FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning, or good afternoon. I am Dino, the Chorus Call operator for this conference. Welcome to the Adecco Q1 2011 results analysts and investors conference call.

Please note that, for the duration of the presentation, all participants will be in listen-only mode, and the conference is being recorded. After the presentation, there will be an opportunity ask questions. (Operator Instructions) This call must not be recorded for publication or broadcast.

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

Karin Selfors - *Adecco S.A. - Head of IR*

Good morning, ladies and gentlemen, and welcome to Adecco's first quarter 2011 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 look at the forward-looking statement in this presentation.

This is today's agenda. Patrick will present the operational highlights 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.

With that, Patrick, I hand over to you.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Thank you, Karin. Good morning, ladies and gentlemen, and welcome to today's results conference call. Let me first walk you through the highlights of our Q1 results.

We achieved, again, strong double-digit revenue growth this quarter. After 17% organic top line growth in Q3 and Q4 last year, revenues were up 18% organically in Q1, despite an increasingly higher base. Growth continued to be mainly driven by the Industrial business, but also, our Office business grew double digits. Growth in Professional Staffing is encouraging, but the Industrial Staffing business still is the main driver for the strong top line developments.

Our main markets, France and North America, maintained their very robust growth in Q1. Our businesses in Germany, Italy and the Netherlands had also outstanding growth, clearly above the market. Also, Japan, and UK & Ireland, returned to positive organic growth this quarter.

SG&A was, again, very well controlled. Sequentially, our costs were up 1% in constant currency, and before integration costs. EBITA before integration costs came in at EUR175 million in Q1, up 43% organically. And we achieved a margin of 3.6%, up 60 basis points year on year.

Revenue growth remained steady throughout the first quarter, with March up 17%, adjusted for business days. Growth in April was a touch lower. This, of course, because of the comparison to a much higher base.

As always, let me go through the organic revenue development by region. All regions had, again, a very sound revenue growth during the first quarter. North America achieved 16% revenue growth in Q1. This growth rate includes Lee Hecht Harrison, which we now report as a separate segment. Excluding Lee Hecht Harrison, North American revenues were up 17% organically in the first quarter. General Staffing revenues grew 23%, and Professional Staffing also grew double digits.

In Europe, revenues in Q1 were up 21%, a further acceleration, compared to the organic growth rate of 19% achieved in Q4. In particular, Germany, Italy and Switzerland saw further accelerating growth. Growth in France remained very robust, and UK & Ireland returned to positive growth year on year of plus 3% in the quarter under review.

Rest of World, including emerging markets, was up 10%. Japan returned to positive growth of 1% in Q1, thanks to the outsourcing contracts we won last year. Growth in Australia and New Zealand was solid, up 15%, as was growth in the emerging markets, where revenues were up 19%.

We now review our main markets in more detail. Please be reminded that, since January 2011, we changed our reporting structure. We now report Lee Hecht Harrison, our outplacement and career development business, as a separate segment.

France, our largest market, maintained very solid growth momentum. Revenues in Q1 were up 23%, to EUR1.4 billion, growing even stronger year on year than in Q4. Growth continued to be driven by strong demand in automotive, chemicals and manufacturing. Also, construction saw a significant pick up year on year, helped by good weather conditions. Perm growth was also strong, up 39% in Q1.

In Q1 2011, the EBITA margin was 2.6%, an increase of 20 basis points, compared to the prior year's first quarter.

A reduction in the French payroll tax subsidy had a negative impact of 70 basis points on the French gross margin in Q1 2011. By the end of the first quarter, we were able to successfully pass on 50% of the subsidy reduction to our clients, through price increases.

For the full year 2011, based on what we achieved in Q1, we estimate that the negative effect of the payroll tax subsidy cuts on the French gross margin will be less than 20 basis points and, for the Group, the impact will be negligible.

Revenue growth in March continued to be strong, increasing by 22%, adjusted for trading days.

In North America, revenues were up 28% in constant currency. On an organic basis, we achieved 17% revenue growth in Q1. The amount was driven by the automotive, manufacturing and technology sectors.

General Staffing continues to be the main growth driver in North America, as revenues increased by 23% in constant currency. Both the Industrial business, as well as the Office business, maintained their strong growth momentum. Our Professional Staffing business continued to grow double digit, driven by the engineering and technical segment, which was up 23% organically.

Our IT business was with 2% organic growth behind the market. Growth was still held back by the integration, as already mentioned in our Q4 results call. The recent successful implementation of the front office system allows us to now focus stronger on sales. We, therefore, expect growth to accelerate in the second half of this year. Perm was up 14% organically this quarter. The EBITA margin was 3.7% in Q1.

Integration costs for MPS amounted to EUR2 million in the quarter under review. Integration of MPS Group is progressing well, and we are on track to complete the process by the end of this year. As previously indicated, the initially targeted synergies of EUR25 million will be exceeded. In March, revenues were up 15% in North America, adjusted for trading days.

Revenues in the UK & Ireland increased by 10% in constant currency, and returned to positive growth of 3% organically in Q1, thanks to improving trends in the IT and financial services sectors. The Perm business again delivered a very solid growth, as revenues were up 40% on an organic basis.

The region contributed an EBITA of EUR8 million in Q1, and had integration costs related to MPS of EUR1 million. Integration of MPS in the UK continues to be fully on track, and will be completed during 2011.

In Japan, first quarter revenues were up 1% in constant currency to EUR352 million. As said in previous calls, the return to positive revenue growth was driven by the outsourcing contracts we won last year. Overall, the amount in Japan was, for temporary staffing, rather slow.

The EBITA margin was 5.5% in the quarter under review, sequentially up 50% basis points, thanks to the ramp up of the outsourcing contracts.

The financial impact on our business of the earthquake and tsunami was minor in Q1, and we only see a very limited negative impact, going forward. Our colleagues in Japan did an outstanding job in these exceptionally difficult times.

Germany & Austria continued to develop very strongly in the first quarter, driven by automotive, industrial, manufacturing, and electronics. Organically, revenues were up 38%, compared to an organic increase of 32% in Q4 2010. Growth remains strongest in the Industrial Staffing business. In the Office business, and in Professional Staffing, growth also continued to be double digit.

The profitability achieved in Germany & Austria was very solid. The region generated an EBITA of EUR29 million in Q1. The EBITA margin was 8.1%, an increase of 300 basis points versus the prior year's first quarter. In March, revenues were up 33%, adjusted for trading days, despite increasingly higher comps.

Finally, we discuss Adecco's development by business line on an organic basis. In Q1 2011, revenues in our General Staffing business were up 21%, a slight increase compared to the growth rate in Q4. The Industrial business was, again, the main growth driver with revenues up 27% in Q1.

Growth remained strong in North America, with revenues up 22% year on year, despite a tougher comparison base. In France, year-on-year revenue growth even accelerated to 25% in Q1, as did growth in Germany and Austria where revenues were up 48%. In Italy, revenues increased by 46% in the first quarter.

The Office business grew 11% this quarter. Revenues in Japan turned positive and grew 2%. North America grew 23%, while revenue growth in the Nordics continued to be strong, with revenues up 23%.

The Professional Staffing revenues increased by 10% in the first quarter. Revenue growth was particularly strong in Germany and France, whereas North American revenues continued to grow also double digit.

Our Solutions business, which is now reported on a standalone basis, declined by 14%, mainly driven by the counter-cyclical outplacement business, which declined by 22%.

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

Dominik de Daniel - *Adecco S.A. - Group CFO*

Thank you, Patrick. Good morning, ladies and gentlemen, and welcome from my side as well. I will begin my part of the presentation with an overview of the P&L. In Q1 2011, we had revenues of EUR4.9 billion, up 24% on a reported basis, and an increase of 18% organically.

The gross margin was 17.4% in Q1 2011, down 60 basis points, compared with prior year. Organically, the gross margin was down 80 basis points, year on year. SG&A was up 14% in Q1 2011, compared to the prior year. Organically, SG&A increased 6%, year on year.

The Group's EBITA was EUR172 million, plus 47% on an organic basis. Excluding EUR3 million integration cost, EBITA was at EUR175 million, up 43% on organic basis. And the margin was 3.6%. Net income was EUR100 million in the quarter under review.

The Group's gross margin was 17.4% in Q1 2011, down 60 basis points, year on year, and down 80 basis points organically. Temporary Staffing had a negative impact of 40 basis points on the Group's gross margin in Q1 2011. There are up 20 basis points related to the French payroll tax subsidy cut; the rest was primarily due to the business line and client mix.

Permanent placements positively contributed to the Group's gross margin, with 10 basis points in Q1. Our [account] revenues were up 26% organically in the quarter under review. In Q1, the Outplacement business negatively impacted Group's gross margin by 40 basis points, and other activities had a negative impact of 10 basis points. Acquisitions had a positive impact of 20 basis points; less than in previous quarters, given that MPS Group is included in our [side] since February last year.

Now let me discuss how our cost base developed in the first quarter. We continued the strict cost control throughout the quarter, despite the strong top line growth. SG&A increased by 14% on a reported basis, compared to prior year's first quarter. Organically, SG&A was up 6%. Sequentially, SG&A was up 1% in constant currency, and then excluding integration costs. Organically, FTEs were up 4% in Q1, year on year. Sequentially, FTEs were flat.

We again achieved solid top line growth, while maintaining a tight grip on costs, as we continue to benefit from structurally optimized cost base. Exploiting growth opportunities, while managing the cost base tightly, remains a key focus for us. With this, we will continue to deliver good operating leverage.

Moving on to the balance sheet; at the end of the quarter we had cash and short-term investments of EUR543 million. DSO was 54 days in Q1 2011, the same as in Q1 last year. Goodwill and intangible assets amounted to EUR3.8 billion at the end of the first quarter. Adecco's shareholders' equity was EUR3.5 billion at the end of March 2011.

Turning to the cash flow statement, operating cash flow generated in the first quarter amounted to EUR22 million, compared to EUR66 million in the prior year. As a consequence of the strong revenue growth, working capital needs increased further in Q1 2011, compared with Q1 2010.

Cash flow used for investing activities amounted to EUR43 million. We invested EUR24 million in CapEx, which compares to EUR18 million in Q1 of last year. During the first quarter, we bought back shares for EUR36 million.

Net debt at the end of March 2011 was EUR806 million, an increase of EUR55 million compared to year end 2010. In Q1 2011, we bought back shares for EUR36 million.

Now, I would like to update you on our financial guidance for 2011. We are planning for CapEx of around EUR100 million for the year 2011. Post the recent debt refinance transaction, where we extended the debt maturity profile, interest expenses are expected be around EUR70 million for the full year 2011, excluding interest income.

As previously announced in the second quarter of 2011, we recognize a one-time expense in the Other financial expense line of approx EUR10 million, in connection with the debt transaction.

Our corporate costs for the full year 2011 are expected to be approx EUR85 million. Amortization of intangible assets is forecasted at EUR55 million for 2011. In Q1 2011, we expect a tax rate of 32%.

With this, I hand back to Patrick.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Thank you, Dominik. Let me finish with the outlook for our business. Revenue growth remained steady throughout the first quarter of 2011, with March up 17% adjusted for business days, despite an increasingly higher base. Growth in April was a touch lower, of course due to the comparison with an even much higher base.

Especially in today's environment, with moderate GDP growth in most economies, the ability to react to sudden changes in demand, through flexible labor and lower inventory levels, is seen as an advantage by many of our clients.

We believe that we will continue to witness a jobless recovery through most of 2011 and, therefore, we foresee unemployment rates remaining at high levels. We remain confident that the current environment offers attractive growth opportunities for our industry. We will continue to exploit these opportunities while keeping a tight grip on costs and working hard to improve pricing, as demand remains firm. With the growth and profitability levels achieved to date, we are well on track to reach the EBITA margin target of over 5.5%.

With this, I would like to open the floor for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Kean Marden, RBS.

Kean Marden - *RBS - Analyst*

I wonder, first of all, if I could just fully understand the comments that you made regarding North America. You mentioned that integration had basically held back some elements of the business, and you've disclosed a 17% organic revenue growth number for the first quarter. Apologies if it wasn't quite clear from my side, but were you basically flagging that you anticipated a pick-up in year-on-year growth momentum, as the year progressed?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

What I was referring to was to the Professional Staffing segment, to the IT.

Kean Marden - *RBS - Analyst*

Okay, rather than North America as a whole?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Rather than North America as a whole. As you have seen, we had 17% organic growth, 15% in March, so the job report that came out last Friday flagged that the industry is still growing strongly, in double-digit territory, so we have no reason to be pessimistic on North America. But what I was referring to was the Professional Staffing, and mainly the IT segment.

Kean Marden - *RBS - Analyst*

Okay, thanks for clarifying. Just whilst you touch on the non-farm number, were you slightly surprised by the sequential deterioration in Temp, or does Easter have an effect here and the day adjustment is difficult to assess?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

We always have this kind of seasonal effect from March into April, and we've seen that more than 550,000 jobs in total have been recuperated since the start of the pick-up. So this for April stayed at the same level, and we saw this, actually, as positive news.

Kean Marden - *RBS - Analyst*

Okay. Then just finally from me on Germany; the Q1 EBIT margin is a great performance. If I look historically, that scale of EBIT margin in the first quarter is normally consistent with a full-year outcome of about 10%. Is there anything that would add or detract from that type of number?

Dominik de Daniel - *Adecco S.A. - Group CFO*

If you look from a quarterly point of view, you'll see there is some volatility in the EBIT margins in Germany. Why is this the case? Because all the temps are fully employed and, of course, if there is a bank holiday, you pay the bank holiday, but you cannot bill. And you have a lot of bank holidays in the second quarter. Basically, nothing in Q1, in Bavaria and [Battenberg] where we have one, but in the rest of Germany not, so you have a rather good margin in Q1, a little bit lower one, the lowest normally in Q2, because you have a lot of bank holidays, you have Easter normally in Q2, and then you have normally a fantastic one in Q3, because there you have the highest amount of working days, but we are very pleased with our 8.1% in Q1.

Kean Marden - *RBS - Analyst*

Yes. So the seasonality of the EBIT margin in Germany is reasonably well understood; I suppose, just looking back over the last 5 or 6 years, as I say, an 8% plus number for the first quarter would be consistent with a full year number of about 10%. Is that the right type of thinking?

Dominik de Daniel - *Adecco S.A. - Group CFO*

We're not guiding for the whole year, of course. What we have to do, we also have to hire a little bit more people, in Germany, if we're growing at 38% we also had some headcount in Germany.

Kean Marden - *RBS - Analyst*

Thank you very much for your time.

Operator

Marc Zwartsenburg, ING Group.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

A couple of questions from my side. First of all, Dominik, you referred to your interest cost line; the guidance was up. Did you mention that you had EUR10 million one-off costs, so to speak, in Q2, due to the refinancing? Just to check on that one.

Dominik de Daniel - *Adecco S.A. - Group CFO*

The EUR10 million is related to the fact when we changed the maturity profile we bought bonds back, and these bonds we are, of course, trading above par. So basically this one-time impact is recognized in Q2, in the so-called other income/other expense line, so it's not in interest expenses. And as we basically announced when we announced our debt transaction, it's just the case that, given the facts that the bonds which we bought back, they had historically seen a rather higher coupon, therefore they trade above par and, therefore, we bought them back at nominal value.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

So the guidance includes the EUR10 million one-off?

Dominik de Daniel - *Adecco S.A. - Group CFO*

The EUR70 million is only related to the interest expense, and as we said already when we sent out the press release, when we finalized our transaction, and we said, besides this, there's a EUR10 million one-time cost in the other financial expense line, so not interest expense, in Q2.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

Okay. Very clear, thank you. Then a question on the Netherlands. You mentioned outstanding growth in the Netherlands. Well, that's quite a surprise, because your peers didn't perform that well. Could you give us the number for Q1, what you see in the Netherlands? And maybe also referring to that, [you also] mentioned some pricing pressure in that area, can I take from this that you've been more aggressive in your tendering in Q1, and how should we see that, going forward?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Marc, as you know, we don't give separate numbers on Holland and Belgium, but since you're asking, and since I'm in a good mood, I will give you some guidance.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

Thanks.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

The sales growth in the Benelux, you have seen what that says, 17%, and if you compare to that average, the sales growth was slightly better in Belgium than it was in the Netherlands.

If you look at the profitability of 4.7%, the return on sales is quite higher in the Netherlands than in Belgium. You've seen that for the region we are up 60 basis points, so for us this is quite a proof that we are certainly not the aggressive ones in that market. So if it's not us, and it's not [Diemen], then you have to look at --

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Marc Zwartsenburg - *ING Financial Markets - Analyst*

Yes, we can make a good guess, I think.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

You have to look at either Milwaukee or Elmira, but if I would be you, I would look closer to home.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

Yes, that's what I thought. Okay. Then another question on your professional segment. I saw that your engineering, IT, and also the finance segments were softening a bit in Q1. Can you give us a bit more color what's going on there in terms of where we stand in the recovery, in the cycle?

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Dominik de Daniel - *Adecco S.A. - Group CFO*

If we look to the engineering segment, and if you look what is the biggest piece of engineering, the biggest piece is North America. And as we pointed out last year, always our engineering and technical business was growing very strongly [last] in North America already. So we had in Q4 36% growth in engineering and technical in North America; organically now it's 23%. So it's still very solid, but of course, since this is more than 50% of the business, North America, it has some impact on the overall growth rate. On the other hand, we see a slight acceleration our business in Germany from 16% last quarter to now 19% in engineering and technical, and this is the second biggest business.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

Sorry, the German part was?

Dominik de Daniel - *Adecco S.A. - Group CFO*

The German business was accelerating from 16% to 19%, in engineering.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

Okay, good news. Okay. Thank you. And on the finance segment?

Dominik de Daniel - *Adecco S.A. - Group CFO*

The finance segment, it slowed down a little bit, but really not a lot. This is primarily a little bit related to the UK, that it slowed there a little bit down, but not a lot.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

Okay. Thank you very much.

Operator

Jaime Brandwood, UBS.

Jaime Brandwood - *UBS - Analyst*

Just wondered if I could start by asking a couple of gross margin related questions. Just on France, I think you said the impact of the lower subsidies, plus also any sort of claw-back that you managed to achieve through price increases, was minus 70 basis points. Is that right?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

In France, yes.

Jaime Brandwood - *UBS - Analyst*

Can you just give us two things? One, what was the overall French gross margin movement? Was it better or worse than the minus 70 basis points? And then within that minus 70 basis points, can you pick apart, effectively, what the impact would have been had you not put through any price increases?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

If we look at the temp gross margin evolution, Jaime, Q1 over Q4, if you would add the 70 basis points, it would exactly be the same. So the pricing really stabilized, so there is no change there.

Dominik de Daniel - *Adecco S.A. - Group CFO*

From a sequential point of view.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Sequential, yes.

Dominik de Daniel - *Adecco S.A. - Group CFO*

Year over year, there was still a little bit of remaining decline, but not a lot more.

Now, regarding the subsidy, you have to consider the gross impact of the subsidy cut is in Q1 the highest. I'm not yet talking about how much we can net from gross to net, so clearly, rather 120 basis points. So therefore, the net impact was 70 basis points.

At the end of March, we recovered already 50% with better pricing, and this will clearly improve, going forward, so the outlook is there very good. And in one of the other clients we even get this retroactive, so we are very confident that the remaining impact of this whole thing on the temp gross margin for all France will be, for the whole year, less than 20 basis points, and that would mean for the Group is rather very small.

Jaime Brandwood - *UBS - Analyst*

Yes. So is there a possibility, given that there is a kind of seasonal aspect to how these subsidy reductions impact your French business quarter by quarter, if the impact underlying was 120 basis points in Q1, I'm assuming in the second half the impact underlying is probably less than 80 basis points, or no more than 80 basis points. Is there a possibility then that in H2, we could actually see your French gross margin going up year on year, because you've managed to recover more than the underlying impact in the second half, if you see what I mean?

Dominik de Daniel - *Adecco S.A. - Group CFO*

This is for Q4, for Q4 it's definitely true, what you're analyzing, yes.

Jaime Brandwood - *UBS - Analyst*

Okay. And then quickly on Germany, the gross margin there. Can you talk a little bit -- obviously with that very high EBIT margin implies that maybe you had pretty low levels of temp idle time, or bench-sitter impact. Can you talk about the German gross margin trend?

Dominik de Daniel - *Adecco S.A. - Group CFO*

We are very pleased with the German gross margin. As you know, already Q1 last year it was not that we had a lot of idle time left, so it's not that our gross margin is good because we have further reduced idle time. It was already, Q1 last year, very well managed.

Gross margins in Germany are doing well, there is strong growth. Of course, we already increased prices because we know we have a little bit wage inflation as of May 1, so overall, gross margins are really not a lot under pressure there.

Jaime Brandwood - *UBS - Analyst*

So you said you increased bill rates on May 1 in Germany?

Dominik de Daniel - *Adecco S.A. - Group CFO*

Sure, yes. And partially already a little bit earlier, yes? What you have in Germany is, of course, a little bit the mix impact. If you have DIS, that's the high professional staffing business, growing a little bit more than 20%, that indicates that the general staffing brands clearly exceeding 40% growth rate, of course, there's some mix impact on the gross margin. But, of course, this business has always delivered with a much more efficient delivery model, and then you make 300 basis points higher EBIT.

Jaime Brandwood - *UBS - Analyst*

Okay. And then lastly, a final gross margin question, and then I'll let someone else ask questions. Just Outplacement, how do you see the drag from outplacement playing out, because it does appear that, gradually, that drag is lessening, and I'm just wondering if you continue to expect a gradually reducing impact on gross margins from Outplacement?

Dominik de Daniel - *Adecco S.A. - Group CFO*

If we look to Q1, the negative impact was 40 basis points. It was in Q4 also 40 basis points. And you're right, in the quarters before, we have always seen a little bit less impact from Outplacement. This time it was the same, it was both 40 basis points.

Now, if we look to the [different] businesses, we have seen in the US even a slight sequential growth from Q4 to Q1, which is the first time since Outplacement weakened, so it indicates that in the US the business is troughing. But what is also true in Europe, sequentially the business is still going down, so therefore, there was no positive impact, let's say, on the [year-on-year] and negative contribution of the Outplacement business. But under normal circumstances, this minus 40 basis points should gradually go further down in the quarters to come.

Jaime Brandwood - *UBS - Analyst*

Okay, thanks a lot. Thank you.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Thank you, Jaime.

Operator

Michael Foeth, Bank Vontobel.

Michael Foeth - *Bank Vontobel AG - Analyst*

First question would be regarding the EBITA margin in the Nordics. That was down quite a bit, and I was wondering if you could tell us which countries that originates from, and what happened there?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

On the Nordics, you've seen we still had very growth of 23% overall. Sweden continued to be very strong. So was Finland.

We did have an issue in the first quarter in Norway, with overtime premium pay in our Outsourcing Nursing Home business, which is more related to the industry than anything else. But we had to solve this issue, and we retroactively paid the premiums to our temps over the past years, and that is what is weighing on the profitability in Norway. We also had some additional costs because we did an internal assessment of the situation to see whether we could have similar problems in other businesses, which appears not to be the case.

So in the meantime, we have stopped the Nursing Home business, which was 5% of total sales, and which we have done since three out of five customers stopped doing business with us, so we stopped that business completely, and you will see that, as from Q2, we will be back to good profitability in the Nordics.

Michael Foeth - *Bank Vontobel AG - Analyst*

Okay. And then a question on Japan, just to understand; obviously, sequentially, your EBITA margin seemed to be doing well, but year over year, was still down despite some very good growth. Can you explain what is the underlying reason for that 20 basis point decline, year over year?

Dominik de Daniel - *Adecco S.A. - Group CFO*

If you look to Japan, our growth was organically 1%, so it's not great growth. And we manage Japan always in a very flexible way, so it's not -- when the business went down Japan, our EBIT margin, not suffered a lot, just a little bit. So it means on the other hand, if the growth comes back, it recovers not already if you have just 1% growth, but it will recover, and we are very confident that you will see, in the quarters to come, even better EBIT margin in Japan.

Now we have also to see, you say it's 20 basis points down year over year, that's true. But of course, a little bit minor impact was also related to the earthquake and the tsunami; we had one week people only working -- or not working, and here and there you have to pay something, so that has a little bit impact. But overall, we are very pleased in such a quarter, and such an earthquake, to show a 5.5% EBIT margin. And the good thing is that the outsourcing contracts which we started they really now kick in, with good profitability, and this will help also, going forward, this year.

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Michael Foeth - *Bank Vontobel AG - Analyst*

Okay, thank you. And my final question would be regarding the LHH business or, basically, your new reporting structure. It would be very helpful if we could get last year's quarterly revenue and EBITA split based on you new reporting basis; that's not already available.

Dominik de Daniel - *Adecco S.A. - Group CFO*

It was delivered when we [gave the results]. We basically delivered the whole prior reporting structure in order that you can plan your models on it.

Michael Foeth - *Bank Vontobel AG - Analyst*

Okay, thank you.

Karin Selfors - *Adecco S.A. - Head of IR*

It's on the web, Michael.

Michael Foeth - *Bank Vontobel AG - Analyst*

Okay thanks a lot, Karin.

Karin Selfors - *Adecco S.A. - Head of IR*

You're welcome.

Operator

Tom Sykes, Deutsche Bank.

Tom Sykes - *Deutsche Bank - Analyst*

Just had, first of all, a question on the gross margins. If you look at the main business lines in Light Industrial and Clerical in the US and France, where are gross margins on a like-for-like basis, if you look from where you were at peak to where you are now, just on the Temp side, if you had a broad feel for that please?

Dominik de Daniel - *Adecco S.A. - Group CFO*

In principle, and if you look only to the Temp gross margin, of course, in the more, let's say, blue collar business they are more [away] than in professional. In some pieces of professionals we even not have seen gross margin decline, or only very small one. It's, of course, more in Industrial related business, also Clerical business in the US.

Tom Sykes - *Deutsche Bank - Analyst*

So do you have feeling for how much down say Light Industrial in the US is on a like-for-like basis?

Dominik de Daniel - *Adecco S.A. - Group CFO*

Of course, [I have a feeling] but it really depends on the segment, on the country. Overall, I would say this is a normalized way how you could comprise this from a [cyclical] point of view.

Tom Sykes - *Deutsche Bank - Analyst*

Okay, fair enough.

Dominik de Daniel - *Adecco S.A. - Group CFO*

And then [there's also the] business mix impact, because [overall in the] Industrial business we really have seen the growth comes primarily, or to a large extent, from contract business where the gross margins are [lower].

Tom Sykes - *Deutsche Bank - Analyst*

Yes. And then, I appreciate your comments earlier on what was happening in the US, but if you look at your US Light Industrial activity, and you look at the sequential growth that you've seen since the beginning of the year, previously you've stated where the US sequential growth has been in a historical context over the last 10, 11 years. And I just wondered how you were feeling about that sequential non-seasonally adjusted pick up, particularly in the Light Industrial activity please.

Dominik de Daniel - *Adecco S.A. - Group CFO*

If we look to the whole US it's the top 3 of the last 11 years, and the Light Industrial is a little bit behind, but not a lot. It's still clearly above the [medium].

Tom Sykes - *Deutsche Bank - Analyst*

Right, thank you. And then finally, I'm slightly confused, it might be me, but you've split out the Solutions revenues -- sorry the North American EBIT, does that still include VMS and MSP?

Dominik de Daniel - *Adecco S.A. - Group CFO*

That's exactly right, but if you look to the segment split, in the segment split you see all the countries plus Lee Hecht Harrison. That means all businesses related to RPO, MSP or VMS, [in the countries it's] primarily US, it's still in the country results.

Tom Sykes - *Deutsche Bank - Analyst*

Right, so can you split out what's happened in terms of the EBIT contribution or growth to the North American EBIT, maybe split out what's happening in MSP and VMS, and then what's happened in -- ?

Dominik de Daniel - *Adecco S.A. - Group CFO*

As you know, we're investing a lot in the businesses, basically we have investments and, therefore, we have a small loss in these businesses because we are in investment [mood] there. But it's not much here we're changing the number for the US.

Tom Sykes - *Deutsche Bank - Analyst*

Right, okay. And just the bid pipeline on MSP, is that -- ?

Dominik de Daniel - *Adecco S.A. - Group CFO*

It's doing very well. We're growing organically above 40%. The outlook is very good; we especially are getting more and more accounts -- where the demand is coming now is from Europe and Asia where clients are asking us to deliver the service, not only in North America to deliver the service, also in Europe and Asia.

Tom Sykes - *Deutsche Bank - Analyst*

Okay, perfect. Thank you very much.

Operator

Konrad Zomer, Berenberg Bank.

Konrad Zomer - *Berenberg Bank - Analyst*

Two questions; the first on your business mix and the impact on the gross margin. Can you tell us what you see in terms of business mix, and when you expect the Professional and Specialized Staffing businesses to have an impact on the gross margin which will offset the negative impact of the Temporary business?

And the second question is on the French public sector; that market has been open for your business for about 1.5 years now, can you give us an update on what sort of revenues you generate in the French public marketplace?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

On your first question, Konrad, the impact on our Temp gross margin, we've announced this, a drop in 40 basis points, 20 due to France and the other 20 is mainly mix. And this has to do with the fact that our Industrial business was still accelerating; you've seen it, 27% growth out of 24% in the fourth quarter and 23% in the third quarter last year, sp that's the main impact. Of course, there is also an impact, as Dominik already alluded to, of the fact that our large accounts are still growing faster than our retail accounts. So the mix, in total, has an impact of 20 basis points.

Now to the other part of the question about Professional Staffing, indeed in this cycle we see that it's much longer, whereas normally Office comes back six to nine months at the latest after the Industrial pick up. We saw the Industrial pick up in the summer of 2009, and we see only now that Office is growing double digits, where it was growing 6% in Q4 and 3% in Q3 only.

What we see on the Professional side is a bit the same thing, it's coming back later than usual. But in strong economies like Germany we now see also that our Professional Staffing is growing 23%, and that is a sign that, when the economy and the environment is strong, that Professional Staffing is also picking up, like Office was picking up in the US already in the previous quarters. So we will see, going forward, that Professional will also pick up, but it's just taking longer than in previous cycles.

Konrad Zomer - *Berenberg Bank - Analyst*

Yes, but I guess what I'm trying to get a feel for is, when do you think the business mix will have a positive impact on the overall gross margin?

Dominik de Daniel - *Adecco S.A. - Group CFO*

Our visibility is very low so basically, also there, when is the exact quarter when it changed is very difficult to say, and in fact [we call it out] it's coming from two facts. It's coming on the one hand just from the Professional and Industrial mix, and of course, if we have now accelerated from 24% to 27% in March, and Professional Staffing was basically 10% in both quarters, this quarter and the last quarter, the gap has widened.

We're seeing also April is a touch lower, compared to the 17% adjusted for trading days in March. And you can assume this touch lower is rather coming from Industrial, because they coming now to very strong base effect, so over time, it will go in the other direction.

On the other hand, if the business is still, from the demand side, a lot influenced by demand from rather larger accounts, this is how the demand is currently. And then is for us the question to get this business, and to make sure that there is a very efficient delivery model, which we're working on it, that this impact which you see in the gross margin is materially less on the cost side, because this business we [start] with a much lower cost base and we have done a lot in the downturn to adjust our cost base in this direction.

Besides the mix, the French impact was, this 20 basis points, rather big in Q1. It will clearly go down, given the price increase programs, and we see also here and there this mix is improving, but it's not for me very hard to say when is exactly the quarter (inaudible).

Konrad Zomer - *Berenberg Bank - Analyst*

Yes, sure, okay. And what about the question on the France public sector please?

Dominik de Daniel - *Adecco S.A. - Group CFO*

On the French public sector, as we always said this is rather a long-term story, because it takes a lot of time to implement flexibility in the public sector because, in the public sector, the people they work there basically for their whole life, so you can only implement more temping if people start to retire. So it is very slow developing. We have currently a couple of thousand people in the sector in France.

Konrad Zomer - *Berenberg Bank - Analyst*

Okay, thank you.

Operator

Eric De-Graaf, CA Cheuvreux

Eric De-Graaf - *CA Cheuvreux - Analyst*

Most of my questions have been answered; just a couple left. On the tax rate, it was lower than expected; can you give a little bit of feeling if there was something special in the first quarter? And also your guidance, if I'm correct you talked about 33% for the full year last quarter, and now 32%. Is that correct, and is that mostly related to the first quarter?

And then something that is not in your press release and maybe, therefore, a confirmation; the German CLA Christian Union, the fact that you're not mentioning it is, I guess, a clear signal that you are not involved in any issues with respect to that law suit and that the CLA discussion.

Dominik de Daniel - *Adecco S.A. - Group CFO*

Coming to your first question. If we look to the tax rate there were some minor discrete events in Q1, so therefore, the tax rate was 29%, a little bit lower than the 33% which we guided for the first quarter. And of course, business mix and tax laws here and there are changing, and based on our new assessment, we expect for the second quarter now, 32% without any discrete events. And we can guide for the discrete events, so the underlying tax rate should be 32%.

Now related to your question in Germany, we are not at all involved. This was a very special trade union, Christian Union. And we said distinct here, that we are very concerned whether this union is able to make a collective wage agreement, because they have not the critical size. So we are not at all surprised that this happened, but we were also not involved in these things.

Eric De-Graaf - *CA Cheuvreux - Analyst*

That's what I thought, just to be 100% sure. Okay, perfect, thank you very much.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Thank you.

Operator

Rolf Kunz, Bank AM Bellevue.

Rolf Kunz - *Bank AM Bellevue - Analyst*

Two questions from my side. On the Nordic, could you quantify the extra costs for these overtime payments and the internal assessment? And, therefore, the quarters to come, can we expect a return back to at least previous year's margins?

And my second question is on your Outplacement business, with regard to operating margins. What sort of trough margin should we expect, and when do you expect to see the trough, especially given as you mentioned that US already saw a very minor pick up in Q1? Thank you.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Rolf, as I already mentioned on the Nordics, you will see better profitability as from the second quarter onwards. The impact is a couple of million, partly on the gross profit because we paid these overtime premiums retroactively to the temps, partly on the SG&A because of the internal assessment that we have done.

But again, as from Q2 onwards, you should see us go back to more normalized profitability, taking into account that we separated ourselves from this Outsourcing Nursing Home business, that we don't do this business anymore, which was 5% of our total revenues in Norway.

Rolf Kunz - *Bank AM Bellevue - Analyst*

Yes, okay. Thank you.

Dominik de Daniel - *Adecco S.A. - Group CFO*

And on your second question, our aim in this business is, even in the hardest year, always to be above 15% EBIT, always on a full-year basis, because Q3 with the summer break, it could be a little bit different. But on a full-year basis, always clearly above 15%, and this is what we are aiming for, and I have no doubt that we fulfill this.

I mentioned before, based on the other question, that we see signs of a troughing out in the US; we even have seen sequential growth from Q4 Q1. But the environment is still a little fragile for this business, but it was good to see sequential growth from Q4 to Q1.

Now this business is early in the cycle, compared to the European one. In the European we have still seen some sequential contraction. But given the size of the US, relatively speaking, the decline rate should improve, going forward.

Now to the profitability; this is for the whole world. In North America we still have profitability above 30% in this business.

Rolf Kunz - *Bank AM Bellevue - Analyst*

Okay, thank you very much.

Operator

Laurent Brunelle, Exane BNP Paribas.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Two follow-up questions, please. First, looking at the French performance, obviously the key driver remains manufacturing, but do you confirm the pick up seen in construction in the beginning of the year, and do you believe it could offset the fact that industrial average will plateau?

And second, just to be sure to have understood, interest expense, you target EUR70 million for the full year, plus a EUR10 million one-off related to the bond buyback, right?

Dominik de Daniel - *Adecco S.A. - Group CFO*

First, to the second question, it's exactly right. We have interest expense of EUR70 million, not considered as interest income. And on top of that, in the other line, we have EUR10 million one-off in Q2, and this is related to the fact that we bought back existing bonds which were trading above par, and replaced it with a new seven year bond, to change our debt profile.

If we look to Construction business, Construction business in France has seen a really nice pick up in Q1. We have not seen a lot of performance of Construction during the course of last year.

It is partly also due to the fact that the weather was not that bad in Q1. But the Construction business was, in Q1, growing similar, like the whole French organization, with 23%.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

And what do you expect, moving forward? What do you expect for the coming quarters in Construction?

Dominik de Daniel - *Adecco S.A. - Group CFO*

Let's say, since the business started a little bit earlier this year, from a ramp-up, given the fact that the weather was better, I would say part of this 20-plus-% growth rate is just due to the fact that the business picked up earlier.

So do I see now for Q2 again 20-plus-%? It's difficult to say. It will be, for sure, double digits, but whether 20-plus-%, let's see.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay, fair enough. Thanks.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

It's also the case, Laurent, that in Q4 the growth was not that because, contrary to the previous year in Q4, we had now bad weather. So in Q4 the growth was a lot less. So I think Q1 was kind of a catch-up here.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay, clear. Thanks.

Operator

Andy Grobler, Credit Suisse.

Andy Grobler - *Credit Suisse - Analyst*

Just a couple of questions. You mentioned that you were hiring again, or hiring some extra people in, in Germany. Just in terms of costs, sequentially, into Q2, what is your thinking as of now?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

You will see a kind of a similar development that we have seen from Q4 into Q1. That's what we are targeting for, for Q2, coming out of Q1.

Andy Grobler - *Credit Suisse - Analyst*

So kind of 1% organic?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Low single digit.

Dominik de Daniel - *Adecco S.A. - Group CFO*

Sequentially, low single digit.

Andy Grobler - *Credit Suisse - Analyst*

Okay. And then just on pricing, you've clearly put some price increases through in France and you mentioned, Patrick, in your opening remarks, that you would look to increase prices where you could. Is there appetite, or is there potential to do that out in what are still difficult economic markets in certain areas?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

As we said from the beginning, we are the market leader, that we have no other choice, and that we will do it. And when we announced the impact of the French subsidy tax cut, that the impact of 90 basis points, we said we will pass on at least two-thirds. We are now sure that we will pass on 80% of this amount, or close to 80%, so that the full impact for France will only be 20 basis points.

So is this easy? It's not easy, of course, but if you see that we have already done 50% now, or that we are at the rate of 50% at the end of the quarter, I think it's really a good result.

Andy Grobler - *Credit Suisse - Analyst*

And are other countries where underlying pricing is going up?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

But the only country where there is some room in price increases is Germany, because of the scarcity in some skill sets, mainly engineering.

But otherwise, if you look at the environment with the high unemployment rates, 9% in the US, still 10% in Europe, you shouldn't expect that this is an environment for price increases, and in general staffing, certainly not.

Andy Grobler - *Credit Suisse - Analyst*

Okay, thank you very much.

Operator

Tobias Reeks, Bank of America Merrill Lynch.

Tobias Reeks - *BofA Merrill Lynch - Analyst*

A couple, if I can? The first is the Lee Hecht Harrison business; can you give us an idea of the split of revenues between Outplacement compared to the other services?

Dominik de Daniel - *Adecco S.A. - Group CFO*

It depends a lot on which business you are looking for, whether it's US and France and so on.

In the US we are really primarily in the Outplacement business, the career transition business, Outplacement is basically 85%, 90%, of sales. So career development is rather small. Of course, it's growing nicely.

And then in France the business is different. It's not only Outplacement, also consulting where we have a lot of different consulting requests, and there I would say the split is 50/50.

Tobias Reeks - *BofA Merrill Lynch - Analyst*

And then the final one is just back on the tax rate. You've obviously given us the guidance for Q2, has the guidance for the full year changed at all, following Q1?

Dominik de Daniel - *Adecco S.A. - Group CFO*

No. You can consider what is for Q2, I would use this also for the rest of the year.

Tobias Reeks - *BofA Merrill Lynch - Analyst*

Okay, thanks very much guys.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Thank you. So I would like to thank you for your interest in our Company, for your attention to this call.

We will announce our Q2 results on August 10, and I really hope that we can see each other beforehand. Thank you.

Karin Selfors - *Adecco S.A. - Head of IR*

Thank you.

Dominik de Daniel - *Adecco S.A. - Group CFO*

Thank you.

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.