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PRESENTATION

Operator

Good morning or good afternoon. I'm Dino, the Chorus Call operator for this conference. Welcome to the Adecco Q2 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 to 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 of the Group, and Mr. Dominik de Daniel, CFO of the Group. Please go ahead, ladies and gentlemen.

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

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

Here's a quick look at today's agenda. Patrick will present, as always, the operational highlights, then Dominik reviews the financials, and then Patrick will give you an outlook on our business before we open the lines for your questions. 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.

I start with the highlights of our Q2 results. We again delivered double-digit revenue growth this quarter. After 18% organic top line growth in Q1 2011, revenues in Q2 were up 13% in constant currency. Growth was still driven by strong demand in the Industrial segment, but also our Office business continued to grow double digit.

Our main markets, France and North America, held up very well in Q2, both still growing double digit despite the increasingly challenging base. Revenue growth in Germany remained very strong, up 31%, and Italy was also up 35% year on year. In Germany, Italy, as well as in the Benelux and Japan, we clearly grew ahead of the market. France and North America grew in line with the market.

The gross margin was 16.9% this quarter. Q2 is typically our weakest quarter in terms of gross margin, due to the impact of the Bank Holidays in Germany and Sweden, but we also continued to be negatively impacted by the business mix. Costs continued to be very well controlled; SG&A was only up 1% sequentially, and up 5% year on year, both in constant currency.

EBITA came in at EUR199 million in Q2, up 22% in constant currency. The EBITA margin improved 30 basis points year on year to 3.9%.

Included in the results are negative one-off impacts to this quarter of EUR3 million for the integration of MPS, and EUR6 million negative impact from Nordics. Dominik will provide more details on this later on.

Revenue growth throughout the second quarter remained in double digit territory. June was up 11%, adjusted for business days; July was only a touch slower.

Let me now go through the organic revenue development by regions. All regions achieved double-digit revenue growth this quarter. Excluding Lee Hecht Harrison, which is reported as a separate segment, North American revenues were up 12% in the second quarter, still driven by general staffing which grew 18%.

In Europe, revenues were up 14%. Q1 was still up 21% but, of course, Q2 is compared against a much higher base. As mentioned before, Italy and Germany both had revenue growths above 30%. Growth in France held up well. UK and Ireland, on the other hand, remained difficult; here revenues were flat year on year.

Rest of world, including emerging markets, was up 10%; Japan grew 4% in Q2, better than the market. Revenues in Australia and New Zealand were up over 10%, and the emerging markets continued to deliver solid revenue growth of 16%.

We review our main markets in more detail now. Our largest market, France, had very solid growth momentum. Revenues in Q2 were up 15% to EUR1.6 billion. Growth continued to be driven by strong demand in automotive and manufacturing. Perm growth developed very well, up 27% in Q2.

The EBITA margin was 3.6%, an increase of 10 basis points compared to the prior year second quarter.

The reduction in the French payroll tax subsidy had a negative impact of 50 basis points on the French gross margin in Q2. In the second quarter, we were able to successfully pass on 60% of the subsidy reduction to our clients through price increases.

As we said in Q1, we expected a negative impact of the payroll tax subsidy cut on the French gross margin to be less than 20 basis points for the full year 2011. And for the Group, the impact should be negligible. Revenue growth in June continued to be solid, increasing by 13% adjusted for trading days.

In North America, revenues were up 12% in constant currency. Demand was driven by the automotive, manufacturing and technology sectors. General staffing continued to be the main growth driver in North America, with revenues increasing by 18% in constant currency. The Industrial segment was up 13% while the Office business continued to grow strongly double digit at 24%.

Professional staffing revenues were up 5% in Q2, still held back by the IT business. We are putting in place additional actions to improve the revenue development as we are still behind the market in terms of growth.

We achieved strong growth in Perm in Q2, up 32% in constant currency. The EBITA margin expanded to 80 basis points year on year to 4.5% in Q2. Integration costs for MPS amounted to EUR2 million in the quarter under review. For the rest of the year, we don't foresee further material integration costs for MPS. In June, revenues were up 9% adjusted for trading days.

Revenues in UK and Ireland were flat in constant currency in Q2. This remains a difficult market. The public sector, which is now roughly 12% of our total revenues in UK and Ireland, still negatively impacted the performance with a revenue decline of 38% in constant currency.

The Perm business, on the other hand, delivered solid growth, with revenues up 20% in constant currency. The region contributed an EBITA of EUR7 million in Q2, equivalent to an EBITA margin of 1.7%. Integration costs related to MPS were EUR1 million this quarter.

Like I just mentioned for North America, we don't expect to incur further material integration costs for MPS, going forward.

In Japan, revenues were up 4% in constant currency to EUR330 million. The outsourcing contracts continue to contribute positively. We achieved very good profitability in the second quarter; the EBITA margin increased by 110 basis points year on year to 6.3%.

Revenue growth in Germany and Austria was outstanding. Revenues were up 31% in Q2, still driven by automotive, retail, manufacturing and electronics. Growth remained strongest in the Industrial staffing business, whereas the Professional staffing business was up over 20%; the Office business also continued to grow double digit.

The profitability achieved in Germany and Austria was very solid. The EBITA margin increased by 80 basis points versus the prior year second quarter, this to 5.1%. Keep in mind that our Q2 margins are always somewhat lower, given the impact of the Bank Holidays. On top of that, as the labor market is tightening in certain skill sets, and also regionally, we hire temps up front, to be ready to fill demand on the client side in the second and third quarter. This should obviously further support the growth, going forward.

In June, revenues were up 26%, adjusted for trading days, despite increasingly higher comps.

Finally, we turn to Adecco's development by business line, on a constant currency basis. In Q2, revenues in our General staffing business were up 16%. Industrial business was, again, the main growth driver, with revenues up 19% in Q2. This is driven by North America, where revenues grew 13% year on a year, on a tougher comparison base.

Similarly, growths in France, where revenue also held up well, with year on year growth of 16%. Growth in Germany and Austria was, again, very strong, up 37% in Q2. And the same is true for Italy, where revenues increased by as much as 39%.

The Office business grew 10% this quarter. Revenues in Japan slightly accelerated to 4%. North America continued to grow very strongly, and was up 24%, while revenue growth in the UK and Ireland was flat in the quarter under review.

The Professional staffing revenues increased by 5% in the second quarter. Revenue growth was particularly strong in Germany and France, while growth in North America was 5%, held back by the IT segment. UK and Ireland revenues declined by 1% in Q2.

Our Solutions business declined by 7%, mainly driven by the countercyclical career transitions, or Outplacement business.

And with this, I would like to hand over to Dominik, who will discuss the financials in more detail with you.

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 with the overview of the P&L.

In Q2 2011, revenues came in at EUR5.2 billion, up 11% on a reported basis, and an increase of 13% in constant currency. Gross margin was 16.9% in Q2, down 90 basis points, compared to the prior year. SG&A was up 5% in constant currency in Q2, compared to the prior year. Sequentially, and in constant currency, the cost base was up only 1%.

The Group EBITA was EUR199 million. EBITA margin was 3.9% in Q2, an increase of 30 basis points year on year.

Other expenses net was an expense of EUR10 million in Q2 2011, compared to an income of EUR2 million in the second quarter of 2010. We recognize the loss of EUR11 million in other expenses in Q2 2011, in connection with the bond tender, completed in April this year, whereby we lengthened the debt maturity profile of the Adecco Group.

Net income came in at EUR141 million.

Effective tax rate was 11% in Q2 2011, compared to 30% in Q2 2010. The tax rate in both quarters was positively impacted by the successful resolution of prior tax audits in several jurisdictions.

Let me discuss the gross margin now. First, please have a look at the upper part of the slide, which shows the year-on-year development of the gross margin. The Group's gross margin was 16.9% in Q2 2011, down 90 basis points year on year.

Temporary staffing had a negative impact of 55 basis points on the Group's gross margin in Q2 2011, whereof 15 basis points related to the French payroll tax subsidy cut. The rest was primarily due to the business mix, as well as the fact that we proactively hired temps in Germany in order to be ready to fill demand in Q2 and Q3.

Given the muted GDP growth, and the high unemployment rates, the pricing environment is still very competitive, and there's little room for price increases.

Permanent placements positively contributed to the Group's gross margin with 10 basis points in Q2. Our Perm revenues were up 21% in constant currency, in the quarter under review, and sequentially, Perm revenues were up 5%, driven by the US, Germany and Japan.

The Outplacement business had a negative impact on the Group's gross margin of 30 basis points. And other activities had a negative impact of 15 basis points.

Now let's look at the sequential gross margin development in the lower part of the slide. Sequentially, the gross margin was down 50 basis points. The Outplacement business accounted for 15 basis points of the decline, whereas the remaining 35 basis points stemmed from the Temporary staffing business.

That said, when excluding the seasonal impact of Germany, the Temp margin would have been flat sequentially. In Germany, the Temp gross margin is seasonally weaker in the second quarter, given the impact of the public holidays, as temporary employees are on Adecco's payroll.

Note that a part of the EUR6 million new negative impact from Nordics also affected the Group's gross margin in the second quarter 2011. I will discuss this on the next slide.

So let me discuss, first, our cost base development in the second quarter. We continued with strict cost control throughout the second quarter. SG&A increased by 5% in constant currency, compared to the prior year second quarter. Sequentially, costs were up 1% in constant currency.

Year on year, FTEs were up 4% in Q2. Sequentially, FTEs were up 1%, mainly due to hiring in Germany, and in the emerging markets. Note that our second quarter results include integration costs of EUR3 million, as well as a EUR6 million negative impact related to Nordics.

Given the level of economic uncertainty which we currently face, a cost cautious approach to run the business remains key. We will keep a tight grip on our cost base, and will only invest where prospects are promising. Therefore, for the third quarter, we expect the cost base to remain stable sequentially, at constant currency.

Let me now briefly touch on the EUR6 million negative impact in the Nordics, specifically Norway. At the beginning of the year, it was discovered that we had temps at nursing homes, managed by Adecco, who worked more hours than those regulated by the local law. While we had paid the temps their regular wages and supplements related to the night shift, it was the case that overtime premiums, and related vacation pay were not properly paid, in all cases.

We took immediate corrective action. Proper working hours and compensation were immediately implemented. Employees have retroactively been paid for the overtime. And in order to focus on the core business, we decided to exit the business of managing nursing homes in Norway altogether.

We had one-off costs, mainly related to the retroactive pay of the overtime in the first quarter. In Q2, as said, we had EUR6 million negative impact in Norway related to exiting the nursing home outsourcing business, as well as expenses related to an independent investigation, and other [coinciding] costs.

We initiated an independent investigation with the aim to review and assess internal process. This effort reflects our commitment to act in an ethical manner, and to fully comply with local labor laws. The report will be completed in Q3, and will be made public.

We are confident that we're on a good track to resolve the issues in Norway, and to gradually improve our profitability in the coming quarters.

Moving on to the balance sheet. At the end of the second quarter, we had cash and short-term investments of EUR386 million. DSO was 55 days in Q2 2011, up two days, compared with the prior year, but still at good levels. Goodwill and intangible assets amounted to EUR3.7 billion at the end of the second quarter.

Adecco's shareholders' equity was EUR3.4 billion at the end of [Q1] 2011.

Turning to the cash flow statement. The cash used in operating activities in the first half of 2011 amounted to EUR30 million, compared to cash generated in the same period last year of EUR30 million. Working capital needs increased further.

Cash flow used for investing activities was EUR97 million in the first half this year, and included EUR50 million for CapEx. This compares to cash used in investing activities of EUR874 million in the first six months of 2010, which included EUR831 million net cash paid for the acquisition of MPS in January 2010, and EUR45 million for CapEx. Cash flow used for financing activities was EUR21 million.

During the first six months of 2011, we paid dividends of EUR149 million, and bought back shares for EUR134 million. This was partly offset by the net inflows of EUR259 million, related to the net increase of short and long-term debt.

Net debt, at the end of June 2011, was EUR1.2 billion, compared to EUR751 million at the year-end 2010.

In Q2 2011, we paid dividends of EUR149 million, and bought back shares for EUR134 million.

Our financial guidance for 2011 remains unchanged. CapEx for the year 2011 is expected to be around EUR100 million. Interest expenses, excluding interest income, are expected to be around EUR70 million for the full year 2011. Our corporate costs for the full year 2011 are expected to be approx EUR85 million. And amortization of intangible assets is expected to be at EUR55 million for 2011.

In terms of the third quarter 2011, we expect the cost base to remain sequentially stable at constant currency, and we expect an underlying tax rate of 31%.

With this, I hand back to Patrick.

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

Thank you, Dominik. I would like to draw your attention now to our recently announced acquisition of Drake Beam Morin, Inc., in short, DBM. I'm very pleased that DBM is joining forces with our Lee Hecht Harrison business. With this move, we take the global lead in the outplacement and talent development market, and considerably expand our global footprint beyond the US and France. We now also attained leading positions in the UK, Canada and Brazil, which are amongst the largest markets in the outplacement and talent development services sector.

Our customers increasingly demand global solutions across the full range of HR services, and this acquisition is a step forward in enabling us to better serve our international clients. I also see this move strengthening Adecco with an effective counterbalance to the Temporary and Permanent staffing business, given the countercyclical nature of Outplacements. And margins in the Outplacement business are materially higher than the margins in the Staffing business.

We have seen signs in our Lee Hecht Harrison business indicating that we should be close to the trough and, therefore, we believe that the timing is right for this acquisition. The deal offers attractive synergy potential, and is expected to be immediately EPS accretive in year one, and EVA enhancing after the first year, post the close of the transaction.

I will finish this part of the presentation with the outlook for our business. Revenue growth throughout the second quarter remained in double digit territory, despite an increasingly challenging comparison base. In June, revenues were up 11%, adjusted for trading days, and July was just a touch lower. From today's perspective, we expect a solid third quarter.

In the current uncertain economic environment, we continue to see good demand from our clients who value the flexibility we offer in terms of workforce solutions. Growth short term will continue to be driven by the industrial staffing segment, and growth in the Office business is expected to remain solid, while revenue growth in Professional staffing is expected at levels similar to the second quarter.

We are confident that the current business environment will continue to offer attractive growth opportunities.

Given the level of economic uncertainty which we currently face, a cost conscious approach to run the business remains key. We will only invest where prospects are promising. As Dominik said before, for Q3 we expect a stable cost base sequentially, and in constant currency.

With the growth and profitability levels achieved today, we continue to be well on track to reach our EBITA margin target of over 5.5%.

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

QUESTIONS AND ANSWERS

Operator

We will now begin the question and answer session. (Operator Instructions). Tobias Reeks, BofA Merrill Lynch.

Tobias Reeks - *BofA Merrill Lynch - Analyst*

A couple of questions, if I can? The first is on the SG&A guidance for flat sequentially in constant currency. I think last year, in Q3, you had a seasonal impact, which meant that the cost base actually fell by a couple of percent on an underlying basis, due to something to do with holidays. Could you remind us why that happened, and why it's not happening this year?

And then the second is, could you give us an idea of the number of temps you currently employ at Adecco because, obviously, everyone's become a bit concerned about the outlook for top line. Can you give us an idea of the flexibility you have built into your own cost base at the moment? Thank you very much.

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

So if we look to the SG&A guidance, so you can understand it right, it's the SG&A guidance for the whole corporation. So we basically say, in constant currency we expect a flat cost movement from Q2 to Q3. If you specifically to France, it is the case that, from a seasonal point of view in France, especially in France, the cost base in Q2 is always lower. This is also the case this year, and this is related to the fact that there is a very long vacation; you have release of vacation accruals, so it's always in Q3 the case. From Q2 to Q3 the cost base in France is always a little bit lower. Our guidance for the whole Company is a stable cost base sequentially.

If we look at the development of the number of temps worldwide, we have currently worldwide around 750,000 temps out. Not counted in this number are the more than 100,000 temps which we have in our joint venture in China as this is not consolidated. The 750,000 are the consolidated temps.

Tobias Reeks - *BofA Merrill Lynch - Analyst*

Okay. Can I come back on those? Back on the first one, I think last year you actually had -- at a Group level the SG&A was affected by seasonality on a sequential basis by a couple of percent. Is that happening this time? Or maybe another way of looking at it

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is, how should we be thinking about Q4? Obviously, we don't know what the revenue is, but will there be some rebound in cost in -- will Q4 cost base be higher than Q3 because of the seasonality?

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

Let's say, that depends a lot how we see then the outlook in a couple of months. You know we have low visibility, and we always try to steer our cost base also related to our overall top line development. So I can only say we are very cost cautious and, therefore, we're expecting a stable cost base now sequentially.

It is also not the case that we now have to hire a lot of people in the markets. Of course, here and there, we have to hire, like in Germany with this very strong growth and continuous good trend [is] supporting this, but otherwise, there is no need to add people.

Tobias Reeks - *BofA Merrill Lynch - Analyst*

Okay. And then the second question was actually referring to your own headcount working for Adecco, so within your SG&A line how much flexibility have you got in there? Because I think everyone went into the downturn in '08 with a certain pool of their own workforce being temporary employees. I'm just wondering, have you built that pool of your workforce up over the last year or so?

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

Of course, [understand this]. We are also a client of our own business. Basically, we're using temps. Of course, this is very normal to build flexibility. Now in a country like France we are not allowed to use temps, so what we [build] it is CDDs, so limited contracts, so we have a certain exposure of limited contracts; it's around 10%. So the whole recovery of France plus the exchange of people was primarily done with CDDs in order to have flexibility.

And then, of course, you have also seen, during the downturn, we changed a lot in our structure to be also more flexible with shared service centers and so on that should allow, in the case one or the other country has a deceleration, that we can also use now this model to faster adapt our cost base. But it's very normal if you come out of the downturn that you build a flexible workforce in all units.

Tobias Reeks - *BofA Merrill Lynch - Analyst*

Okay, thanks very much. It's very helpful.

Operator

Kean Marden, RBS.

Kean Marden - *RBS - Analyst*

Can I drill down into some the business areas, please? So in Germany, are you flagging here an atypical build in temp numbers in anticipation of seasonally stronger demand in Q3? Or are you saying that, actually, you've been a little more aggressive this time, and that's maybe impacted the year-on-year comparable?

And then a second question on Germany; I've got a few other ones, but maybe start on Germany. If you can help us understand what the actual sequential movement was in the gross margin in the second quarter?

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

So if we look to Germany you have see, the labor market, especially for more skilled people, also in industrial business becomes tighter. And then what you do, you basically hire the people to May 1, to June 1, to July 1, with a good skill set, and you're very confident that you place them. Maybe you don't have the job on June 1, maybe you don't have on May 1, maybe it takes 10 days to place them, but you do this investment in a kind of bench in order to support the client. And this we have done, and this helped us already in Q2.

If we look during Q2, thanks to this we were very strong ramping up further automotive temps, because there was still very strong demand, and that will help us also in terms of growth in Q3. And it will help us then also in terms of profitability, because the utilization will go up into Q3. This was a proactive way to capture really the potential of the market, or basically outgrowing the market in this respect.

Then if you look to your question regarding a seasonal development, you have to know, or as you know in Germany the temps are fully employed whilst they're on our payroll, and they have a monthly fixed salary. Now we have in the second quarter, you have always five, six, depending which sub-country of Germany you take, Bank Holidays where you cannot bill the people, but they get paid. And therefore, the Q2 Temp gross margin is always heavily affected by this, and this is the seasonal development.

If you look to our Temp margin from Q1 to Q2, for the whole Group it went down 35 basis points, and if you exclude Germany it was sequentially stable. So what does that mean? Into Q3 this 35 basis points will be recovered, and it will be even more because, of course, the pass-on of the French tax rebate will go on. We expect in Germany better utilization, so this is basically the point here.

Kean Marden - *RBS - Analyst*

Okay. And then --

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

You see this also on the EBIT margin. The EBIT margin in Germany in Q3 is always the strongest, and in Q2 normally the weakest because of this utilization.

Kean Marden - *RBS - Analyst*

Okay. Just a few quick questions as well on the US and France. Patrick, you mentioned some growth initiatives to accelerate revenue growth in the IT business. I'm wondering if you can share some examples of that?

And then finally on France, I'm wondering if there has been any change in emphasis under Alain Dehaze?

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

On the US side, like I said in the text or in the presentation, we do recognize, of course, that in the IT business that we are behind the market growth. But you also have to take into account, I hope you do, that overall, our business in the US had a very solid growth with 12% and it's still the most profitable one. Then again, on the Professional staffing side, we are not satisfied, but it has mainly to do with the fact that we are coming out of this integration, which has been successfully finished now, and that we now have to start refocusing again on the outside instead of on the inside.

And this requires that we need more resources in the street, that we need more commercial activity, but you also know that this doesn't change overnight. If we take these initiatives now, it will only have an effect a couple of quarters ahead. But it is a top priority for me and Dominik to get aligned again with market growth, especially in our IT business in the US. So we're going to focus on this between now and the rest of the year heavily so that we're in good shape going into next year.

Your second question is on Alain Dehaze in France?

Kean Marden - *RBS - Analyst*

Yes.

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

So Alain started there the beginning of July. We had already a couple of reviews. Now the long-term prospect for us in the French market is obviously more in the retail segment. In the last couple of years, we have experienced that the large account proportion became much higher than in the past. It also has to do with the market environment, because the large accounts are investing more than the smaller accounts. But then again, we see a clear opportunity to grow bigger in the smaller and medium accounts.

Alain has a lot of experience in this from his Solvus USG time, also from his time in Northern Europe where he really created the right platforms, also in the Dutch market, to attack more the small and medium sized companies. And he's now in the process of putting in the plans to do that in France as well.

Kean Marden - *RBS - Analyst*

Great, thanks for your time.

Operator

Jaime Brandwood, UBS.

Jaime Brandwood - *UBS - Analyst*

I just wondered if I could start by asking on Germany as well, I don't know to what extent you might be able to help us with this, but can you say what percentage, in percentage terms, what increase in temps you actually pushed through in the last month or two in advance of the demand that you're expecting in Q3? What kind of contract lengths you're giving to these temps, and to what extent this is based on actually relatively firm orders from your clients?

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

So basically, you have to see that the people which we additionally hire, this is now not totally significant, because you have to see in some of our clients we're clearly getting from them indications that [as they say], we take your temps to perm, but we place a new temp -- we have situations on this, and basically this is covered. So I'm not seeing a lot of risk that we hire too much, because it's primarily that some of the clients, they are already on the level in Germany where they cannot hire more temps because they have the Workers' Council agreement, maximum 5% or 6%, they are there, what they are doing, but they still have a good order intake, they need still some staff. The take some temps to perm, and for the amount of temps which they take to perm, they give us a new order for new ones.

So based on this, we hired some more, and based on our exit rate in Germany we are very comfortable with this situation that we can fulfill the demand on this respect.

Jaime Brandwood - *UBS - Analyst*

And of that exit rate, that 26%, how much is volume, and how much is price or mix, so to speak?

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

You have to see in Germany there is wage inflation now for two reasons, or in our business, let's say, in our business. On the one hand, there was again, in May, an increase in the collective wage agreement, so we have some wage inflation across the board. And secondly, if you look to our growth year on year, our growth is even stronger in accounts where you have equal pay, because you have companies in Germany, they decide on their own to go for equal pay.

Why are they doing this? Because the Workers' Council says look, if you want that we support a 10% or 12% penetration rate of temping, we do this only if you make equal pay. And these clients doing this now because [they needed] the value in flexibility. Now that said, if you have year by year mark growth in clients with equal pay, your average wage is increasing a lot because, of course, equal pay especially for the large employers compared to the temp contract is much higher. So the current wage inflation, so if you split the 26%, I would say 6% is kind of wage inflation and 20% is volume.

Jaime Brandwood - *UBS - Analyst*

Just on those clients which are moving to equal pay, is that putting pressure on your percentage gross margins when that happens?

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

Let's say these clients, which are currently growing very strong, they have not moved the last 12 months to equal pay. Some of them the moved already before the last downturn, some of them after the downturn. It is, of course, true that the gross margins in these accounts in percentage is lower, because for the client temporary work, if you move to equal pay, gets more expensive. There is no question.

Of course, it is then a sharing, so to a certain extent our gross margin it goes down, but there are costs going still up because they also understand that they have to pay for flexibility. That said, the interesting thing is the client's who's doing this, they do this because they want to massively use temping. That means in these accounts we have normally a very high share, and you have with this low cost to serve in percentage of sales, for two reasons.

First of all, you can run this business much more productive. But the second reason if you look actually at percentage of sales is the fact, since the same qualification has the better pay rate and, therefore, a much better bill rate as well, in percentage of sales it comes down. And if you look to our business, for sure over the last couple of years, the share of clients of equal pay is increasing, but also because the demand comes from there. But we can compensate this very well with our better cost structure, so I'm very confident that after Germany comes back to 10% EBIT margin based on this.

Jaime Brandwood - *UBS - Analyst*

Yes, but in absolute euro terms, you're talking in percentage terms, in absolute euro terms of gross profit --

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

Yes, I am.

Jaime Brandwood - *UBS - Analyst*

Okay, perfect. And then lastly, just in terms of -- I know it's dangerous to focus on monthly trends, but you've said June at 11%, July just a little bit lower; if I remember last year June was 16%, and July was 17%, from memory. Are you basically telling us that you're seeing pretty similar sequential, so month by month growth, right now to what you were seeing at this time last year?

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

That's actually the case, Jaime. If you look at our seasonal development week on week, month over month, we see similar trends. We have seen, and you've seen that in the job reports in the US as well in the last couple of months, that it has come to kind of a plateau, so no decrease, but also no increase, so a bit flattening out. And in most markets we have now to wait until the end of August, beginning of September, to see what's going to happen after the summer break. But talking to our customers before the summer break, looking at their portfolios, they all express confidence to us.

Operator

Mr. Marc Zwartsenburg, ING.

Marc Zwartsenburg - *ING - Analyst*

A couple of questions from my side. Going back to the Nordics, can you share with us how much business you've lost due to the closing down of the nursing business? And also, what it does in terms of margins; are we going back to 5% plus margins again in the Nordics? That's my first question.

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

What we clearly have to see is this case, it was in the media. There was a lot of focus on the local management to work on this case and to make sure that the reputation is going again in the right direction, because it's really an isolated case to nursing home outsourcing business, and has nothing to do with our staffing business which is our core business. Those are the reasons why we exited this business.

Now, from this point of view the exit of the business, this accounts for Norway, maybe only Norway, maybe 5% of growth. But what is true, and this you see in our growth rate, in the deceleration of the growth rate, you see that the local management was, of course, very much focused to mitigate this case, and the commercial activity from this point of view suffer. So that's the case that it has also an impact on our businesses; now very difficult to say how much was it.

In the other countries in the Nordics we're doing very well. Sweden is growing very strongly, gaining market share. Finland is doing very well. Denmark is very small, but it's slightly better. We have no doubt to have again 5% plus margin in this market;

there is no doubt it. But we are not saying this now for the next quarter or so, we are confident by now solving the situation there to gradually improve our profitability.

But there should be no concern that the Nordics comes back to prior profitability levels. This was a very isolated case, and our main business, in principle, is doing well. It's true the commercial activity the last couple of months suffered because of this case. But this is a question of, let's say, again the focusing of the operations more on the commercial activities, which should be now the case, going forward.

Marc Zwartsenburg - *ING - Analyst*

So in Q3 we should still take into account that there is some impact from the unwinding of that business, because if you underlying look at the margin in Q2, if you strip out EUR6 million, it's really close to the 5%. But that's not something that we will see already back in Q3.

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

But Marc, what we will see in Q3 is still some impact on the top line, of course. This nursing home business has gone, since the beginning of the year, that was 5% of total. And, of course, like Dominik was explaining, the focus on solving these issues prevented us from being aggressively present into the market, and this will still have an impact in the third quarter of the top line.

You should see better profitability in Q3. As we said in the presentation, the report of the internal investigator will be published in September and Q3 and it will be in September. We cannot exclude one or the other thing, but we are confident that we have seen now the majority of the problems and that we have [accrued] for it.

Marc Zwartsenburg - *ING - Analyst*

Okay, thank you. And then for Germany, could you give us perhaps also the growth in July, given the high growth still in Q2 and all the question around Germany?

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

A touch lower than in June, Marc.

Marc Zwartsenburg - *ING - Analyst*

For Germany?

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

Yes.

Operator

Michael Foeth, Bank Vontobel.

Michael Foeth - *Bank Vontobel - Analyst*

Just a few questions from my side. Dominik, if you could help us understand what these other activities are in your gross margin bridge year over year that accounts for 15 basis points down, that would be the first question.

Second one, I didn't get your tax guidance, if you could repeat what you expect in terms of tax rate for the full year.

And if you could also remind us what kind of revenue contribution you expect from DBM.

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

If we look to the other items, we said part of [the EUR6 million relates] to the gross margin, and a big part of again this gross margin part is in other items. And then there is some other outsourcing been included, but other items is also rounding, because we have to round it and then the number comes to the 90 base points, so a big piece is also in rounding of the 15 basis points.

Then the tax guidance for Q3, the underlying tax rate is expected to be by 31%.

Then regarding DBM, the Company is not yet closed. We have to see whether the closing is -- well, it's closed end of August, so end of September this is not yet clear when we get approval. But the overall contribution the Company makes has done last year EUR84 million revenues, so it's not really a big impact on our whole Company in terms of revenues.

Michael Foeth - *Bank Vontobel - Analyst*

Okay, thank you very much.

Operator

Mr. Andy Grobler, Credit Suisse.

Andy Grobler - *Credit Suisse - Analyst*

Just a couple of questions from me. Firstly, on the Outplacement business; margins in Q2 were down very sharply, what is the reasoning for that level of decline during the quarter?

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

If you look to our Lee Hecht Harrison unit you have to see that it's true, year by year they are down, because last year the 28% this year 19%. But I think it is important also look to sequentially. We had in Q1 20% and in Q2 we had 19%, and we had a sequential decline in constant currency of 5%.

Now, that said, if you look to the Outplacement business or Lee Hecht Harrison, the strong quarters -- there's also some seasonality in the business -- the strong quarters are always Q4 and Q1. So from the sequential decrease of 5% a part is seasonality and other part is that we are mostly likely now see the trough and not had the trough already in Q1, but now it's troughing.

This business, going forward, you have to know Q3 is seasonally the weakest quarter, especially the IT business in France, because in France in Q3 there are really not a lot of restructuring as there is a lot of vacation.

But sequentially, we went from 20% to 19%, and if you look to competition, you know the margin is still very strong.

Andy Grobler - *Credit Suisse - Analyst*

And so when I think about Q3 having had a 10% year-on-year decline in Q2, are you expecting something of a similar level in Q3?

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

For sure, because if we say it's dropping, that does not mean that we have now a pick-up in outplacement. But if you look also to last year, you see also the Q3 margin was the lowest last year of 18%. There will be clearly a drop. Will it be 10%, I don't think so, it will be less.

Andy Grobler - *Credit Suisse - Analyst*

Okay. And then the second question was just on your Professional business. As you mentioned that IT you're taking action in the US. But also some of your other areas, finance and legal for example, was fairly weak in the quarter. What is the reasoning for that?

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

Andy, that's right; it's again an overall situation for our Professional staffing in US. It's, of course, highlighted in the IT business, which is also the biggest business.

As far as finance and legal is concerned, it's true that a number of big legal projects were stopped in the quarter and had an effect. So we expect that to become better quicker there, but also there now, after the integration, we need more focus on commercial activity. So we are focusing on both IT and the finance business.

Andy Grobler - *Credit Suisse - Analyst*

Okay. And then just lastly, in terms of pricing pressure. You mentioned earlier that in most areas it's still pretty competitive for pricing. What is your feel for pricing going through Q3 and Q4? Is it stabilizing, or is it going to get worse?

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

Like Dominik was explaining, if you take out the effect of the German Bank Holidays Q2 over Q1, we kind of see a stable pricing which we have seen last year as well. What we mean by competitive pricing is, with these high unemployment numbers, we continue to see not an environment for increasing prices. There is enough availability in the market, and the only market where we can maybe slightly, and where in certain areas and certain skill sets we can do it, is Germany, but other than that, we really don't see an environment for increase in prices. But what you have to see is that this 35 basis points negative impact will certainly come back in Q3, and even a bit more. And so that what you have seen now in Q2 was really the trough.

Andy Grobler - *Credit Suisse - Analyst*

Okay. Great, thank you very much.

Operator

Mr. Tom Sykes, Deutsche Bank

Tom Sykes - *Deutsche Bank - Analyst*

I just wanted to come back onto the Professional businesses, please. You said the sales are up by 5%. Is gross profit up by 5% in Professional?

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

Our profitability is still very good in the Professional business, and the commercial actions that we will do, Tom, will be focused on more clients and other types of clients. It doesn't have to do anything with becoming more aggressive, because our first priority for our Professional businesses is, of course, to achieve the profitability targets.

To give you one example, the IT business in the US still came in with the return of sales of close to 7%, which is in line with what we achieved in previous quarters, so we have no issue whatsoever on that side. But of course, we would like to see a similar return on sales percentage on a higher top line growth, and that's what we're going to work on now for the next coming quarters.

Tom Sykes - *Deutsche Bank - Analyst*

Sure. Just looking at them in general obviously, these are areas that are supposed to be in structural growth, and we know that the IT markets, in particular, are increasing very rapidly. But if we look at North American finance, that has been pretty strong in the first half of this year. The level of market underperformance at the top line is pretty marked.

Do you think that there is any branding issues that you have at all with regards your Professional businesses? I know you said you are going to take actions, but could you be a little bit more detailed in terms of how you expect to improve the Professional businesses? Because light industrial, one would presume the outlook is getting a little bit more concerning on light industrial, that you need the Professional businesses to get back into some decent level of growth to maintain Group growth rates, please.

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

Now, Tom, again we recognize that we are behind the market, but we are, absolutely contrary to what you are saying, not panicking here. We know the numbers of others who are also smaller, and one says 10% in professional staffing and another one says 17%, but a lot smaller. If we are coming out of an integration where you have some overlaps in customers and you're still growing 5%, there is no reason at a very high profitability and look at our overall profitability in the US, there is no reason to say now, hey, this is a disaster.

But are we happy with the situation? Absolutely not. We always want to grow at least in line with the market and being the most profitable. And in that segment we are the most profitable, but we are not in line with the market. So we are not happy, and we're going to do something about it. But allow me to go a little bit against you, because you are painting this now as the disaster. I know companies who, in their home market, don't make any money in their professional staffing, and so I would not say this.

THOMSON REUTERS

Tom Sykes - *Deutsche Bank - Analyst*

Okay. And then just, if I can, just on two other businesses, just on the French Construction business. Could you just say where that is, relative to the French growth rate? And then perhaps, could you pick out autos as how important that has been globally to the growth rate of light industrial, please.

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

If we look to Construction, and Construction is growing a little bit less, then the French business is growing high single digit in the second quarter. The growth rate in Q1 was above the French growth in the mid 20s, but as we said in the Q1 call, Construction started very early this year, but we said the growth rate will slow down. But it's less a demand issue, it's more an issue of, basically, seasonality.

The second question of you was related to automotive. This is the main growth driver, and honestly continues to be. The last couple of months, every month the increase the temp workforces in Germany for automotive. We had in France, the last two quarters, both quarters more than 40% growth. We were a little bit worried, for Q2 in France, about the impact of supplies from Japan, but finally it worked out well.

In the US, automotive is still growing above 20%, and of course, in Germany is growing very strong. German automotive is, for sure, the strongest one also if you look through the companies, but overall, we have not heard now any negative sign from our automotive clients. Every year they have their summer break now in August, and then we have to see how it goes on in September.

Tom Sykes - *Deutsche Bank - Analyst*

Sorry, just of the light industrial, how much of the growth is coming from autos would you estimate, because obviously that's the strongest part and it seems like auto is the strongest part of (multiple speakers)?

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

Total automotive exposure for us is 7%. So it has an impact, but it's not relatively high.

Tom Sykes - *Deutsche Bank - Analyst*

Okay. Thanks very much.

Operator

Mr. Konrad Zomer, Berenberg Bank

Konrad Zomer - *Berenberg Bank - Analyst*

Could you indicate on the US market in what specific areas you're experiencing a shortage of qualified people, and where it's getting more difficult to find enough candidates?

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

It's always certain that these skills which are difficult to find, but in the current market environment we really -- the only market where we face some shortages and where we reacted upfront to build a bench, is Germany. But in the US there is no need so far.

Konrad Zomer - *Berenberg Bank - Analyst*

And then maybe one other quick one. The macroeconomic uncertainties have increased over the last few months for reasons not related to your Company. But have you noticed any more concerns or caution from any of your clients in any particular area?

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

No, we've met many clients and have met many clients before the summer break, and there was a lot of confidence, also in the automotive sector. For after the summer break, the order books are still very solid. Of course, we have to see now what the recent events in the last two weeks will do on consumer and investment sentiment. But I think, if you look at the [healthiness] of the companies, it's still very, very solid, and we don't see any signs of customers that say we are now going to send temps back and we going to cut costs. So far, they don't see a reason for this.

Konrad Zomer - *Berenberg Bank - Analyst*

Okay, thank you.

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

So thank you very much for participating in this call and for your interest in our Company. And we will hear you back on November 8, when we announce our Q3 results and, hopefully, we will meet sooner. 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.
