FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning. I'm Christine. I'm the Chorus Call operator for this conference. Welcome to the Adecco Q3 2010 results analyst and investor conference call. Please note that for the duration of the presentation, all participants will be listen-only mode, and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. (Operator Instructions).

At this time, I would like to turn the conference over to Mrs. Karen Selfors, Head of Investor Relations, accompanied by Mr. Patrick De Maeseneire, CEO of the Group, and Mr. Dominik de Daniel, CFO of the Group. Please go ahead, ladies and gentlemen.

Karen Selfors - *Adecco SA - Head of Investor Relations*

Good morning, ladies and gentlemen, and welcome to Adecco's third quarter 2010 results conference call. Patrick, Group CEO, and Dominik, Group CFO, will lead you through the presentation today, followed by a Q&A session. Before we start, please have a quick look at the forward-looking statement in the presentation.

Let me give you a quick overview of today's agenda. Patrick will present the operational highlights of the third quarter to you, and then Dominik reviews the financials, after which Patrick will give you an outlook on our business before we open the lines for your questions.

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With that, Patrick, I hand over to you.

Patrick De Maeseneire - *Adecco SA - CEO*

Thank you, Karen. Good morning, ladies and gentlemen. Welcome. I start with the highlights of the third quarter. We continue to see very good demand for our services across most markets, and year-on-year, organic revenue growth even increased in the third quarter. Our revenues were up 17% organically in Q3, again driven by robust trading conditions in our main markets, France and North America.

We increased the pace in Germany, Benelux, Italy, Nordics and Switzerland, where we delivered strong double digit revenue growth and good profitability.

Growth in the Industrial business segment continued to be very strong, but also our Office business returned to organic growth during the quarter. Also, the growth in the Professional Staffing business clearly accelerated.

The gross margin in Q3 was 17.8%, same as in the previous quarter. As we said in the past, pricing in the Temporary Staffing business stabilized, and we benefited from the increased exposure to Professional Staffing.

We achieved strong profitability in Q3. EBITA before integration costs was EUR239 million, and the margin was a strong 4.7%, up 90 basis points compared to the adjusted prior year's third quarter.

Revenues in September were up 17% organically and adjusted for business base. In October, revenues developed similar to September, with no signs of a slowdown. Based on the recent encouraging trends and accelerating growth in the higher margin Professional Staffing business, we are confident of continued good revenue development near term.

I'll now go through the key figures in more detail.

As in the previous quarter, we adjusted for the French business tax and for exceptional items in 2009. Dominik will discuss the adjustments in his part of the presentation.

Revenues in the third quarter of 2010 were up 36% to EUR5.1 billion. Organically, revenues increased by 17%. Gross profit amounted to EUR898 million. Our gross margin was 17.8%, equal to (technical difficulty) and down 70 percentage points year-on-year organically and adjusted.

SG&A increased by 28% or was up 5% organically and adjusted compared to Q3 last year. Sequentially and in constant currency, SG&A was actually down 1%.

In the third quarter, EBITA before integration costs was EUR239 million, and the margin was 4.7%, up 90 basis points year-on-year. Net income was EUR128 million in the quarter under review.

We now go through the organic revenue development by region. Compared to the second quarter of this year, all regions accelerated in terms of organic growth. North America achieved 20% organic revenue growth in Q3, driven by strong growth in the General Staffing business, but also the Professional Staffing business clearly accelerated. When excluding the counter-cyclical Outplacement business, revenues in North America were up 25% organically.

In Europe, revenues in Q3 were up 18%. The revenue momentum accelerated in most countries. Whereas growth in France remained robust, Germany, Italy and the Nordics further accelerated their double digit growth rates, and Benelux and Switzerland further improved, returning to double digit growth.

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The European region was still held back by UK and Ireland, where revenues were down 1% organically, and by Iberia, where the growth rate was 7%.

Rest of World was up 9%. Revenue growth in Q3 was still held back by Japan where revenues were down 7%. On the other hand, growth in Australia and New Zealand accelerated to 25%, and the emerging markets also continued to deliver strong growth, with revenues up 26%.

The Group's gross margin was 17.8% as said, in Q3, flat year-on-year and down 70 basis points organically and adjusted. For easier comparisons, we adjusted Q3 '09 to reflect the French business tax law impact which was 40 basis points, as well as the reassessment of accruals in France in the third quarter of last year, which had the positive impact of 30 basis points then.

The Temporary Staffing business had a negative impact of 50 basis points on the Group's gross margin in Q3. The Permanent Placement business positively contributes to the Group's gross margin with 20 basis points in Q3. Our Perm revenues were up 83% in constant currency, and 35% organically in the quarter under review.

The Outplacement business had a negative impact of 50 basis points in this quarter. Note that Outplacement negatively impacted Q2 '10 by 70 basis points. Acquisitions had a positive impact of 70 basis points in the third quarter, same as in Q2.

As stated previously, pricing in the Temp business stabilized. Our increased exposure to Professional Staffing through the MPS acquisition, together with our disciplined pricing approach, clearly contributed to this quarter's good performance.

We now review our main markets in more detail.

France, our largest market, did 19% revenue growth in the third quarter. Revenues were EUR1.5 billion. Growth was mainly driven by strong demand in automotive, chemicals and manufacturing. In Q3 2010, the EBITA margin was 4.4%, up 50 basis points compared to the adjusted prior year's third quarter.

The Temp gross margin has been stable since the beginning of the year. Revenue growth in September continued to be strong, with plus 18% adjusted for business tax.

In North America, revenues were up 58% in constant currency. On an organic basis, we achieved 20% revenue growth in Q3. Demand was strongest in the automotive, consumer goods, industrial and technology sectors.

Excluding the declining counter-cyclical Outplacement business, revenues were up 25% in North America organically for the quarter. In September, we had a similar growth of 25% organically and adjusted for business tax.

General Staffing revenues grew very strongly, increasing by 28% organically, while Professional Staffing, excluding our Outplacement business, generated 19% revenue growth on an organic basis.

The EBITA margin was 4.8% in Q3. Acquisitions added 80 basis points this quarter. Integration costs for MPS amounted to EUR6 million in the quarter under review.

Revenues in the UK and Ireland increased by 88% in constant currency, positively impacted by the acquisitions of Spring Group and MPS. Organically, revenues declined by 1%, a slight improvement compared to the 3% organic revenue decline reported in the second quarter of this year.

Whereas our Temping business is still held back, especially in the General Staffing segment, the Perm business has delivered a solid growth of 38% organically. The region contributed a very solid EBITA of EUR11 million, despite integration costs related to Spring and MPS which amounted to EUR3 million in Q3. The EBITA margin before integration costs was 3.2%. The integration of Spring and MPS continues to be fully on track.

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In Japan, revenues in Q3 2010 declined by 7% in constant currency to EUR340 million. Slow demand in the late cyclical Office segment, which accounts for close to 80% of Adecco's revenues in Japan continued to weigh on [Group]. EBITA declined by 25% in constant currency, and the EBITA margin was 5.4% compared to 6.7% in Q3 '09. Costs remain well under control, resulting in still better profitability compared to our competitors in the Japanese market.

While market conditions have further stabilized in Japan, we still don't see signs of a pickup in the market overall. However, we have recently won long term outsourcing contracts which are expected to ramp up early next year and should bring us back to growth at the beginning of 2011.

In Germany and Austria, the revenue momentum picked up in the third quarter. Organically, revenues increased by 29% compared to an increase of 20% in Q2, driven by the automotive, chemicals and industrial sectors.

We achieved strong profitability in our German business. The region generated an EBITA of EUR31 million in Q3. The EBITA margin was 9.2% in the quarter, up 160 basis points versus prior year's Q3.

Our General Staffing brands in Germany grew 38%, a further improvement from the 30% growth in Q2, whereas the Professional Staffing brand, DIS, also strongly accelerated to revenue growth of 18% following 5% growth in Q2. Germany and Austria overall exited the quarter at 30% organically.

Finally, we discuss Adecco's development by business line on an organic basis.

In Q3 2010, revenues in Office and Industrial were up by 17%, a slight increase compared to the 15% growth rate in Q2. In the Industrial business, revenues increased by 24%, the same growth rate as in Q2 2010. Growth was strongest in North America, where the year-on-year revenue trend improved from plus 37% to plus 40%, in Germany and Austria, where revenue growth improved from plus 33% to plus 39% in Q3, and in Italy where revenue growth accelerated from plus 29% in Q2 to plus 40% in Q3. On the other hand, growth in France went from 24% to 21%, and in Iberia from 8% in Q2 to 3% in Q3.

The Office business returned to growth in the third quarter. Revenues increased by 3% in Q3, following a decline of 2% in Q2 2010.

In Japan, the revenue decline rate improved from minus 6% in Q3 -- to minus 6% in Q3 from minus 13% in Q2. North America grew 14% after an increase of 11% in Q2, and revenue growth in the Nordics was particularly strong, with plus 30% in Q3, up from plus 19% in Q2.

In the Professional Staffing business, revenue growth in Q3 accelerated to 10% following an increase of 2% in Q2 2010.

And with this I conclude the first part of my presentation, and hand over to Dominik.

Dominik de Daniel - *Adecco SA - CFO*

Thank you, Patrick. Good morning, ladies and gentlemen, and welcome from my side as well. I would like to begin with an overview of the profit and loss statement.

In Q3 2010, we had revenues of EUR5.1 billion, up 36% on a reported basis, and an increase of 17% organically. The gross margin was 17.8% in Q3 2010, up 10 basis points compared to the prior year, and eventually stable.

On an adjusted basis and organically, the gross margin was down 70 basis points year-on-year. For better comparison, we adjusted the prior third quarter for the reassessment of accruals in France of EUR11 million, and for the negative impact on SG&A of EUR1 million related to restructuring costs.

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As well, we adjusted Q3 '09 for the impact of the change in the French business tax law of EUR16 million on cost of services, and EUR1 million on SG&A.

SG&A was up 28% in Q3 2010 compared to the prior year. Organically, and adjusted, SG&A was up 5% year-on-year. Sequentially, and in constant currency, SG&A was down by 1%, partly due to seasonality.

The Group's EBITA was EUR230 million, up 35% on an adjusted basis and organically. Excluding EUR9 million integration costs, EBITA was EUR239 million and the margin was 4.7%, up 90 basis points on an adjusted basis. Net income was EUR128 million in the quarter under review.

Now let me discuss in more detail how our cost base developed in the third quarter.

We continued to maintain strict cost control throughout the quarter, despite a further increase in the revenue growth rate. SG&A increased by 28% on a reported basis compared to the prior year third quarter.

Organically, and when adjusting last year's Q3, SG&A increased by 5% year-on-year. On an organic basis, the number of FTEs were unchanged compared to last year, whereas the number of branches were down 8% year-on-year. Sequentially and in constant currency, SG&A was down by 1%, partly due to seasonality. On the other hand, we have done some selective investments and increased the headcount sequentially by 2%, mainly in the emerging markets and Germany.

We continue to benefit from the structurally optimized cost base, and we keep a tight grip on costs in order to achieve attractive operating leverage.

Moving on to the balance sheet. At the end of the quarter we had cash and short term investments of EUR443 million. DSO, 53 days in the third quarter, equal to Q3 '09.

Goodwill and intangible assets amounted to EUR3.8 billion at the end of September 2010. Compared to the year-end 2009, goodwill and intangible assets increased by EUR862 million, primarily as a result of the consolidation of MPS Group.

Adecco's shareholder's equity was at EUR3.4 billion at the end of September, up EUR262 million compared to the year-end '09, driven by net income, the dividend payout, and currency fluctuation.

Turning to the cash flow statement on slide 19. The operating cash flow generated in the first nine months of 2010 amounted to EUR204 million compared to EUR349 million in the prior year.

Even the growth and revenues, working capital needs increased in the first nine months of this year, compared to the same period last year. Nonetheless, we were able to generate a solid operating cash flow during the period.

Cash flow from investing activities was impacted by the purchase price consideration for MPS Group. The cash paid for MPS in January '10, amounted to EUR831 million net of cash acquired. In addition, we invested EUR71 million in CapEx in the first nine months of 2010.

Included in the financing activities of the first nine months of '10 is the repayment of CHF433 million, or the equivalent of further EUR390 million of the zero-coupon convertible bond due in 2013, for which bondholders exercised a put option in August 2010.

On October 22, Adecco announced that it had exercised its call option for the remaining outstanding portion as of November '10 in order to fully repay the convertible bond. The remaining outstanding portion, approx EUR20 million, will be repaid during the fourth quarter.

In addition, included in the financing activities in the first nine months of '10 is the payment of EUR91 million dividend.

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Net debt at the end of September '10 was EUR958 million, an increase of EUR848 million compared to the year-end, 2009. The increase in net debt was mainly a consequence of the purchase price consideration for MPS Group.

And finally, I would like to update you on our financial guidance for 2010. As previously stated, we are planning for CapEx of around EUR100 million for the year '10. Our previous guidance for around EUR65 million in interest expense, excluding interest income, corporate costs of around EUR70 million, and amortization of intangibles of EUR55 million remain unchanged.

In Q4, 2010 we expect a tax rate of approx 34%.

When you forecast Q4 '10, keep in mind that we had some one-time items in Q4 '09. Gross profit was positively impacted by EUR7 million in Q4 '09. There was a EUR14 million positive impact due to the reassessment of existing accruals in France, partly offset by the negative impact of EUR7 million due to a sales tax accrual in the UK.

SG&A was negatively impacted by EUR30 million restructuring costs in Q3 -- sorry, in Q4 of last year. In terms of Spring, remember that we consolidated Spring as of November '09. Spring added EUR65 million of sales in November and December of last year.

With this, I hand back to Patrick.

Patrick De Maeseneire - *Adecco SA - CEO*

Thank you, Dominik. Let me now comment on the outlook for our business. In Q3, our organic revenue growth further improved compared to Q2, and we exited the quarter with organic revenue growth in September of 17%, adjusted for trading days. The Office business returned to organic growth, and also encouraging for us is that growth in the later cyclical Professional Staffing business continued to accelerate in Q3.

October showed a similar pattern, with no signs of a slowdown. This gives us confidence that we will see continued good revenue development in the near future. We showed very good progress in profitability in the third quarter of 2010, proof that the increased exposure to Professional Staffing through the acquisition of MPS, and the leaner branch network, as well as the optimized delivery channels, are paying off.

The acquired MPS Group continues to contribute above expectations, and targeted synergies are fully on track. While we selectively invest in high growth segments and markets, tight cost control and price discipline continue to be the top priorities in our Company. Seasonally, the cost base in Q4 is expected to increase slightly, excluding currencies and integration costs. The management team is sticking to the value-based strategy, and remains fully committed to achieve the midterm EBITA margin target of above 5.5%.

And with this, I would like to open the lines for your questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the question and answer session. (Operator Instructions).

The first question is from Mr. Kean Marden from RBS. Please go ahead, sir.

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Kean Marden - *RBS - Analyst*

Good morning, gentlemen.

Patrick De Maeseneire - *Adecco SA - CEO*

Morning.

Kean Marden - *RBS - Analyst*

I have a few questions. First of all, to kick off on MPS, am I right in thinking that the EBIT margin for MPS stepped up towards the high single digit region in the third quarter, and consequently, if it's getting close to the target that you established for it when you purchased the business, should we see margins plateauing from here, or can you push them further ahead?

Dominik de Daniel - *Adecco SA - CFO*

Kean, Dominik speaking. That's true that EBITA margin target, especially in the US, went well up, so we are above 8%. We are not yet where we're looking in the midterm where we should be, but we continue to focus on the profitability there.

Kean Marden - *RBS - Analyst*

So would you be in a position to raise your guidance of a high single digit EBIT margin target for MPS, or is it too early?

Dominik de Daniel - *Adecco SA - CFO*

No, that's not the right time now. We have first to fully integrate the business, but let's say we're progressing better than initially expected.

Kean Marden - *RBS - Analyst*

Okay. And then secondly, in the UK, could you --? You gave us an indication I think of the perm growth. Could you give us an indication of what's been happening with RPO there; as I understand, there's been some success in picking up contracts; and what implications that has for the EBIT margin development of that business?

Dominik de Daniel - *Adecco SA - CFO*

The RPO business is of course growing, and it's growing stronger than the average of the UK, so -- and let's say the real RPO business has a slight positive impact on the margin, whereas the more let's say MSP-related business in the UK and the market in the UK is more cross-revenue recognition, not like we do it in other markets, net revenue recognition. This is slightly dilutive.

Kean Marden - *RBS - Analyst*

Okay. How fast is RPO growing in the UK at the moment, Dominik?

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Dominik de Daniel - *Adecco SA - CFO*

Above 20%.

Kean Marden - *RBS - Analyst*

Okay. And then finally, as we look into the fourth quarter of this year, you kindly flagged up some one-offs which impacted the fourth quarter of 2009. Do we have any potential swing factors this year? And I'm thinking particularly in terms of bonus accruals, given that you seem to be trading ahead of expectations at the moment. Is there a catch-up that would take place in Q4?

Dominik de Daniel - *Adecco SA - CFO*

It's not expected. We mentioned in Q2 that given the trading from Q1 and Q2, we had catch-up in terms of bonuses, but the bonuses are always done based on the full year expectation. So therefore, there should be in principle no, let's say, extraordinary catch-ups throughout.

Kean Marden - *RBS - Analyst*

Great, okay. Thanks for your time.

Patrick De Maeseneire - *Adecco SA - CEO*

Thank you.

Operator

Next question, Mr. Laurent Brunelle from Exane BNP Paribas. Please go ahead, sir.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Yes, good morning. Laurent Brunelle, BNP; a couple of questions, if I may. First, can you maybe give some targets in terms of SG&A? And could you elaborate on your gross margin forecast for the coming quarters?

Second, do you expect further integration costs for MPS and Spring in Q4?

And last point, how do you explain the strong growth in the French market moving into Q4? And I think that the French trend, that was up 17.5% for October given tougher comps. So is still mainly driven by your restocking effects?

Patrick De Maeseneire - *Adecco SA - CEO*

Still mainly driven by --?

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Restocking effects.

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Patrick De Maeseneire - *Adecco SA - CEO*

Start with the SG&A point.

Dominik de Daniel - *Adecco SA - CFO*

If you look to the SG&A development, we said -- when we had the A2 results, we said that we expect on Q2/Q3 in constant currency basically flat SG&A development, nonetheless that we make here and there some selective investments. It was then finally minus 1%, and we hired 2% more people, so the reason is that there is some seasonality, so from Q2 to Q3. And there is of course the cost [per] seasonally a little bit down, so therefore it should go from Q3 to Q4, [vice versa] a little bit up, and then we make some very selective investments.

Then if we look to the gross margin development, overall, you have to know that the gross margin in the Temping business in Q3 is in some countries like Germany, like Sweden, but also Netherlands pretty strong since we have no bank holidays, and in Germany we have the people on the book, so we have extraordinarily strong gross margin, which will not happen in Q4 just from the business days. And overall, we indicated also this morning in the press release that since the beginning of the year, pricing has stabilized sequentially, so the Temp gross margins are sequentially stable by not considering these kinds of bank holidays and stuff like this in countries like Germany.

Perm is doing well. We had 35% growth. Of course, Outplacement is not yet at the trough in absolute terms. I hope that helps.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

And integration?

Dominik de Daniel - *Adecco SA - CFO*

And integration costs, the integration costs, they were in Q3 EUR9 million, and for Q4 you can assume, yes, a couple of million more, but not much more.

Dominik de Daniel - *Adecco SA - CFO*

Laurent, on the French business, the current demand, as you have seen, we had 19% in the quarter with an exit rate of 18% in September and a similar development into October. Now this is mainly driven by -- like we said, by automotive, by chemicals, by manufacturing metals, so --. But also, logistics and transportation again increased, and also quarter-on-quarter the increase for logistics and transportation was quite solid.

So especially the companies again that are export-oriented are doing very well and continue to give us a pretty positive outlook until the end of the year in France.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay, so you still believe that this kind of growth is sustainable, despite tougher comps?

And one more, if I may.

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Patrick De Maeseneire - *Adecco SA - CEO*

Can I just give one comment on there? It's indeed the case that our Industrial business in France and India started to increase from the summer of last year, and especially accelerated into the fourth quarter, so on the Industrial side, comparisons will be slightly more difficult.

And again, you've seen that our Office business now turned into positive territory, as well as our Professional Staffing. That is accelerating, and to a certain extent that should compensate for it. But on the Industrial side, you already have seen that in Q3 we had a bit more difficult comps for France.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay, thank you very much. And do you consider that your key clients are still looking for more flexible cost model; i.e., serving Temp more than Perm?

Patrick De Maeseneire - *Adecco SA - CEO*

Across the board, this is the case. We're saying that since 1.5 years; we said it also during the Investors' Days our customers want to have a bigger part of flexible workforce going forward, in order to stay competitive. This also because their philosophy of manufacturing has totally changed from manufacturing into inventory to more made to order. So we are long term pretty confident that penetration rates, deep penetration rates that we have had in 2006/2007 will be surpassed, because our customers clearly want to have now a bigger part of flexible workforce as part of the total workforce.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay. Thank you very much.

Operator

Next question, Mr. [Mario Montenare] from [NZB]. Please go ahead, sir.

Mario Montenare - *NZB - Analyst*

Yes, good morning, everyone. Most of my questions have been asked already, but I have three of them still for you. The first one is about conversion rates. I guess you are back to like peak level in terms of conversion rates in Q3 2010. I was wondering if you have any target on that looking into Q4 and next year.

The second one is on DSO. You managed to remain stable in terms of DSO in Q3 at 53 days, and I was wondering if you have any kind of guidance for us looking into Q4 and next year.

And the last one is I refer to the very last question of my colleague earlier. I think your competitors mentioned in the occasion of the Q3 2010 figures that there is a kind of secular shift in terms of growth in the staffing market, so this uncertainty we have on the market perspective is really providing some very secular growth catalyst for temp staffing. And I was wondering if there was any change in this kind of approach or secular trend you look at, or you can see they're looking into 2011/2012; so the next upcoming cycle it will be different from the one we saw so far; or in other words, if you think that you can beat as well organic growth rates you saw in the past cycle on the back of lower GDP growth rates.

Thanks.

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Dominik de Daniel - *Adecco SA - CFO*

If you look to the conversion rates, they obviously improved since last year, no doubt about it, but the conversion rates in the [material] of the countries are not yet -- they are where they should be. So we expect of course that conversion rates of the countries will improve, but we're not guiding here on a certain number.

Now regarding the DSO, when we introduced back in 2006, we said in 2009 we want to have a DSO of at least 55 days. We had at this time 60 days. We are now by 53 days. Of course, partly this was also helped with a new law in France of shorter payment terms, but with the 53 days, we are more or less on our targeted corridor, and I think this is a fair assumption going forward.

Patrick De Maeseneire - *Adecco SA - CEO*

Talking about the shift towards more temporary staffing as part of the total workforce, I already covered that partly. This is also clear if you look at the job reports from North America, and also again, the last one where indeed 150,000 fixed jobs were created. But then again, the unemployment rate stayed at the same level of 9.6%, which means that the jobs that were created were just sufficient enough for the new entrants into the workforce, whereas 35,000 new temporary jobs were created, bringing the number now since the pickup to more than half of the total number of jobs of 900,000 that was lost during the crisis.

And we clearly see, and we have shown a chart on this during our Investor Days in Miami, we clearly see that compared to other cycles, the temporary staffing is picking up a lot faster now, and we expect this indeed to continue again, because our customers are telling us that they want to have a bigger part of flexible workforce going forward.

Now of course, we need underlying GDP growth also into next year. This year was a kind of a bumpy recovery. The year started with quite some optimism, then the summer, as you all know was very pessimistic, and now we are back to more realism and more -- slight optimism, I would say. So next year, we expect growth rates that might be slightly below -- I mean on the economic environment might be slightly below this year's, but less bumpy and more predictable, which is good for our customers because that means they can plan better.

But with the underlying GDP growth that is forecasted now for next year, plus the higher penetration, we are confident for a good growth for next year. But of course, we're going to have to have a base effect.

Mario Montenare - *NZB - Analyst*

Terrific. Thank you so much.

Operator

Next question, Mr. Teun Teeuwisse from ABN Amro. Please go ahead, sir.

Teun Teeuwisse - *ABN Amro - Analyst*

Good morning, gentlemen. A question on your Temp margin, because you still reported 50 basis point pressure in Temp margin. But last year, compared to the second quarter, your third quarter took a pretty bit hit on the Temp margin, and it doesn't seem to recover although the comparison base is improving. Can you explain what the reason is for that?

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Dominik de Daniel - *Adecco SA - CFO*

Teun, Dominik speaking. There was -- let's say there was a little bit a hit, but it was not -- it was really not so much from Q2 to Q3 in our Company. Maybe in some peers it was a little bit stronger. So basically, we see since the beginning of the year stable Temp margins, but since last year, the price pressure was not as strong over the course of the year. There was rather a little bit of a hit from Q4 to Q1. Yes? We are not surprised that the Temp margin year-on-year is still 50 basis points down.

Teun Teeuwisse - *ABN Amro - Analyst*

Okay, so that should be flat going into the fourth quarter as well?

Dominik de Daniel - *Adecco SA - CFO*

As I said, Temp margins are since the beginning of the year pretty stable.

Teun Teeuwisse - *ABN Amro - Analyst*

Okay, all right. And can you indicate if there is any currency or mix effect in your Temp margin? Have you identified that?

Dominik de Daniel - *Adecco SA - CFO*

That's really not a major point, because you have to see that we basically -- in everything a country we sell and source in the same currency, so basically that's a natural hedge.

Teun Teeuwisse - *ABN Amro - Analyst*

All right. And then on your cost base, can you indicate what your spare capacity is in your network right now, because your cost base expansion has been very low? How long can you keep up with this, given the current growth rates?

Dominik de Daniel - *Adecco SA - CFO*

I say always the spare capacity measure, it's not black and white. You cannot say -- we think the spare capacity 10% to 15%, but it's not that you grow 10% to 15% before you hire again people. That's just now how the model is working. So this is our capacity in principle in the years to come. On the other hand, we have to make here and there some selective investments.

What we have done also from Q2 to Q3, we added 2% headcount, primarily in emerging markets, which of course has not such a big impact on the cost base, because people of course in these countries are a little bit cheaper. But also we added in Germany. And going forward, we look how our sales are, how our capacity is, and we do selective investments.

Teun Teeuwisse - *ABN Amro - Analyst*

Okay, but can you give an indication given the current growth rates how long you can keep up with these SG&A levels?

Patrick De Maeseneire - *Adecco SA - CEO*

Teun, as Dominik said, we estimate ourselves that we still have between 10% and 15%. You've seen that in Q2 we had a 13% increase in revenues with 7% less FTEs. Now we have a 17% increase in revenues with the same FTEs as last year, so which means

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an increase in productivity around 17% to 20% over these quarters. And of course that has to -- that will ease out, because you cannot continue like this, but you've seen that quarter-over-quarter we only added 2% of FTEs for additional growth. So we will continue to manage that very well and have good leverage.

Teun Teeuwisse - *ABN Amro - Analyst*

Okay, thank you. And final question, can you give any assessment of what you believe that the working day impact will be in the fourth quarter? I know it's difficult given Christmas and New Year, but what is your assessment of that?

Dominik de Daniel - *Adecco SA - CFO*

Let's say you're right. With Christmas, it is always difficult to assess. I would say it's -- yes, it's less than 1% negative, but it's really less than 1%, so --

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Teun Teeuwisse - *ABN Amro - Analyst*

All right. And that's sequential?

Dominik de Daniel - *Adecco SA - CFO*

No, year-over-year.

Teun Teeuwisse - *ABN Amro - Analyst*

Year-over-year. Okay, thank you.

Dominik de Daniel - *Adecco SA - CFO*

In Q4, you have always no working days then in Q4.

Operator

Next question, Mr. Tom Sykes from Deutsche Bank. Please go ahead, sir.

Tom Sykes - *Deutsche Bank - Analyst*

Good morning, everybody. Congratulations on the numbers. I just wanted to ask about some of the businesses which may have lagged the overall Group growth rate. In particular, I know it's the wrong time of year, but perhaps the Construction business in France, what the forward order book is like there; maybe your US IT business and what's happening in the organic growth side in that business; and also in Japan, just how big are the outsourcing contracts that you've signed, please?

Dominik de Daniel - *Adecco SA - CFO*

Tom, Dominik speaking. If we talk first about US business, first of all, I think if we look to Professional Staffing in the whole US, and if I exclude Outplacement, because it's not staffing, so our Professional Staffing in the US is growing 19%, and with this I

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think it's pretty strong in the recent quarter. But it's true if we look to the segments, we're lagging organically a little bit in the IT segment which is still down 3%.

On the other hand, our Engineering business in the US is growing 46%. And of course, Engineering and IT, sometimes it's very close together the people which we provide.

If we on the other hand look also to our acquired businesses MPS, and our acquired business MPS in IT, we have currently a growth rate of 15%.

Tom Sykes - *Deutsche Bank - Analyst*

Okay.

Patrick De Maeseneire - *Adecco SA - CEO*

And coming back, Tom, to your question about the Construction in France, quarter-over-quarter if we look at it from the midst of last year we saw declines, and now recently we have seen a pickup in our Construction business. It is a substantial part of our business. It is slightly above 50% of our total business, but now from Q2 to Q3, we have seen single digit increase again on that business, and we continue to forecast for that.

Tom Sykes - *Deutsche Bank - Analyst*

Okay. But that's single digit year-on-year?

Patrick De Maeseneire - *Adecco SA - CEO*

No, quarter-on-quarter and year-on-year as well.

Tom Sykes - *Deutsche Bank - Analyst*

Okay, thank you. And just -- sorry, how big are the outsourcing -- sorry, the contracts that you said you'd won in Japan?

Dominik de Daniel - *Adecco SA - CFO*

So basically, they are quite important for us, but overall it will have, let's say, mid single digit percentage impact on the growth rate.

Dominik de Daniel - *Adecco SA - CFO*

Great, thank you. I just also wanted to ask sort of seasonal factors with regards factory shutdowns and maybe what your large retail clients are telling you about their seasonal retail hiring. Do you have any indications as to the year-on-year effect on those particular seasonal issues in Q4, please?

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Patrick De Maeseneire - *Adecco SA - CEO*

For the factory shutdowns, no worrying news at all on the retail side, especially from the US rather positive, so there the retailers are really ramping up for the season, end of the month now for Thanksgiving. So there we had positive signals on the order books of our customers that are in manufacturing; no worrying news. They still say that the order books -- they said in the summer by the way as well that the -- and it appears to be the case that the order books were still pretty solid, so this will continue until the end of the year.

Dominik de Daniel - *Adecco SA - CFO*

Okay, thank you. Fantastic. And you're US Light Industrial business, how far off being -- how far off the peak levels is that actually running at the moment?

Dominik de Daniel - *Adecco SA - CFO*

It's -- we have a growth rate in US Industrial of currently 40%, and if we look back to the peak levels, it is still 10%/15%, I think 12% below prior peaks.

Tom Sykes - *Deutsche Bank - Analyst*

Okay, thank you. And then just my final question, please. It's just on the subsidy calculations in France, and also that you potentially face a [SUI] increase, and I don't know whether you've been told anything more about whether the Hire Act will be extended into the US next year. But could you just make some comments perhaps on whether you're facing any -- what the incremental gross margin pressures if any are coming through at the beginning of next year, please?

Dominik de Daniel - *Adecco SA - CFO*

So this Hiring Act very benefited this year, but it is really not significant, so that it is not that we have here now millions of dollars because of this Hiring Act; it's really not so much for the US.

If we look to France, it is the case that the whole calculation of social tax rebates, the concept will be redone, and that will lead to less kind of social tax rebates for lower skilled people, or basically for people on the minimum wage or close to the minimum wage, effective as of January 1.

Now that said, this is not an impact related just to the temping industry, this is an impact related to the whole French labor market, so also our clients, which have also people with lower skill sets will benefit from -- or will not any more benefit so much than before.

We believe nonetheless that the rules are not yet finalized and how much the impact will be. This is still work in progress. We believe the overall increase is rather moderate and that under normal circumstances, given that this is not only related to the temping industry, there should be a situation where we and also the market should pass it on to the clients, also taking into account that French Temp margins are rather -- very competitive and already at the lower end, and that it may be a slight remaining impact. That could well be, but we believe this is rather low for the time being.

Tom Sykes - *Deutsche Bank - Analyst*

Okay, perfect. Thank you very much. Thanks.

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Operator

Next question is from Marc Zwartsenburg from ING. Please go ahead, sir.

Marc Zwartsenburg - *ING - Analyst*

Yes, good morning. It's Marc here. A follow-up question on the outsourcing contract in Japan. What will be the impact on your margin for Japan? Is the outsourcing contract potentially somewhat diluted for the margin, or will it add to the margin? Can you maybe add a bit to that?

And my other question is on the Netherlands. You report plus 13% for the Benelux, but could you maybe split it out between Holland and Belgium? And could you maybe also comment a bit on the latest trends in Holland?

We've heard a few peers reporting quite accelerating trends over the last weeks. You also see [Adia] figures improve. Could you maybe give a comment whether you -- can you confirm whether you've seen in the last couple of weeks also an acceleration in Holland?

Patrick De Maeseneire - *Adecco SA - CEO*

Marc, you will have to allow me not to split Belgium and Holland. It's already good that the Belgium are trying to split Belgium, so we should not split it further, so I will be reporting on the Benelux and we want to continue to do so.

Now indeed in Holland, we see a very good development, and also in the last couple of weeks we have been very strongly in that market, and we continue to be very strong. And now also the Office business is increasing as well as the Professional Staffing, so that should be -- should continue to be good news into the next couple of months.

On the margin for the Japanese contracts, Dominik could answer.

Dominik de Daniel - *Adecco SA - CFO*

The outsourcing contracts, overall, they have pretty similar margins than the whole Company, so we expect similar EBIT levels to the outsourcing contracts. These -- the good thing about these contract is also these are rather long lasting contracts, so they have a duration of three to four years, so it's pretty good, pretty stable business.

Since this is outsourcing in the beginning, you have a little bit of ramp up costs there because its outsourcing and you have to buy some equipment, you have to train people, but this is not material.

Marc Zwartsenburg - *ING - Analyst*

Okay, so looking to Japan, maybe a bit of a follow-up, would you expect given the measures you've taken there in that the market is bottoming out a bit, that you will see some positive operational leverage next year?

Dominik de Daniel - *Adecco SA - CFO*

We are optimistic that we have next year, starting of next year growth, and if we have growth, we should also have operational leverage.

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Marc Zwartsenburg - *ING - Analyst*

Okay, thank you.

Patrick De Maeseneire - *Adecco SA - CEO*

Thank you, Marc. Next question, please.

Operator

Next question, Mr. Jaime Brandwood from UBS London. Please go ahead.

Jaime Brandwood - *UBS - Analyst*

Morning, Patrick; morning Dominik. Could I start by asking again about the acquisitions? Because again, they do seem to be performing pretty well. I think based on the disclosure you give us in terms of organic EBIT increase and the other information, that we can just about calculate that the EBIT contribution from two acquisitions must have been about EUR30 million in Q3. I just wondered if you could confirm that number. And then also if you could, give us a sort of split between US and the UK on that EUR30 million.

Dominik de Daniel - *Adecco SA - CFO*

So the -- let's say there were also some smaller acquisitions which we had, but not only MPS and Spring, but also the smaller ones they were basically there. And let's say it's not fully EUR30 million; it's a little bit -- it's really a little bit less, but partly there are also some integration costs included.

Patrick De Maeseneire - *Adecco SA - CEO*

But overall, we have in the recent quarter, we have in our US acquired business, we have an EBIT margin above 8%, and this is the big majority of the business. Then of course all of the UK they contributed positively so that EUR11 million which we're showing on the profit for Q3.

It also -- it's not only the cost savings of the integrations, it's also related that the (inaudible), and also a [modest] head of profit above 5%. But the impact of MPS and Spring is not fully EUR30 million [impact].

Jaime Brandwood - *UBS - Analyst*

And just on the UK specifically, I think you gave us September exit rates, so a few of the bigger countries, but did you comment on the trends in the UK in September and October organically?

Dominik de Daniel - *Adecco SA - CFO*

Let's say in the UK, our decline rate is pretty -- was pretty stable, and we see there no major change now in the UK. We've also to consider that -- given that we bought Spring one year ago here and there for large account, that makes more sense than when you're just integrating basically both former branches or national teams on the same bit.

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So the pro forma growth of our UK business, if we do so like all the acquired business we would have already one year ago would be rather 4% than the minus 1% which we show organically.

Jaime Brandwood - *UBS - Analyst*

And what percentage of pro forma UK revenue is public sector?

Dominik de Daniel - *Adecco SA - CFO*

15%.

Patrick De Maeseneire - *Adecco SA - CEO*

One five.

Jaime Brandwood - *UBS - Analyst*

One five, perfect. Okay, and then just moving on to Permanent Recruitment, the 35% growth rate, and I think you mentioned 38% in the UK. Could you give us some of the growth rates for some of the other key countries that have a reasonable amount of perm exposure, like the US and so forth?

Dominik de Daniel - *Adecco SA - CFO*

Good question. So if we look to North America, and I talk here of course about organic growth rates, we have growth in Perm of 22% in Q3. Then France had a growth rate of 17%. The Russian markets are also quite important for us. There we have organic growth rate of 71%. The UK, as said before, 38%. These are the most important markets.

Jaime Brandwood - *UBS - Analyst*

And the US, that 22%, was that a little bit slower than Q2 or --?

Dominik de Daniel - *Adecco SA - CFO*

It was accelerating. We had in Q2 14%.

Jaime Brandwood - *UBS - Analyst*

Right, okay. Yes, that's it. Thanks very much.

Patrick De Maeseneire - *Adecco SA - CEO*

Thank you.

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Operator

The last question is from Mr. Toby Reeks, Bank of America Merrill Lynch. Please go ahead, sir.

Toby Reeks - *BofA Merrill Lynch - Analyst*

Morning, guys; a couple, if I can. First of all, it's just to try and get a hand on the seasonality of costs. Costs went down 1% sequentially. Can you give us an indication of just how much of that is the seasonal impact, and what we should expect going back in percentage terms as we go into Q4?

Dominik de Daniel - *Adecco SA - CFO*

So basically, the seasonal impact is, yes, between 2% and 2.5%, just from a seasonal point of view.

Toby Reeks - *BofA Merrill Lynch - Analyst*

And should all of that revert into Q4?

Dominik de Daniel - *Adecco SA - CFO*

Yes, and then there is some selected investments, we're also doing a headcount on top.

Toby Reeks - *BofA Merrill Lynch - Analyst*

Okay, thank you.

And just finally on the outlook I guess, and your conversations, has your visibility changed at all in any terms of length, and are you actually talking to clients now about contracts and where you think growth will be in Q1 next year. I know you alluded to speaking to retailers and manufacturers in the US, are you having conversations about Q1 2010, or is that just way too far off at the moment?

Patrick De Maeseneire - *Adecco SA - CEO*

You have to allow us not to guide now into Q1. We are talking to our customers. They still have limited visibility themselves. They are pretty confident until year-end with their order books, so going into next year should be a bit more -- or a bit less volatile than it was at the beginning of this year, but more than that we should add at this moment.

Toby Reeks - *BofA Merrill Lynch - Analyst*

Okay, and then finally, could you -- any chance of an indication of tax rate for next year?

Dominik de Daniel - *Adecco SA - CFO*

The tax rate for the next quarter 34%, and under normal considerations, you have to see that in principle also for the midterm, that the underlying tax rate before French business tax will go somewhat up. On the other hand, the French business tax impact will maybe go somewhat down, so the current run rate tax rate is a pretty good assumption.

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Toby Reeks - *BofA Merrill Lynch - Analyst*

Okay; thanks very much, guys.

Patrick De Maeseneire - *Adecco SA - CEO*

Okay, ladies and gentlemen, I would like to close the call here, and like to thank you for your interest in our Company. For your information, we will report on our fourth quarter on the March 3, of next year. So I would like to wish you very good days ahead, a happy year-end, and hope to see you all very soon.

Operator

Ladies and gentlemen, the conference is now over. Thank you for choosing the Chorus Call facility, and thank you for participating in the conference. You may now disconnect your lines. Goodbye.

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