim Report II/2007

Wholesale power prices across Europe remained heavily influenced by fuel and Co_2 prices. Since March 2007, German and Nordic power prices increased on the back of higher coal and Co_2 prices. Nordic power prices were also influenced by lower water reservoir levels. U.K. prices tracked Co_2 and natural gas prices. Forward power prices in the United States increased, following the trend set by U.S. natural gas prices.

Power and Gas Sales

The E.ON Group increased its power sales volume by 12 percent, from 215.4 billion kWh in the first half of 2006 to 241.1 billion kWh in the first half of 2007. Central Europe s 16-percent increase in volume is predominantly attributable to significantly higher deliveries onto its network of electricity pursuant to Germany s Renewable Energy Law. U.K. sold slightly more electricity, while Nordic sold 8 percent more and U.S. Midwest 5 percent more. The respective factors were higher sales volumes at the Nord Pool, Northern Europe s energy exchange, and favorable temperatures compared with the first half of 2006 in Kentucky.

Natural gas sales volumes declined by 8 percent year on year from 671.4 billion kWh to 618.4 billion kWh, mainly due to higher temperatures in Europe compared with the prior-year period. Warmer weather reduced sales volumes by 7 percent at Pan-European Gas, 16 percent at Central Europe, 3 percent at U.K., and 32 percent at Nordic. By contrast, U.S. Midwest sold 19 percent more natural gas primarily due to low temperatures in the Midwestern United States at the beginning of the year.

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Earnings Situation

Sales up 4 Percent

Increased sales at the Central Europe, U.K., and Nordic market units are partially attributable to higher electricity sales volumes. Higher average electricity prices constituted the main factor at Central Europe and U.K. In addition, Central Europe benefited from significantly higher deliveries onto its network of electricity pursuant to Germany s Renewable Energy Law and from business expansion, particularly in Italy. Sales at Pan-European Gas were lower primarily due to a weather-driven decline in sales volumes in the midstream business and lower sales prices in the upstream business. The decline in U.S. Midwest s sales is due exclusively to exchange rates.

Adjusted EBIT7 Percent above Prior-Year Figure

Adjusted EBIT, E.ON s key figure for purposes of internal management control and as an indicator of a business s long-term earnings power, is derived from income/loss (-) from continuing operations before income taxes and interest and similar expenses (net) and is adjusted to exclude certain extraordinary items. The adjustments include interest and similar expenses (net) (which is adjusted using economic criteria and excludes certain special items), book gains and losses on disposals, and other nonoperating income and expenses of a nonrecurring or rare nature (see commentary on page 51).

The U.K. market unit made a key contribution to the E.ON Group s improved adjusted EBIT, primarily due to lower procurement costs. The supply shortage in Great Britain in early 2006 had increased these costs considerably. Central Europe s adjusted EBIT was positively affected by the development of electricity prices and negatively affected by a temperature-driven decline in natural gas sales volumes. Nordic s adjusted EBIT rose on higher electricity sales volumes. Adjusted EBIT at Pan-European Gas was down year on year due mainly to a weather-driven decline in sales volumes and lower earnings from storage valuation. U.S. Midwest s adjusted EBIT was slightly lower due to currency factors.

Net Income Significantly above Prior-Year Level

Net income attributable to shareholders of E.ON AG of 4 billion and corresponding earnings per share of 6.02 were both 26 percent above the prior-year level.

Adjusted interest expense (net) improved by 87 million compared with the prior year. A lower net interest expense for pensions resulting from higher anticipated income from plan assets, particularly at the Central Europe market unit, was the main factor.

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Net book gains in the first half of 2007 were about 730 million above the prior-year figure and resulted, as in the first half of 2006, primarily from the sale of securities at Central Europe.

Other nonoperating earnings primarily reflect the marking to market of derivatives in the amount of 245 million. The roughly 1 billion increase from the prior-year figure of - 778 million is attributable to positive earnings effects at U.K., Pan-European Gas, and Nordic. By contrast, costs relating to the Endesa acquisition plan (301 million) and the storm in Sweden in early 2007 (95 million) adversely affected other nonoperating earnings.

Income/Loss (-) from continuing operations before income taxes rose considerably relative to the prior-year figure. The main factors were higher net book gains and the positive effect of the marking to market of derivatives along with the improvement in adjusted EBIT.

Our continuing operations recorded a tax expense of 1.3 billion in the first half of 2007. This represents a tax rate of 23 percent compared with 28 percent in the prior-year period. The decline is mainly attributable to a higher share of tax-free income.

Income/Loss (-) from discontinued operations, net, contains the results of Western Kentucky Energy, which is held for sale. Pursuant to IFRS, its results are reported separately in the Consolidated Statements of Income. The prior-year figure also includes earnings from our shareholdings in E.ON Finland (sold in June 2006) and in Degussa (sold in July 2006) (see commentary on pages 46-47).

Adjusted Net Income 9 Percent above Prior-Year Figure

Net income reflects not only our operating performance but also special effects such as the marking to market of derivatives. Adjusted net income is an earnings figure after interest and similar expenses (net), income taxes, and minority interests that has been adjusted to exclude certain special effects. The adjustments include the marking to market of derivatives, book gains and losses on disposals, as well as other non-operating income and expenses (after taxes and minority interests) of a special or rare nature. Adjusted net income also excludes income/loss (-) from discontinued operations and from the cumulative effect of the IFRS conversion (after taxes and minority interests) as well as special tax effects. Special tax effects relate to the consequences of changes in the tax laws in Germany and the United Kingdom.

Financial Condition

Investments Significantly above Prior-Year Level

The E.ON Group s investments in the period under review were 27 percent above the prior-year figure. We invested 2.6 billion in property, plant, and equipment and intangible assets compared with 1.5 billion in the prior year. Share investments totaled 0.1 billion versus 0.6 billion in the prior year.

Central Europe invested 222 million more in the first half of 2007 than in the prior-year period. Investments in property, plant, and equipment and intangible assets totaled 943 million (prior year: 667 million). Investments in power generation were 252 million higher, mainly due to ongoing generation projects in Germany and Italy. Share investments of 104 million were 54 million below the prior-year level.

Pan-European Gas invested 1,174 million. Of this figure, 288 million (prior year: 151 million) went towards property, plant, and equipment and intangible assets. Share investments of 886 million (prior year: 432 million) almost exclusively reflect the intragroup acquisition of Contigas Deutsche Energie-AG from the Central Europe market unit. A corresponding deduction was taken at the Corporate Center level.

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U.K. s investments were 316 million higher primarily due to increased additions to property, plant, and equipment. The non-regulated business increased investment in the development of new generation capacity and gas storage. Expenditure in the regulated business increased as a result of allowance under the five-year regulation review.

Nordic invested 124 million more than in the prior year. Nordic invested 393 million (prior year: 223 million) in intangible assets and property, plant, and equipment to maintain and expand existing production plants and to upgrade and extend the distribution network. Share investments totaled 5 million compared with 51 million in 2006.

U.S. Midwest s investments increased compared with the prior year primarily due to increased spending for SO_2 emissions mitigation equipment and the new baseload unit under construction at the Trimble County 2 plant. This unit is expected to enter service in 2010.

Cash Flow Considerably Higher, Financial Position Strengthened

Management s analysis of E.ON s financial condition uses, among other financial measures, cash provided by operating activities, free cash flow, net financial position, and economic net debt.

The E.ON Group s cash provided by operating activities in the first six months of 2007 was 72 percent above the prior-year level.

The increase in Central Europe s cash provided by operating activities is mainly attributable to positive effects relating to working capital, intragroup tax offsets, and the consolidation of Versorgungskasse Energie. A higher gross margin in the electricity business was offset by a temperature-driven decline in gas margins.

Pan-European Gas recorded a significant improvement in cash provided by operating activities in the first half of 2007. One reason was the inclusion of the E.ON Földgáz companies, which did not become consolidated E.ON companies until March 31 of the prior year. Another positive effect in the current-year period related to the injection and withdrawal of gas at E.ON Ruhrgas AG storage facilities, which more than offset the negative effects in the Up-/Midstream business in the first quarter of 2007.

U.K. s cash provided by operating activities was significantly higher year on year. The improvement was mainly due to the avoidance of first quarter 2006 gas issues caused by supply problems and cold weather, recovery of aged debt, and retail price rises offset by higher commodity costs. Working capital decreased following the retail price reduction in April, reducing debt outstanding.

Nordic s cash provided by operating activities increased slightly. Positive effects from higher power sales volumes and improvements in working capital were offset by cash-effective costs for the January storm and by higher income tax payments.

Cash provided by operating activities at U.S. Midwest was lower mainly due to increased pension contributions made in the first half of 2007.

The Corporate Center s cash provided by operating activities was significantly below the prior-year level, primarily due to lower external tax refunds.

In general, surplus cash provided by operating activities at Central Europe, U.K., and U.S. Midwest is lower in the first quarter of the year (despite the high sales volume typical of this season) due to the nature of their billing cycles, which in the first quarter are characterized by an increase in receivables combined with cash outflows for goods and services. During the remainder of the year, there is typically a corresponding reduction in working capital, resulting in surplus cash provided by operating activities, although sales volumes in these quarters (with the exception of U.S. Midwest) are actually lower. The fourth quarter is characterized by an increase in working capital. At Pan-European Gas, by contrast, cash provided by operating activities is recorded principally in the first quarter, whereas there are cash outflows for intake at gas storage facilities in the second and third quarters.

We define free cash flow as cash provided by operating activities less investments in intangible assets and property, plant, and equipment. Due to the increase in cash provided by operating activities, free cash flow was 74 percent above the prior-year number despite higher investments in property, plant, and equipment and in intangible assets.

Net financial position equals the difference between our total financial assets and our total financial liabilities. Our net financial position of 499 million was 636 million above the figure reported as of December 31, 2006 (- 137 million). High free cash flow (2.2 billion) and proceeds from disposals (0.6 billion) served to improve our net financial position during the first half of 2007. By contrast, the dividend payout including the related tax payment (- 2.2 billion) resulted in substantial cash outflow. To increase transparency, since December 31, 2006, we also include financial liabilities to affiliated companies and to associated companies in our net financial position. Our financial position as of June 30, 2006, was adjusted accordingly.

Besides financial liabilities, there are other line items, such as provisions for pensions and provisions for asset retirement and similar obligations, that are debt-like. Financial assets include liquid funds and long-term securities and funds that are attributable to, and earmarked for, these provisions. Starting with the first quarter of 2007, we are reporting a new key figure, economic net debt, to provide a more meaningful description of the E.ON Group s actual financial situation.

This key figure supplements net financial position with provisions for pensions and provisions for asset retirement and similar obligations (less prepayments).

Provisions for pensions declined compared with year end 2006 mainly due to actuarial gains attributable to higher interest rates used to calculate the defined benefit obligation.

Following the announcement of our new investment plan for the period 2007-2010, on May 31, 2007, Moody s confirmed its long-term rating for E.ON at A2 with a stable outlook. Previously, Moody s had downgraded its long-term rating for E.ON from Aa3 to A2 after we signed an agreement with Enel and Acciona to acquire certain assets. Moody s short-term rating for E.ON was unchanged at P-1.

On June 12, 2007, Standard & Poor s lowered its long-term rating for E.ON from AA- to A (stable outlook) and its short-term rating from A-1+ to A-1 following the announcement of E.ON s revised strategy on May 31, 2007.

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Asset Situation

At the end of the first half of 2007, long-term assets and short-term assets accounted for 76 percent and 24 percent, respectively, of total stockholders equity and liabilities, unchanged from year end 2006. Total stockholders equity and liabilities at the balance-sheet date were slightly below the level as of December 31,2006.

At 41 percent, our equity ratio was almost unchanged from year end 2006.

The following key figures underscore that the E.ON Group continues to have a solid asset and capital structure:

Long-term assets are covered by stockholders equity at 54 percent (year end 2006: 53 percent).

Long-term assets are covered by long-term capital at 103 percent (year end 2006: 102 percent).

Employees

On June 30, 2007, the E.ON Group had 82,288 employees worldwide, about 2 percent more than at year end 2006. E.ON also had 1,999 apprentices and 262 board members and managing directors.

At the end of the second quarter of 2007, 47,770 employees, or 58 percent of all staff, were working outside Germany, essentially unchanged from year end 2006.

The slight increase in Central Europe s workforce compared with year end 2006 was due primarily to the hiring of former apprentices in Germany who had completed their training.

The number of employees at Pan-European Gas declined mainly due to efficiency-enhancement measures at E.ON Gaz România.

Additions primarily to sales staff at U.K. and the hiring of seasonal staff for the summer months at Nordic were responsible for the workforce increases at these market units. The number of employees at U.S. Midwest did not change significantly.

At the end of June 2007, the Corporate Center had 45 more employees than at year end 2006, primarily because E.ON Academy and E.ON Montan, which had previously not been consolidated E.ON companies, were merged into E.ON AG.

During the reporting period, wages and salaries including social security contributions and retirement payments totaled 2.3 billion, compared with 2.3 billion a year ago.

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Risk Situation

In the normal course of business, we are subject to a number of risks that are inseparably linked to the operation of our businesses.

Energy production and distribution involves technologically complex facilities. Operational failures or extended production stoppages of facilities or components of facilities could adversely impact our earnings situation. We minimize these risks through ongoing employee training and qualification programs and regular maintenance and enhancement of our facilities.

Our operations expose us to interest-rate, currency, and counterparty risks as well as commodity price risks for electricity, natural gas, coal, oil, and carbon dioxide. We minimize these risks through the use of instruments suited to this purpose.

Our market units operate in an international market environment characterized by general risks related to the business cycle and by increasingly intense competition. We use a comprehensive sales management system and intensive customer management to minimize the price and volume risks faced by our power and gas business on liberalized markets.

The political, legal, and regulatory environment in which the E.ON Group does business is a source of additional external risks. Changes to this environment can make planning uncertain. Our goal is to play an informed and active role in shaping our business environment. We pursue this goal by engaging in a systematic and constructive dialog with government agencies and policymakers. Currently, the following issues are of particular relevance:

In late April, the German federal cabinet agreed to amendments to the Law Against Anticompetitive Behavior which will lead to a considerable broadening of antitrust oversight in Germany s electricity and natural gas markets. In the future, companies that individually or jointly have a dominant position in these markets may not charge prices or demand commercial conditions that are less favorable than those of other companies in comparable markets or charge prices that disproportionately exceed their costs. E.ON expects the implementation of these provisions to considerably impede competition in Germany s energy markets but is currently unable to quantify the effects on E.ON. The new anticompetitive behavior provisions expire at the end of 2012.

As part of an anticompetitive practices case, the German Federal Cartel Office (FCO) is investigating the treatment of CO_2 emission allowances as a cost factor in the price of electricity. A fundamental principle of emissions trading is that treating emission allowances as a cost factor provides an incentive to reduce CO_2 emissions. The FCO is currently investigating whether it is an anti competitive practice to factor CO_2 emission allowances into the price of electricity although the allowances were allocated at no cost.

The EU Commission carried out investigations at the premises of several energy companies in Europe, including E.ON AG and some of its affiliates, in May and December 2006 and subsequently submitted requests for information regarding different regulatory and energy-market-related issues to E.ON Energie and E.ON Ruhrgas. The two companies have now responded to these requests. On July 18, 2007, the Commission initiated antitrust proceedings against E.ON Ruhrgas and Gaz de France. The proceedings possibly relate to an agreement made in 1975 an agreement that was rescinded several years ago and, moreover, had no practical significance regarding the transport of natural gas via the Megal gas pipeline in which E.ON Ruhrgas and Gaz de France have owner ship interests. The Commission points out that the initiation of proceedings does not imply that there is conclusive proof of an infringement.

E.ON Ruhrgas filed a complaint with the State Superior Court in Düsseldorf against the FCO s order of January 13, 2006, relating to long-term gas supply contracts. In this main case, E.ON Ruhrgas is contesting the FCO s competitive injunction which forbids E.ON Ruhrgas from competing to supply a certain portion of municipal utilities gas needs even it meets the volume and contract-duration requirements defined by the FCO. For example, if a municipal utility has a four-year contract with E.ON Ruhrgas covering 80 percent of its gas supply needs and, two years later, asks for bids to supply the remaining 20 percent of its needs, E.ON Ruhrgas is not allowed to submit a bid. The State Superior Court in Düsseldorf heard oral arguments in this case on July 11, 2007. We are still awaiting the outcome of the proceedings. Following its

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Interim Group Management Report
preliminary analysis, the transparent;white-space:nowrap;">

		194	1,273	606
Total sales	2,887	2,620	8,345	7,659
Cost of goods and occupancy costs:				
Products	1,906	1,877	5,534	5,461
Services	295	110	862	344
Total cost of goods and occupancy costs 20				

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E.ON UK is currently looking at options to develop further power plants in the United Kingdom over the next few years. The objective is to deliver secure energy supplies, reduce CO_2 emissions to tackle the challenge of climate change, and keep energy as affordable as possible for our customers.

During the first half of 2007, work continued on Stags Holt and Robin Rigg wind farms. E.ON UK also continued to generate from biomass by co-firing with coal at Kingsnorth and Ironbridge power stations. The wood-burning plant at Lockerbie is still scheduled for commercial operation during the fourth quarter of 2007. Construction has also commenced on a 1,200 MW gas-fired station with combined heat and power at our Isle of Grain site in Kent.

E.ON UK has applied for consent to build a 1,200 MW CCGTat the site of one of its former coal-fired stations at Drakelow in Derbyshire.

Sales and Adjusted EBIT

E.ON UK increased its sales in the first six months of 2007 compared with the prior year primarily due to price increases in the retail business and higher sales volumes from the Energy Wholesale business. E.ON UK delivered an adjusted EBIT of 741 million in the first half of 2007, of which 266 million was in the regulated business and 535 million in the non-regulated business.

Adjusted EBIT at the regulated business increased by 35 million principally due to tariff increases.

Adjusted EBIT at the non-regulated business increased by 276 million. The key features are the avoidance of the high gas input costs during the first quarter of 2006 caused by the gas supply issues and cold weather, as well as retail price rises in 2007 offset by lower retail sales volumes due to warmer weather and lower customer numbers.

Adjusted EBIT recorded under Other/Consolidation was 25 million lower, mainly due to higher hedging costs associated with foreign-exchange movements.

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Interim Report II/2007
Market Units

Nordic

Market Development

The Nordic region consumed about 204 billion kWh of electricity during the first half of 2007, 6 billion kWh less than in the same period in 2006. However, consumption in the second quarter was on par with 2006 despite the warmer weather.

Net power flow between the Nordic region and surrounding countries turned from a net import during the first quarter to a net export during the second. Consequently, first-half imports and exports were almost in balance. Net exports to Germany were 4 billion kWh compared with 2.3 billion kWh in 2006. The hydrological situation was above normal during the first half of 2007.

Power Sales

E.ON Nordic sold 1.9 billion kWh more electricity than in the first half of 2006, mainly due to increased sales at Nord Pool, Northern Europe s energy exchange. This was primarily a result of higher hydropower production. Sales to residential and commercial customers decreased by 0.9 billion kWh relative to the prior year due to milder weather and increased competition.

Power Generation and Procurement

E.ON Nordic s owned generation increased by 1.2 billion kWh relative to the prior year. Hydropower production was above normal due to higher reservoir inflow during the last quarter of 2006 and the first quarter of 2007. Nuclear power production was below the prior year mainly due to the late restart of E.ON s Oskarshamn 1 nuclear plant following the incident at Forsmark in July 2006. Purchases from outside sources increased significantly, driven mainly by cross-border trading activities.

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Gas and Heat Sales

Heat sales decreased as a consequence of milder weather at the beginning of the year. Gas sales were 1.2 billion kWh below the prior-year figure due to increased competition and milder weather.

Sales and Adjusted EBIT

Nordic s sales increased by 212 million compared with the prior year. Sales in the non-regulated business increased as a result of significantly higher electricity volumes sold to Nord Pool and the positive impact of hedging activities. The increase in power sales was to some extent offset by declining gas and heat sales. Sales in the regulated business decreased by 13 million primarily due to lower distributed gas volumes.

Nordic s adjusted EBIT increased by 50 million year on year to 475 million. Compared with the prior-year period, adjusted EBIT for the non-regulated business was positively impacted by higher electricity volumes and successful hedging for the production portfolio. This was to some extent offset by the decline in spot prices. Adjusted EBIT at the regulated business was almost unchanged from the prior year. Lower volumes in the electricity distribution business were counteracted by lower costs for line loss, mainly as a result of lower spot prices. The gas distribution business was negatively affected by lower volumes, resulting in a slightly lower adjusted EBIT.

On January 14, 2007, a storm in southern Sweden caused substantial damage to the electricity distribution system in some areas. The costs of repair work and compensation of customers are approximately 95 million. Storm-related costs will not affect adjusted EBIT, as this event was exceptional in nature.

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Interim Report II/2007
Market Units

U.S. Midwest

Market Development

Electricity consumption in the Midwestern United States increased by approximately 3 percent in the first half of 2007, as compared with the same period in 2006, due to increased demand caused by colder-than-normal weather in February and higher economic growth.

Power and Gas Sales

Regulated utility retail power sales volumes increased in 2007 compared with 2006, primarily due to colder weather in February and warmer weather in May and June. Off-system power sales volumes were lower in 2007, primarily due to less generation available and lower market prices.

Gas sales increased in 2007 compared with 2006, primarily due to colder weather in the beginning of 2007 and market factors that produced opportunities for off-system gas sales.

Power Generation and Procurement

U.S. Midwest generated more electricity at its own power plants in the first half of 2007 due to improved unit performance and higher power sales compared with the prior-year period.

U.S. Midwest s attributable generating capacity was unchanged from year end 2006.

Coal-fired power plants accounted for 98 percent of U.S. Midwest s owned generation for the first half of 2007, while gas-fired and hydro generating assets accounted for the remaining 2 percent.

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Sales and Adjusted EBIT

U.S. Midwest s sales in the first half of 2007 were lower compared with last year, primarily due to the stronger euro. In local currency, sales were slightly higher, with higher retail volumes partially offset by lower gas prices.

U.S. Midwest s adjusted EBIT decreased by 7 percent. The decrease is attributable to the stronger euro, as adjusted EBIT in local currency was flat. Lower gas margins as a result of the timing of gas cost recoveries from customers and lower off-system electric sales were mostly offset by higher retail electric volumes.

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Interim Report II/2007

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the Interim Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Interim Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Düsseldorf, August 14, 2007

The Board of Management

Bernotat	Bergmann	Dänzer-Vanotti
Feldmann	Schenck	Teyssen

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Interim Report II/2007

Review Report

To E.ON AG, Düsseldorf

We have reviewed the Condensed Consolidated Interim Financial Statements comprising the balance sheet, income statement, condensed cash flow statement, statement of recognized income and expense and selected explanatory notes and the Interim Group Management Report of E.ON AG, Düsseldorf, for the period from January 1 to June 30, 2007, which are parts of the half-year financial report pursuant to § (Article) 37w WpHG (Wertpapierhandelsgesetz : German Securities Trading Act). The preparation of the Condensed Consolidated Interim Financial Statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the Interim Group Management Report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company s Board of Managing Directors. Our responsibility is to issue a review report on the Condensed Consolidated Interim Financial Statements and on the Interim Group Management Report based on our review.

We conducted our review of the Condensed Consolidated Interim Financial Statements and the Interim Group Management Report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standard on Review Engagements Review of Interim Financial Information Performed by the Independent Auditor of the Entity (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the Condensed Consolidated Interim Financial Statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the Interim Group Management Report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the Condensed Consolidated Interim Financial Statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the Interim Group Management Report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Düsseldorf, August 14, 2007

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Vogelpoth	Laue
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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Interim Report II/2007

Notes to the Condensed Consolidated Interim Financial Statements

(1) Basis of Presentation

Based in Germany, the E.ON Group (E.ON or the Group) is an international group of companies with integrated electricity and gas operations. The Group is organized around five defined target markets:

The Central Europe market unit, led by E.ON Energie AG (E.ON Energie), Munich, Germany, operates E.ON s integrated electricity business and the downstream gas business in Central Europe.

Pan-European Gas is responsible for the upstream and midstream gas business. Moreover, this market unit holds predominantly minority shareholdings in the downstream gas business. This market unit is led by E.ON Ruhrgas AG (E.ON Ruhrgas), Essen, Germany.

The U.K. market unit encompasses the integrated energy business in the United Kingdom. This market unit is led by E.ON UK plc (E.ON UK), Coventry, U.K.

The Nordic market unit, which is led by E.ON Nordic AB (E.ON Nordic), Malmö, Sweden, focuses on the integrated energy business in Northern Europe. It operates through the integrated energy company E.ON Sverige AB (E.ON Sverige), Malmö, Sweden.

The U.S. Midwest market unit, led by E.ON U.S. LLC (E.ON U.S.), Louisville, Kentucky, U.S., is primarily active in the regulated energy market in the U.S. state of Kentucky.

The Corporate Center contains those interests held directly by E.ON AG (E.ON or the Company) that are not allocated to a particular segment, as well as E.ON AG itself.

These market units are the primary segments as defined in International Accounting Standard (IAS) 14, Segment Reporting (IAS 14). The Corporate Center also contains the consolidation effects that take place at the Group level. Note 14 provides additional information about the market units.

With European Union (EU) Regulation 1606/2002 dated July 19, 2002, the European Parliament and the European Council mandated the adoption of International Financial Reporting Standards (IFRS) into EU law governing the Consolidated Financial Statements of publicly traded companies for fiscal years beginning on or after January 1, 2005. However, member states may defer mandatory application of IFRS until 2007 for companies that, like E.ON, have been preparing their Consolidated Financial Statements in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) and whose stock is officially listed for public trading in a non-EU member state. In Germany, the Bilanzrechtsreformgesetz (BilReG) implemented the option to defer mandatory IFRS application in October 2004.

E.ON made use of this option and, accordingly, the Condensed Interim Financial Statements for the six months ended June 30, 2007 have been prepared in accordance with IFRS, specifically IAS 34, Interim Financial Reporting (IAS 34), and IFRS 1, First-time Adoption of International Financial Reporting Standards (IFRS 1).This Interim Report has been prepared in accordance with all IFRS effective and adopted for use in the EU as of the end of the interim period. The IFRS effective or available for voluntary early adoption in this Interim Report as of June 30, 2007, are subject to change or to the issuance of additional interpretations until December 31, 2007. Accordingly, the accounting policies relevant for this Interim Report may be adjusted in future periods and are only considered final when the first IFRS financial statements are prepared for the year ending December 31, 2007.

The preparation of the Consolidated Financial Statements for interim financial reporting in accordance with IFRS has led to changes in the Group s accounting policies as compared with the accounting principles used in the most recent annual Consolidated Financial Statements, i.e. U.S. GAAP. The following accounting policies have been applied for all period;margin-bottom:0pt;margin-top:0pt;margin-left:0pt;;text-indent:0pt;;color:#000000;font-family:Times New Roman;font-size:10pt;font-weight:normal;font-style:normal;text-transform:none;font-variant: normal;">62

Operating income

105

105

230

272

Other income (expense):

Interest income

7

6

18

17

Interest expense

(31

)

(13

)

(91

)

(39

)

Other income, net

4

2

11

8

Income from continuing operations before income taxes

85

100

168

258

Income tax expense

25

2

55

63

Net income from continuing operations

60

98

113

195

Discontinued operations, net of tax

—

(6

)

5

38

Net income

$

60

$

92

$

118

$

233

Basic earnings per common share

Continuing operations

$

0.11

$

0.19

$

0.20

$

0.38

Discontinued operations

—

(0.01

)

0.01

0.07

Net basic earnings per common share

$

0.11

$

0.18

$

0.21

$

0.45

Diluted earnings per common share

Continuing operations

$

0.11

$

0.19

$

0.20

$

0.37

Discontinued operations

—

(0.01

)

0.01

0.07

Net diluted earnings per common share

$

0.11

$

0.17

$

0.21

$

0.44

Dividends per common share

$

0.025

$

0.025

$

0.075

$

0.075

This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements herein and the Notes to Consolidated Financial Statements in the Office Depot, Inc. Form 10-K filed February 28, 2018 (the “2017 Form 10-K”).

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OFFICE DEPOT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	13 Weeks Ended		39 Weeks Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Net income	$ 60	$ 92	$ 118	$ 233
Other comprehensive income (loss), net of tax, where applicable:				
Foreign currency translation adjustments	3	6	(16)	24
Reclassification of foreign currency translation adjustments realized upon disposal of business	—	(7)	29	(1)
Other	—	—	—	(1)
Total other comprehensive income (loss), net of tax, where applicable	3	(1)	13	22
Comprehensive income	$ 63	$ 91	$ 131	$ 255

This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements herein and the Notes to Consolidated Financial Statements in the 2017 Form 10-K.

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OFFICE DEPOT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share and per share amounts)

	September 29, 2018 (Unaudited)	December 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 925	$ 622
Receivables, net	950	931
Inventories	1,023	1,093
Prepaid expenses and other current assets	112	86
Current assets of discontinued operations	—	139
Total current assets	3,010	2,871
Property and equipment, net	744	725
Goodwill	908	851
Other intangible assets, net	434	448
Timber notes receivable	847	863
Deferred income taxes	272	305
Other assets	257	260
Total assets	$ 6,472	$ 6,323
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 1,085	$ 892
Accrued expenses and other current liabilities	1,048	986
Income taxes payable	3	5
Short-term borrowings and current maturities of long-term debt	92	96
Current liabilities of discontinued operations	—	67
Total current liabilities	2,228	2,046
Deferred income taxes and other long-term liabilities	318	336
Pension and postretirement obligations, net	83	91
Long-term debt, net of current maturities	887	936
Non-recourse debt	759	776
Total liabilities	4,275	4,185
Commitments and contingencies		
Redeemable noncontrolling interest	—	18
Stockholders' equity:		
Common stock — authorized 800,000,000 shares of $0.01 par value; issued shares — 614,128,907 at September 29, 2018 and 610,353,994 at December 30, 2017; outstanding shares — 549,648,104 at September 29, 2018 and 553,984,357 at December 30, 2017	6	6
Additional paid-in capital	2,684	2,711
Accumulated other comprehensive loss	(65)	(78)
Accumulated deficit	(160)	(273)
Treasury stock, at cost — 64,480,803 shares at September 29, 2018 and 56,369,637 shares at December 30, 2017	(268)	(246)

Total stockholders' equity	2,197	2,120
Total liabilities, redeemable noncontrolling interest and stockholders’ equity	$ 6,472	$ 6,323

This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements herein and the Notes to Consolidated Financial Statements in the 2017 Form 10-K.

OFFICE DEPOT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	39 Weeks Ended	
	September 29, 2018	September 30, 2017
Cash flows from operating activities of continuing operations:		
Net income	$ 118	$ 233
Income from discontinued operations, net of tax	5	38
Net income from continuing operations	113	195
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	142	116
Amortization of debt discount and issuance costs	7	1
Charges for losses on inventories and receivables	30	51
Asset impairments	—	1
Compensation expense for share-based payments	19	24
Deferred income taxes and deferred tax asset valuation allowances	44	36
Changes in working capital and other	200	(16)
Net cash provided by operating activities of continuing operations	555	408
Cash flows from investing activities of continuing operations:		
Capital expenditures	(121)	(92)
Purchase of leased head office facility	—	(42)
Businesses acquired, net of cash acquired	(64)	(24)
Proceeds from disposition of assets	—	28
Other investing activities	4	4
Net cash used in investing activities of continuing operations	(181)	(126)
Cash flows from financing activities of continuing operations:		
Net payments on long and short-term borrowings	(74)	(17)
Cash dividends on common stock	(42)	(39)
Share purchases for taxes, net of proceeds from employee share-based transactions	(4)	(17)
Repurchase of common stock for treasury	(22)	(34)
Payment to extinguish capital lease obligation	—	(92)
Acquisition of non-controlling interest	(18)	—
Other financing activities	1	—
Net cash used in financing activities of continuing operations	(159)	(199)
Cash flows from discontinued operations:		
Operating activities of discontinued operations	11	10
Investing activities of discontinued operations	66	(76)
Financing activities of discontinued operations	—	(8)
Net cash provided by (used in) discontinued operations	77	(74)
Effect of exchange rate changes on cash and cash equivalents	(4)	8
Net increase in cash and cash equivalents	288	17
Cash, cash equivalents and restricted cash at beginning of period	639	807

Cash, cash equivalents and restricted cash at end of period-total	927	824
Cash and cash equivalents of discontinued operations	—	(36)
Cash, cash equivalents and restricted cash at end of the period-continuing operations	$927	$ 788

This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements herein and the Notes to Consolidated Financial Statements in the 2017 Form 10-K.

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OFFICE DEPOT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Office Depot, Inc., including its consolidated subsidiaries (“Office Depot” or the “Company”), is a leading omni-channel provider of business services and supplies, products and technology solutions. On November 8, 2017, the Company acquired CompuCom Systems, Inc. (“CompuCom”) - refer to Note 2 for additional discussion about this acquisition. Through its banner brands Office Depot®, OfficeMax®, CompuCom® and Grand&Toy®, the Company offers its customers the tools and resources they need to focus on their passion of starting, growing and running their business. The Company’s common stock is traded on the NASDAQ Global Select Market under the ticker symbol ODP. As of September 29, 2018, the Company had three reportable segments (or “Divisions”): Business Solutions Division, Retail Division and the CompuCom Division.

In September 2016, the Company’s Board of Directors committed to a plan to sell substantially all of the Company’s International Division operations (the “International Operations”). Accordingly, the Company presented the International Operations as discontinued operations beginning in the third quarter of 2016. The Company has reclassified the financial results of the International Operations to Discontinued operations, net of tax in the Condensed Consolidated Statements of Operations for all periods presented. The Company has also reclassified the related assets and liabilities as current assets and liabilities of discontinued operations on the accompanying Condensed Consolidated Balance Sheet as of December 30, 2017. The sale of the International Operations was completed as of June 30, 2018, therefore there were no assets or liabilities related to discontinued operations in the Condensed Consolidated Balance Sheet as of September 29, 2018. Cash flows from the Company’s discontinued operations are presented separately in the Condensed Consolidated Statements of Cash Flows for all periods presented in this report on Form 10-Q. The Company retained certain portions of its former International Division assets and operations consisting primarily of its global sourcing and trading operations in the Asia/Pacific region. Additional information on the Company’s discontinued operations is provided in Note 13.

The Condensed Consolidated Financial Statements as of September 29, 2018, and for the 13-week and 39-week periods ended September 29, 2018 (also referred to as the “third quarter of 2018” and “year-to-date 2018,” respectively) and September 30, 2017 (also referred to as the “third quarter of 2017” and “year-to-date 2017,” respectively) are unaudited. However, in management’s opinion, these Condensed Consolidated Financial Statements reflect all adjustments of a normal recurring nature necessary to provide a fair presentation of the Company’s financial position, results of operations and cash flows for the periods presented. Business acquisitions in 2017 and 2018 are included prospectively from the date of acquisition, thus affecting the comparability of the Company’s financial statements for all periods presented in this report on Form 10-Q.

As a result of the Company’s purchase of CompuCom in November 2017, the Company’s level of service revenue in the third quarter and year-to-date 2018 exceeded 10% of the Company’s total revenue beginning in 2018 and accordingly, revenues and cost of sales from services and products are separately disclosed on the Company’s Condensed Consolidated Statements of Operations. Prior period amounts have been reclassified to conform to the current period presentation. Note 4 describes the components of the Company’s business included in the products and services categories. In addition, as discussed below, certain amounts have been reclassified due to the Company’s adoption of the new accounting guidance related to the presentation of defined benefit plan expense. These prior period reclassifications did not affect the Company’s net income or cash flows.

The Company has prepared the Condensed Consolidated Financial Statements included herein pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Some information and note disclosures, which would normally be included in comprehensive annual financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), have been condensed or omitted pursuant to those SEC rules and regulations. For a better understanding of the Company and its Condensed Consolidated Financial Statements, the Company recommends reading these Condensed Consolidated Financial Statements in conjunction with the audited financial statements, which are included in the Company's 2017 Form 10-K. These interim results are not necessarily indicative of the results that should be expected for the full year.

Cash Management

The cash management process generally utilizes zero balance accounts which provide for the settlement of the related disbursement and cash concentration accounts on a daily basis. As of September 29, 2018 and December 30, 2017, Trade accounts payable and Accrued expenses and other current liabilities, in the aggregate, included $106 million and $53 million, respectively, of amounts not yet presented for payment drawn in excess of disbursement account book balances, after considering offset provisions.

At September 29, 2018, cash and cash equivalents from continuing operations held outside the United States amounted to $222 million.

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OFFICE DEPOT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) – (Continued)

Restricted Cash

Restricted cash consists primarily of short-term cash deposits having original maturity dates of twelve months or less that serve as collateral to certain of the Company's letters of credit. Restricted cash is valued at cost, which approximates fair value. At September 29, 2018 and December 30, 2017, restricted cash amounted to $2 million and $3 million, respectively, and is included in Prepaid expenses and other current assets in the Condensed Consolidated Balance Sheets.

New Accounting Standards

Standards that are not yet adopted

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued an accounting standards update which will require lessees to recognize most leases on their balance sheets related to the rights and obligations created by those leases. The accounting treatment for lessors will remain relatively unchanged. The accounting standards update also requires additional qualitative and quantitative disclosures related to the nature, timing and uncertainty of cash flows arising from leases. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The initial standard required a modified retrospective transition approach, with application, including disclosures, in all comparative periods presented. In July 2018, the FASB approved an amendment to the new guidance that allows companies the option of using the effective date of the new standard as the date of initial application. The Company will adopt the standard in the first quarter of 2019.

Substantially all of the Company's retail store locations, supply chain facilities, certain corporate facilities and copy print equipment are subject to operating lease arrangements. While the Company is continuing to evaluate the impact that this new standard will have on its Condensed Consolidated Financial Statements, it expects to recognize significant right of use assets and related liabilities associated with its operating leases on its Condensed Consolidated Balance Sheet as of the date of adoption. The Company also expects to elect certain transition options offered by the new standard, including the option not to separate lease and non-lease components and instead to account for them as a single lease component, the option not to recognize right of use assets and related liabilities that arise from short-term leases (i.e., leases with terms of twelve months or less), and the package of practical expedients. The package of practical expedients will allow the Company to not reassess previous accounting conclusions regarding whether existing arrangements are or contain leases, the classification of existing leases, and the treatment of initial direct costs. The Company will likely not elect the hindsight practical expedient, which allows entities to use hindsight when determining lease term and impairment of right of use assets. The Company has implemented system upgrades to its existing lease systems to enable the accounting transition, and will implement updates to its control processes and procedures, as necessary, based on changes resulting from the new standard. The Company does not expect any such updates to materially affect the Company's internal controls over financial reporting.

Income taxes

In February 2018, the FASB issued an accounting standard update to address a specific consequence of the Tax Cuts and Jobs Act passed by the United States Congress on December 22, 2017 (“Tax Cuts and Jobs Act”). This accounting update allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The standard eliminates the stranded tax effects that were created as a result of the reduction of the historical U.S. federal corporate income tax rate to the newly enacted U.S. federal corporate income tax rate. The accounting update is effective January 1, 2019, with early adoption permitted, and is to be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company is currently assessing the impact of the new standard on the Consolidated Financial Statements.

Cloud computing arrangements

In August 2018, the FASB issued an accounting standard update which provides guidance regarding the accounting for implementation costs in cloud computing arrangements. This accounting update is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, with early adoption permitted. The Company is evaluating the impact of this new standard and believes the adoption will not have a material impact on its Consolidated Financial Statements.

Defined benefit plan

In August 2018, the FASB issued an accounting standard update which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This accounting update is effective for fiscal years beginning after

OFFICE DEPOT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) – (Continued)

December 15, 2020 and interim periods within those fiscal years, with early adoption permitted. The Company is evaluating the impact of this new standard and believes the adoption will not have a material impact on its Consolidated Financial Statements.

Fair value measurements

In August 2018, the FASB issued an accounting standard update which adds, removes, and modifies the disclosure requirements related to fair value measurements. This accounting update is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, with early adoption permitted. The Company is evaluating the impact of this new standard and believes the adoption will not have a material impact on its Consolidated Financial Statements.

Standards that were adopted

Revenue recognition

In May 2014, the FASB issued a new standard that supersedes most current revenue recognition guidance and modifies the accounting for certain costs associated with revenue generation. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity is entitled to receive in exchange for those goods or services. The standard provides a number of steps to follow to achieve that principle and requires additional financial statement disclosures related to the nature, timing, amount and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted the new revenue standard on the first day of fiscal 2018, using the modified retrospective method, and applied the standard to contracts that were not complete as of the adoption date. As a result of applying this adoption method, the Company recognized a cumulative effect adjustment of $4 million, net of tax, to its accumulated deficit related to deferral of revenues for its loyalty program as of the first day of fiscal 2018.

The most significant impact of the standard on the Company relates to revenues from sales of third-party software which were previously reported on a gross basis, but are reported on a net basis under the new standard, with no change in timing of recognition or impact to gross profit, earnings or cash flows. This impact resulted in a reduction in both sales from services and cost of services of $9 million and $47 million during the third quarter and year-to-date 2018, respectively. The adoption of the standard also resulted in minor changes related to the timing of revenue recognition associated with the Company's loyalty program due to the impact of the loyalty program being presented as a deferral of revenues under the new standard rather than as cost of sales accruals under the previous accounting rules. In addition, the Company's balance sheet presentation of its sales return reserve has changed to present a separate return asset and liability, instead of the net presentation used in prior periods. The return asset and liability are included in Prepaid expenses and other current assets and Accrued expenses and other current liabilities, respectively, on the Condensed Consolidated Balance Sheet. Revenue recognition related to all other products and services remains substantially unchanged.

The following tables summarize the impact of adopting the new standard on the Company's Condensed Consolidated Balance Sheet as of September 29, 2018 and Statement of Operations for the third quarter and year-to-date 2018. Adoption of the new standard had no impact to the cash flows from operating, financing, or investing activities in the

Company's Condensed Consolidated Statements of Cash Flows.

(In millions)	Third Quarter of 2018 As reported	Third Quarter of 2018 As if the previous accounting guidance was in effect	Year-to-Date 2018 As reported	Year-to-Date 2018 As if the previous accounting guidance was in effect
Sales - Products	$2,453	$ 2,453	$7,072	$ 7,066
Sales - Services	434	443	1,273	1,320
Total Sales	2,887	2,896	8,345	8,386
Cost of goods sold and occupancy costs - Products	1,906	1,906	5,534	5,531
Cost of goods sold and occupancy costs - Services	295	304	862	909
Total Cost of goods sold and occupancy costs	2,201	2,210	6,396	6,440
Gross profit	686	686	1,949	1,946
Net income	60	60	118	116
Diluted earnings per share	0.11	0.11	0.21	0.21

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OFFICE DEPOT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) – (Continued)

(In millions)	As of September 29, 2018 As reported	As if the previous accounting guidance was in effect
Receivables, net	$950	$ 955
Prepaid expenses and other current assets	112	102
Deferred income taxes	272	270
Accrued expenses and other current liabilities	1,048	1,043
Stockholders' equity	2,197	2,197

As part of its adoption of the new standard, the Company also implemented new internal controls and key system functionality to enable the preparation of financial information on adoption. Refer to Note 4 for additional disclosures required as a result of the adoption of this new standard.

Defined benefit plan

In March 2017, the FASB issued an accounting standards update which changed the income statement presentation of defined benefit plan expense by requiring that an employer report the service cost component of pension costs in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit pension cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of operating income. The Company adopted the new accounting standards update in the first quarter of 2018. The Company has presented the other components of net periodic benefit cost in Other income, net on the Condensed Consolidated Statements of Operations, while the service cost component of pension costs continues to be presented in Selling, general and administrative expenses. Adoption of this new accounting standards update required a retrospective reclassification of $3 million and $10 million net pension benefit in the third quarter of 2017 and year-to-date 2017, respectively, from Selling, general and administrative expenses to Other income, net, and did not have an impact on the Company's Condensed Consolidated Balance Sheets or Condensed Consolidated Statements of Cash Flows.

NOTE 2. ACQUISITIONS

To further the Company’s strategic direction to transform into a more business services-driven platform offering technology products and solutions, expand its distribution network, and strengthen its core business operations, the Company acquired five businesses during year-to-date 2018. Four of these acquisitions consist of small independent regional office supply businesses that provide the Company with greater access to small and mid-market business customers in selected U.S. geographic markets across a diverse assortment of product lines, including cleaning and breakroom, technology and printing, furniture and office supplies. These four acquisitions were completed in the first quarter and third quarter of 2018. In addition, the Company’s acquisition of an enterprise information Technology Solutions Integrator and Managed Services Provider in the first quarter of 2018 provides the Company with a platform for selling or providing Internet of Things (“IoT”) related hardware and projects to the education market. IoT refers to the connection of intelligent systems and devices to allow them to automatically share information so that systems and devices work intelligently together to develop and enhance solutions and reduce human intervention.

In 2017, the Company acquired CompuCom, which is described below, three small independent regional office supply businesses with similar market and product characteristics to the four acquisitions described in the preceding paragraph, and one small independent business focused on cleaning and breakroom supplies.

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The aggregate total purchase consideration, including contingent consideration, for the acquisitions completed in year-to-date 2018 was approximately $82 million, subject to certain customary post-closing adjustments. The aggregate purchase price was primarily funded with cash on hand, with the remainder consisting of contingent consideration, estimated to be $15 million, to be paid in 2019. The acquisitions were treated as purchases in accordance with ASC 805, Business Combinations ("ASC 805") which requires allocation of the purchase price to the estimated fair values of assets and liabilities acquired in the transaction, and include certain amortizing intangible assets and goodwill. The Company has performed a preliminary purchase price allocations of the $82 million aggregate purchase price to the estimated fair values of assets and liabilities acquired in the transactions, including $12 million of customer relationship intangible assets and $55 million of goodwill. The remaining aggregate purchase price was primarily allocated to working capital accounts. These assets and liabilities are included in the balance sheet as of September 29, 2018. As additional information is obtained about these assets and liabilities within the measurement period (not to exceed one year from the date of acquisition), the Company will refine its estimates of fair value to allocate the purchase price. Changes in fair value of the contingent consideration may result in additional acquisition related expenses. The operating results of the office supply businesses are combined with the Company's operating results subsequent to their purchase dates, and are included in the Business Solutions Division. The operating results of the technology business is combined with the Company's operating results subsequent to its purchase date and is included in the CompuCom Division. Certain disclosures set forth under ASC 805, including supplemental pro forma financial information, are not disclosed because the operating results of the acquired businesses, individually and in the aggregate, are not material to the Company.

On November 8, 2017, the Company completed the acquisition of CompuCom by acquiring all of the capital stock of CompuCom for approximately $937 million, funded with a $750 million, 5-year term loan facility, approximately 44 million shares of Office Depot common stock with an approximate market value of $135 million, and approximately $52 million of cash on hand. CompuCom sells information technology ("IT") outsourcing services and products to enterprise organizations in the United States and Canada, and offers a broad range of solutions including end user computing support, managed IT services, data center monitoring and management, service desk, network infrastructure, IT workforce solutions, mobile device management and cloud services. The Company has performed the preliminary purchase price allocation as of the acquisition date. The preliminary purchase price allocation will be finalized during the measurement period which will not exceed one year from the acquisition date. Refer to Note 2 in the Company's 2017 Form 10-K for further information about the preliminary allocation of total purchase consideration for CompuCom.

Based on new information received, the preliminary purchase price allocations of the companies acquired in 2018 and 2017 have been adjusted during the respective measurement periods. These adjustments were insignificant individually and in the aggregate to the Company's Condensed Consolidated Financial Statements. With the exception of CompuCom, the measurement periods for acquisitions completed in 2017 closed within the third quarter of 2018.

Under the guidance on accounting for business combinations, merger and integration costs are not included as components of consideration transferred, instead, they are accounted for as expenses in the period in which the costs are incurred. Transaction-related expenses are included in the Merger and restructuring expense, net line in the Condensed Consolidated Statements of Operations. Refer to Note 3 for additional information about the merger and restructuring expenses incurred during the third quarter and year-to-date 2018.

As part of the purchase of CompuCom, the Company acquired a redeemable noncontrolling equity interest in Clearpath Holdings, LLC, a consolidated subsidiary of CompuCom. In April 2018, the Company acquired the remaining ownership interest in this subsidiary of CompuCom for cash consideration of $18 million. Clearpath Holdings, LLC controlled the redemption of the remaining ownership as it had the right to put or require CompuCom to purchase the remaining ownership interest.

As part of its strategic direction to strengthen its core business operations, in October 2018 the Company acquired a small independent regional office supply business in the U.S.

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NOTE 3. MERGER AND RESTRUCTURING ACTIVITY

In recent years, the Company has taken actions to adapt to changing and competitive conditions. These actions include acquiring businesses, closing facilities, consolidating functional activities, eliminating redundant positions, disposing of businesses and assets, and taking actions to improve process efficiencies. The expenses and any income recognized directly associated with these actions are included in Merger and restructuring expenses, net on a separate line in the Condensed Consolidated Statements of Operations in order to identify these activities apart from the expenses incurred to sell to and service its customers. These expenses are not included in the determination of Division operating income. The table below summarizes the major components of Merger and restructuring expenses, net.

(In millions)	Third Quarter 2018	Third Quarter 2017	Year-to-Date 2018	Year-to-Date 2017
Merger and transaction related expenses, net				
Severance and retention	$4	$ —	$ 9	$ —
Transaction and integration	5	4	16	15
Facility closure, contract termination, and other expenses, net	2	2	10	4
Total Merger and transaction related expenses, net	11	6	35	19
Restructuring expenses				
Severance	—	11	—	26
Facility closure, contract termination, professional fees and other expenses, net	3	4	10	16
Total Restructuring expenses	3	15	10	42
Acquisition related expenses – Refer to Note 2	—	1	—	1
Total Merger and restructuring expenses, net	$14	$ 22	$ 45	$ 62

Merger and transaction related expenses, net

Severance and retention include costs related to the integration of staff functions in connection with business acquisitions and are expensed through the severance and retention period. Transaction and integration include legal, accounting, and other third-party costs incurred in connection with acquisitions and business integration activities, and consist primarily of costs incurred for the CompuCom acquisition. Transaction and integration expenses include $5 million and $11 million for the third quarter and year-to-date 2018, respectively, related to CompuCom and other smaller acquisitions, with the remainder related to the 2013 OfficeMax merger. Facility closure, contract termination and other expenses, net, include $5 million in year-to-date 2018 related to the CompuCom acquisition, which was all incurred in the first half of 2018, and $2 million and $5 million for the third quarter and year-to-date 2018, respectively, related to the 2013 OfficeMax merger.

Merger and transaction related expenses, net in the third quarter and year-to-date 2017 are related to the 2013 OfficeMax merger. The year-to-date 2017 expenses, net include a gain of $6 million from the sale of a warehouse facility as part of a supply chain integration plan.

Restructuring expenses

During 2017, the Company announced a multi-year strategic transformation to pivot from a traditional office product retailer to a broader omni-channel business services, product and technology provider. As part of this strategy, the Company is expanding its technology and business service offerings, and is accelerating the offering of new subscription-based services to address the needs of small, medium and enterprise businesses. As such, the Company anticipates incurring additional costs over the next few years including professional fees, severance and other related costs. Included in restructuring expenses in the year-to-date 2018 in the table above are professional fees of $9 million associated with this strategic plan.

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In August 2016, the Company announced a comprehensive business review strategy (the "Comprehensive Business Review"), which included the closure of approximately 300 retail stores in North America over a three-year period, and the reduction of operating and general and administrative expenses through efficiencies and organizational optimization. The Company has completed 141 retail store closures since announcing this initiative. In year-to-date 2018 and year-to-date 2017, the Company closed 6 and 37 stores, respectively. The Company continues to re-assess its store closure program on an annual basis, and is considering potential alternative uses for its retail portfolio. As a result, the anticipated number of store closures and period over which this program will be implemented may change. The Company recognized restructuring expenses of $1 million and $42 million in year-to-date 2018 and 2017, respectively.

Expenses associated with implementing the Comprehensive Business Review include severance, facility closure costs, contract termination, accelerated depreciation, professional fees, relocation and disposal gains and losses, as well as other costs associated with the store closures.

Merger and Restructuring Accruals

Of the total $45 million merger and restructuring expenses, net incurred in year-to-date 2018, $13 million remained accrued as of the balance sheet date and are included as Charges Incurred in the table below. The remaining $32 million is comprised of $16 million of merger transaction and integration expenses, and $16 million of facility closure expenses, professional fees, non-cash items and other expenses. These remaining charges are excluded from the table below because they are paid as incurred.

(In millions)	Balance as of December 30, 2017	Charges Incurred	Cash Payments	Balance as of September 29, 2018
Termination benefits:				
Merger-related accruals	$ 1	$ 7	$ (4)	$ 4
Comprehensive Business Review	4	—	(3)	1
Lease and contract obligations, accruals for facilities closures and other costs:				
Merger-related accruals	18	5	(11)	12
Comprehensive Business Review	9	1	(8)	2
Total	$ 32	$ 13	$ (26)	$ 19

The short-term and long-term components of these liabilities are included in Accrued expenses and other current liabilities and Deferred income taxes and other long-term liabilities, respectively, in the Condensed Consolidated Balance Sheets.

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NOTE 4. REVENUE RECOGNITION

Products and Services Revenue

The following table provides information about disaggregated revenue by Division, and major products and services categories.

	Third Quarter of 2018				
	Business Solutions	Retail	CompuCom		
(In millions)	Division	Division	Division	Other	Total
Major products and services categories					
Products					
Supplies	$760	$ 516	$ —	$ 3	$1,279
Technology	323	493	51	(3)	864
Furniture and other	195	113	—	2	310
Services					
Technology	1	8	212	(1)	220
Copy, print, and other	85	124	5	—	214
Total	$1,364	$ 1,254	$ 268	$ 1	$2,887

	Year-to-Date 2018				
	Business Solutions	Retail	CompuCom		
(In millions)	Division	Division	Division	Other	Total
Major products and services categories					
Products					
Supplies	$2,212	$ 1,358	$ —	$ 7	$3,577
Technology	1,004	1,481	154	(8)	2,631
Furniture and other	546	314	—	4	864
Services					
Technology	1	24	641	(2)	664
Copy, print, and other	227	374	8	-	609
Total	$3,990	$ 3,551	$ 803	$ 1	$8,345

Products revenue

Products revenue includes the sale of (1) supplies such as paper, writing instruments, office supplies, cleaning and breakroom items, (2) technology related products such as toner and ink, printers, computers, tablets and accessories, electronic storage, and (3) furniture and other products such as desks, seating, and luggage.

The Company sells its supplies, furniture and other products through its Retail and Business Solutions Divisions, and its technology products through all three Divisions. Customers can purchase products through the Company's retail stores, electronically through its internet sites, or through its call centers. Revenues from supplies, technology, and furniture and other product sales are recognized when the customer obtains control of the Company's product, which occurs at a point in time, typically upon delivery to the customer.

Furniture and other products also include arrangements where customers can make special furniture interior design and installation orders that are customized to their needs. The performance obligations related to these arrangements are satisfied over time.

Services revenue

Services revenue includes (1) technology service offerings provided through the Company's CompuCom Division, such as end user computing support, managed IT services, data center monitoring and management, service desk, network infrastructure, IT workforce solutions, mobile device management and cloud services, as well as technology service offerings provided in the Company's retail stores, such as installation and repair, and (2) copy, print, and other service offerings such as managed print and fulfillment services, product subscriptions, and sales of third party software, gift cards, warranties, remote support as well as rental income on operating lease arrangements where the Company conveys to its customers the right to use devices and other equipment for a stated period.

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The largest offering in the service technology category is end user computing, which provides on-site services to assist corporate end users with their information technology needs. Services are either billed on a rate per hour or per user, or on a fixed monthly retainer basis. For the majority of technology service offerings contracts, the Company has the right to invoice the customer in an amount that directly corresponds with the value to the customer of the Company's performance to date and as such the Company recognizes revenue based on the amount billable to the customer in accordance with the practical expedient provided by the current revenue guidance.

Substantially all of the Company's other service offerings are satisfied at a point in time and revenue is recognized as such. The largest other service offering is copy and print services, which includes printing, copying, and digital imaging. The majority of copy and print services are fulfilled through retail stores and the related performance obligations are satisfied within a short period of time (generally within the same day).

Revenue Recognition and Significant Judgments

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company is entitled to receive in exchange for those products or services. For product sales, transfer of control occurs at a point in time, typically upon delivery to the customer. For service offerings, the transfer of control and satisfaction of the performance obligation is either over time or at a point in time. When performance obligations are satisfied over time, the Company evaluates the pattern of delivery and progress each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition. Revenue is recognized net of allowance for returns and net of any taxes collected from customers, which are subsequently remitted to governmental authorities. Shipping and handling costs are considered fulfillment activities and are recognized within the Company's cost of goods sold.

Contracts with customers could include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Determining the standalone selling price also requires judgment. The Company did not have significant revenues generated from such contracts during the third quarter and year-to-date 2018.

Products are generally sold with a right of return and the Company may provide other incentives, such as rebates and coupons, which are accounted for as variable consideration when estimating the amount of revenue to recognize. Returns and incentives are estimated at contract inception and updated at the end of each reporting period as additional information becomes available and only to the extent that it is probable that a significant reversal of any incremental revenue will not occur.

The Company offers a customer loyalty program that provides customers with rewards that can be applied to future purchases or other incentives. Loyalty rewards are accounted for as a separate performance obligation and a deferred liability is recorded in the amount of the transaction price allocated to the rewards, inclusive of the impact of estimated breakage. The estimated breakage of loyalty rewards is based on historical redemption rates experienced under the loyalty program. Revenue is recognized when the loyalty rewards are redeemed or expire. As of September 29, 2018, the Company had $11 million of deferred liability related to the loyalty program, which is included in Accrued expenses and other current liabilities in the Condensed Consolidated Balance Sheets.

Contract Balances

The timing of revenue recognition may differ from the timing of invoicing to customers. A receivable is recognized in the period the Company delivers goods or provides services, and is recorded at the invoiced amount, net of an allowance for doubtful accounts. A receivable is also recognized for unbilled services where the Company's right to consideration is unconditional, and is recorded based on an estimate of time and materials. Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 20 to 60 days. In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined that the contracts do not include a significant financing component. The primary purpose of the Company's invoicing terms is to provide customers with simplified and predictable ways of purchasing its products and services.

The Company receives payments from customers based upon contractual billing schedules. Contract assets include amounts related to deferred contract acquisition costs (refer to the section "Costs to Obtain a Contract" below) and if applicable, the Company's conditional right to consideration for completed performance under a contract. The short and long-term components of contract assets in the table below are included in Prepaid expenses and other current assets, and Other assets, respectively, in the Condensed Consolidated Balance Sheets. Contract liabilities include payments received in advance of performance under the contract, and are recognized as revenue when the performance obligation is completed under the contract, as well as accrued contract acquisition costs, liabilities related to the Company's loyalty program and gift cards. The short and long-term components of contract liabilities in the table below are included in Accrued expenses and other current liabilities, and Deferred income taxes and other long-term liabilities, respectively, in the Condensed Consolidated Balance Sheets.

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The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

In millions	As of September 29, 2018	At Adoption
Trade receivables, net	$ 704	$ 650
Short-term contract assets	24	20
Long-term contract assets	17	11
Short-term contract liabilities	51	60
Long-term contract liabilities	1	—

During the third quarter and year-to-date 2018, the Company did not have any contract assets related to conditional rights. The Company recognized revenues of $31 million during year-to-date 2018 which were included in the short-term contract liability balance at the beginning of the period. There were no contract assets and liabilities that were recognized during the third quarter and year-to-date 2018 as a result of business combinations. There were no significant adjustments to revenue from performance obligations satisfied in previous periods and there were no contract assets recognized at the beginning of the period that transferred to receivables during the third quarter and year-to-date 2018.

Substantially all of the purchase orders and statements of work related to contracts with customers require delivery of the product or service within one year or less. For certain service contracts that exceed one year, the Company recognizes revenue at the amount to which it has the right to invoice for services performed. Accordingly, the Company has applied the optional exemption provided by the new revenue recognition standard relating to unsatisfied performance obligations and does not disclose the value of unsatisfied performance obligations for its contracts.

Costs to Obtain a Contract

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if it expects the benefit of those costs to be longer than one year. The Company has determined that certain rebate incentive programs meet the requirements to be capitalized. These costs are periodically reviewed for impairment, and are amortized on a straight-line basis over the expected period of benefit. As of September 29, 2018, capitalized acquisition costs amounted to $41 million, which is reflected in short-term contract assets and long-term contract assets in the table above. During the third quarter and year-to-date 2018, amortization expense was $10 million and $25 million, respectively, and there was no impairment loss in relation to costs capitalized. The Company had no asset impairment charges related to contract assets in the periods presented herein.

NOTE 5. SEGMENT INFORMATION

The Company had two reportable segments during 2017 until the acquisition of CompuCom on November 8, 2017, at which time a third reportable segment was formed for that business based on how the Company is managed. The Business Solutions Division sells office supply products and services across the United States, Puerto Rico, U.S. Virgin Islands, and Canada. Business Solutions Division customers are served through dedicated sales forces, catalogs, telesales, and electronically through the Company’s internet sites. The Retail Division includes retail stores in the United States, Puerto Rico and the U.S. Virgin Islands, which offer office supplies, technology products and solutions, business machines and related supplies, print, cleaning, breakroom and facilities products, and office furniture as well as business services including copying, printing, mailing, shipping and technology support services. In addition, the print needs for retail and business customers are also facilitated through the Company’s regional print production centers. The CompuCom Division, which reflects the operations of CompuCom since its acquisition by the Company, sells information technology (“IT”) outsourcing services and products to enterprise organizations in the United States and Canada, and offers a broad range of solutions including end user computing support, managed IT services, data center monitoring and management, service desk, network infrastructure, IT workforce solutions, mobile device management and cloud services.

The retained global sourcing operations previously included in the former International Division are not significant and have been presented as Other. Also included in Other is the elimination of intersegment revenues of $4 million and $10 million for the third quarter and year-to-date 2018, respectively.

The Company’s three operating segments are the three reportable segments. The Business Solutions Division, Retail Division and CompuCom Division are managed separately as they represent separate channels in the way the Company serves its customers and are managed accordingly. The accounting policies for each segment are the same as those described in Note 1 in the Company’s 2017 Form 10-K. Division operating income is determined based on the measure of performance reported internally to manage the business and for resource allocation. This measure charges to the respective Divisions those expenses considered directly or closely related to their operations and allocates support costs. Certain operating expenses and credits are not allocated to the Business Solutions, Retail, and CompuCom Divisions, including Asset impairments and Merger and restructuring expenses, net, as well as expenses and credits

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retained at the Corporate level, including certain management costs and legacy pension and environmental matters. Other companies may charge more or less of these items to their segments and results may not be comparable to similarly titled measures used by other entities. In addition, the Company regularly evaluates the appropriateness of the reportable segments based on how the business is managed, including decision-making about resources allocation and assessing performance of the segments, particularly in light of organizational changes, merger and acquisition activity and changing laws and regulations. Therefore, the current reportable segments may change in the future.

The following is a summary of sales and operating income (loss) by each of the Divisions and Other, reconciled to consolidated totals, after the elimination of the discontinued operations for all periods.

	Sales			
	Third Quarter		Year-to-Date	
(In millions)	2018	2017	2018	2017
Business Solutions Division	$1,364	$1,288	$3,990	$3,851
Retail Division	1,254	1,329	3,551	3,799
CompuCom Division	268	—	803	—
Other	1	3	1	9
Total	$2,887	$2,620	$8,345	$7,659

	Division Operating Income (Loss)			
	Third Quarter		Year-to-Date	
(In millions)	2018	2017	2018	2017
Business Solutions Division	$67	$71	$189	$193
Retail Division	70	82	165	214
CompuCom Division	1	—	12	—
Other	—	(1)	(1)	(2)
Total	$138	$152	$365	$405

A reconciliation of the measure of Division operating income to Consolidated income from continuing operations before income taxes is as follows:

	Third Quarter		Year-to-Date	
(In millions)	2018	2017	2018	2017
Total Divisions operating income	$138	$152	$365	$405

Add/(subtract):				
Asset impairments	—	—	—	(1)
Merger and restructuring expenses, net	(14)	(22)	(45)	(62)
Unallocated expenses	(19)	(25)	(90)	(70)
Interest income	7	6	18	17
Interest expense	(31)	(13)	(91)	(39)
Other income, net	4	2	11	8
Income from continuing operations before income taxes	$85	$100	$168	$258

The components of goodwill by segment are provided in the following table:

(In millions)	Business Solutions Division	Retail Division	CompuCom Division	Total
Balance as of December 30, 2017	$ 328	$ 78		