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PRESENTATION

Operator

Ladies and gentlemen, good morning. Welcome to the Adecco Q2 results 2012 analysts' and investors' conference call. I'm Goran, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. After the presentation, there will be a Q&A session. (Operator Instructions). The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Mrs. 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 and welcome to Adecco's second quarter 2012 results conference call. Patrick, Group CEO, and Dominik, Group CFO, will lead you through the presentation as always, followed by a Q&A session. Before we start, please look at the forward-looking statement in this presentation.

Let me give you a quick look at the overview of the agenda today. Patrick presents the operational highlights; then Dominik reviews the financials. And then Patrick will give you an outlook and we open the lines for your questions.

I hand over to you, Patrick.

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

Thank you, Karin. Good morning, ladies and gentlemen. Welcome to our Q2 results conference call. First, the highlights.

Our revenues were up 1% to EUR5.2 billion. Organically, revenues were down 4%. [Prime] discipline and profitability remain a key focus for us. As a consequence, we are behind the market in France.

Growth in North America accelerated on the other hand year on year, and UK also held up well. As expected, Japan declined organically year on year since we completed several outsourcing contracts. In Germany, we continued to outperform the market. Southern European markets evidently weakened further.

The gross margin was up 80 basis points year on year to 17.7%, the same increase as in Q1 of this year. Organically, our prime discipline and the business mix led to a 30 basis points increase in the gross margin in Q2.

Costs continued to be very well controlled. SG&A was slightly lower than a year ago, organically and before one-off costs. Sequentially, SG&A was flat. This resulted in EBITA before one-off costs of EUR194 million and a margin of 3.7% in Q2.

Net income was at EUR113 million in Q2, and we achieved an operating cash flow of EUR81 million in the first half of 2012 compared to minus EUR30 million in the first half of last year.

Revenue growth during the second quarter was relatively stable. In June, revenues were down 3% organically and adjusted for business days.

Let's have a look at the organic revenue development by region. In North America, revenue growth accelerated and was up 3% year on year. Professional Staffing is back to growth with 2% in Q2. Please be reminded that since Q2, Mexico is reported under Latin America, thus figures have been restated accordingly.

In Europe, revenue growth slowed further in Q2 and was down 8%. In France, revenues declined 13% year on year. I will discuss France in more detail in a bit.

Germany and Austria was down 1%, but still ahead of the market. In Benelux, we also performed slightly better than the market. In Italy, revenues were down 13% compared to a high base in Q2 last year. In Iberia, revenues were down 11%.

In the Nordics, revenues were up 3%. Whilst Sweden was slightly down year on year, our other Nordic countries increased solidly.

In the UK and Ireland, revenues were up 7% in Q2, also driven by the Olympics, where Adecco is the official supplier.

Rest of World, including emerging markets, was up 1%. In Japan, revenues declined by 10%. In Australia and New Zealand, revenues were down 1%. The emerging markets continued to deliver double-digit revenue growth of 12%, driven by Latin America and India.

We go to our main markets now. In France, revenues were down 13% organically year on year to EUR1.4 billion. We are behind the market in France in terms of growth as our focus is clearly on profitability and the optimization of the network.

From an industry perspective, revenues in automotive, logistics and manufacturing were weakest. Our Perm revenues were down 13% in France in Q2.

We incurred EUR5 million restructuring costs in the quarter under review. These were related to our plans in France to combine the networks of Adecco and Adia under a single brand of Adecco.

The EBITA margin before these restructuring costs was a solid 3.3%, down only 30 basis points year on year, despite the strong decline in revenues, and this thanks to a higher gross margin year on year and strong cost control.

Revenues in June were down 13% adjusted for trading days.

Mandatory legal talks with the French Works Councils have been finalized. This allowed us to kick off the implementation phase of our plans at the beginning of August.

We are absolutely convinced that we take the right measures in a country where the economic outlook is challenging. The planned investments of EUR45 million in total will result in an even better offering for our customers, and will ensure sustainable and leading profitability.

In North America, revenues were up 2% in constant currency to EUR967 million. Demand was strong in automotive and logistics and transportation. Revenues in General Staffing increased 2% in constant currency, and we are back to growth in Professional Staffing, where revenues were up 2%.

The US IT Professional Staffing business grew 2% year on year in Q2. Revenues continued to develop solidly in Finance and Legal, which grew 9%, and Medical & Science, where revenues were up 21%. Engineering & Technical revenues were down 2%.

Perm revenues developed very strongly, up 15% in constant currency in Q2. Once again, we achieved strong profitability. The EBITA margin increased by 50 basis points year on year to 4.5%.

Revenue growth slightly accelerated during the second quarter of 2012, and in June, revenues were up 3% adjusted for trading days.

Revenues in the UK and Ireland increased by 7% in constant currency, also driven by the Olympics, as said. In the quarter under review, Perm revenues were down 21% in constant currency compared with the strong second quarter in 2011.

The EBITA margin was 0.7%, down 100 basis points versus Q2 2011. Profitability in the UK and Ireland was impacted by the sponsoring cost for the London Summer Olympics, and this will also be the case in the third quarter.

In Germany and Austria, revenues declined 1% on an organic basis, again performing better than the market, and compared with the very strong base of last year where revenues grew 31% year on year in the second quarter. Main drivers by industry were again automotives, as well as aerospace.

The EBITA margin was 3.5%, down 160 basis points compared to Q2 last year. Note that Q2 2012 had one more bank holiday than Q2 last year, and this affected both the revenue, and especially the profitability development. In June, revenues were down 1% organically and adjusted for trading days.

In Japan, revenues were down 10% organically to EUR379 million. The revenue development was influenced by the completion of several outsourcing projects which no longer contribute as from the second quarter. At the same time, demand in the Office segment slowed down, especially in the financial services and insurance sectors.

The profitability in Japan continues to be very strong. The EBITA margin was 6%, down 30 basis points compared to Q2 last year. VSN added 40 basis points to Japan's EBITA margin in Q2.

VSN, which we acquired and consolidate as from January 2012, is doing well. We achieved strong profitability in this business.

Finally, we turn to Adecco's development by business line on a constant currency basis. In Q2 2012, revenues in our General Staffing business were down 6%. The Industrial business was down 8% in Q2. In Germany and Austria, revenues were down 2% organically year on year. In France, revenues declined 13%, and Italy was down 14%.

Revenues in North America continued to hold up well, and were flat year on year.

The Office business was down 2% this quarter. While revenues in North America grew solidly by 5%, revenues in Japan were down 11%. UK and Ireland was down 3%, Nordics down 2%; and in France, revenues in Office declined by 15% organically year on year.

Revenues in Professional Staffing increased by 5%, or 2% organically inQ2. The UK and Ireland continued to deliver double-digit revenue growth. North America is back to growth of 2%. France was down 10%.

Our Solutions business increased by 32% in constant currency, or 3% organically. Revenues at Lee Hecht were up 2% organically. To date, the integration of DBM has progressed very well, and the profitability of Lee Hecht remains strong with an EBITA margin pre-integration cost of 30.5% in Q2.

Growth in MSP and VMS also continued to develop very well, with revenues up double digit.

And here, I give 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. I will start with the overview of the P&L.

In Q2 2012, we had revenues of EUR5.2 billion, down 3% in constant currency and down 4% organically. The gross margin was 17.7% in the second quarter this year, up 80 basis points. Organically, the gross margin increased 30 basis points year on year.

SG&A was up 3% in constant currency compared to prior year. Organically and before restructuring and integration costs, SG&A was down slightly year on year.

Sequentially, the cost base remained flat on an organic basis and before restructuring and integration cost.

EBITA was EUR185 million. Excluding the restructuring and integration cost in Q2 2012, EBITA was at EUR194 million and the margin was 3.7% this quarter, down 20 basis points year on year compared to the EBITA margin before integration cost in Q2 last year.

Other income expenses net was an expense of EUR14 million in Q2 2012, negatively impacted by the sale of a non-core business in North America at the end of June 2012. The impact net of taxes was EUR8 million. Net income in the quarter under review was EUR130 million.

Please have a look at the year-on-year gross margin evolution. The Group's gross margin was 17.7% in Q2 2012, up 80 basis points year on year. Temporary Staffing had a neutral impact on the gross margin in Q2 2012. Excluding Germany, which was impacted by one additional bank holiday, the Temporary gross margin would have been improved by 15 basis points.

Per Placements had a neutral impact on the Group's gross margin in Q2. Perm revenues were down 3% organically in the quarter under review.

The Outplacement business had a positive impact of 10 basis points on the Group's gross margin, while other activity had a positive impact of 20 basis points in Q2 2012. Acquisitions added 50 basis points to the Group's gross margin [report].

Now let me discuss how our cost base developed in the second quarter this year. We continued to manage our cost bill very tightly. SG&A in Q2 for the Group was slightly lower than last year organically and before one-off costs. We acted [thoroughly] on the cost side to align with revenue development.

SG&A in Europe was down 4% organically year on year before restructuring cost. On the other hand, we continued to invest in the Belgium market; and in North America, we added additional resources in Professional Staffing in the second half of last year.

As anticipated, our cost base was sequentially set on an organic basis and before restructuring and integration costs. On organic basis, FTEs were down 1% year on year and sequentially. The branch network was decreased by 2% organically compared to Q2 last year.

Our Q2 2012 results included EUR7 million restructuring costs, of which EUR5 million related to France, and EUR2 million was for other European countries and Japan.

Integration costs were EUR2 million in Q2 2012 for DBM. Note that we had EUR3 million net integration costs in 2Q 2011 related to MPS.

The integration of DBM so far has brokered very well. The targeted synergy of EUR20 million will be exceeded, and expected to be fully realized by the end of this year.

In the second half of 2012, we plan to invest approx EUR10 million to consolidate several datacenters in North and South America.

In France, since we are now in the implementation phase of our plan to move up to our [signal] brand and to further optimize the business, the majority of the announced EUR45 million investment will be incurred in the second half of 2012.

SG&A for the Group in the third quarter this year is expected to remain approx at the same level as in Q2 2012 on organic basis and before restructuring costs.

Moving on to the balance sheet. At the end of Q2 2012, we had cash and short-term investments of EUR449 million. DSO was at 54 days in the second quarter this year, one day less compared to Q2 2011. Goodwill and intangible assets amounted to EUR4.2 billion at the end of June 2012. At the end of the second quarter, Adecco shareholders' equity was at EUR3.8 billion.

Turning to the cash flow statement. The operating cash flow generated in the first six months of 2012 amounted to EUR81 million. This compares to cash used for operations of EUR30 million in the same period last year. Cash used in investing activities was impacted by the purchase price consideration for the acquisition of VSN in Japan at the beginning of this year. The Group invested EUR87 million net of cash acquired for VSN. CapEx was EUR48 million in the first half of 2012.

Cash used in financing activities was EUR11 million, and included payment of dividends of EUR256 million. And net inflows of EUR260 million related to the net increase and short and long-term debt.

Net debt at the end of June 2012 was EUR1.2 billion compared to EUR892 million at year-end 2011. In Q2 2012, we paid dividends of EUR256 million.

And here on slide 20, we show the detail on our net debt. As per the end of June 2012, we had short and long-term debt of EUR1.7 billion, and cash and short-term investments of EUR449 million. This resulted in EUR1.2 billion net debt at the end of June 2012.

In June, we launched a share buyback program of up to EUR400 million, with the aim of subsequently cancelling the share and reducing the share capital. We started the buyback in July. To fund the buyback, we issued in July a CHF250 million five-year bond and a CHF125 million eight-year bond at a rated average coupon rate of 2.125%. These transactions underline our commitment to manage Adecco's capital structure for the benefit of our shareholders.

Our balance sheet remains very healthy.

Our financial guidance for the full year 2012 is as follows. CapEx for the year 2012 is expected to be around EUR110 million. Interest expenses, excluding interest income, are expected to be around EUR80 million for 2012, despite the recent bond issuance.

Our covered costs for 2012 expected to be approx EUR100 million; and amortization of intangible assets is expected at EUR50 million for 2012. The underlying tax rate for Q3 2012 is expected to be around 35%.

As mentioned, besides our planned investment of EUR45 million in total in France, we expect to incur EUR10 million in the second half of 2012 for datacenter consolidation in North and South America.

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.

We exited the second quarter 2012 with an organic revenue decline of 3% in June, adjusted for business days. Revenue developments in July were slightly weaker, mainly driven by France and Japan.

Elsewhere, the picture is diverse. Europe is weakening further, while business in North America is accelerating, also driven by our IT Professional Staffing business, which is back to growth now in the US. In the emerging markets, revenue growth continues to be healthy.

In the current environment, price discipline and a proactive approach to cost management are key. The gross margin improvement and the solid EBITA margin in Q2 2012 reflect our focus on profitability and value creation.

As Dominik said, SG&A for the Group in Q3 2012 is expected to remain approximately at the same level as in the second quarter on an organic basis and before restructuring costs.

We continue to focus our efforts on improving our HR solutions, delivery models and the cost base, and we are convinced that we will achieve an EBITA margin of over 5.5% mid-term.

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). Robert Plant, JPMorgan.

Robert Plant - *JPMorgan - Analyst*

In terms of the UK, can you say how much the Olympic effect was in Q2, and was there any Olympic effect in Q1, please?

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

If you look to the UK, the effect in terms of marketing costs, because it's a value and time deal, is primarily in Q2 and Q3, because Since we had several millions already in Q2, but the cost for it will definitely increase into Q3, because the Games are happening in Q3, so the main costs are in Q3 and the other costs are in Q2. Q1 was very low.

Robert Plant - *JPMorgan - Analyst*

Thank you, Dominik. And in terms of the organic growth, of that 7%, how much --? Was there any benefit from the Olympics in that 7%?

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

1.5% of this was related to the Olympic Games, you have to see. We had the last two years often a lot of more Perm business, because at this time two years ago, we hired a lot of people for the whole organization; whereas in Q2 and especially in Q3, we have some, let's say, positive impact on the sales side; but this is, let's say, 10 sales.

On the bottom line, the negative impact is, of course, quite more significant because you have the marketing spend, the value in kind spend which occurs in Q2, and especially in Q3.

Robert Plant - *JPMorgan - Analyst*

Thank you, Dominik.

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

Thank you. Next question, please.

Operator

Kean Marden, Jefferies.

Kean Marden - *Jefferies & Co. - Analyst*

I had three quick ones, if I may. First of all, Manpower seems to be flagging; another billing day impact in the third quarter when they had their Q2 results recently. I was just wondering if you'll have a similar experience.

Secondly, we heard from Securitas yesterday that they thought the removal, also reduction in labor market subsidies in Spain, could possibly hit gross margins, and I wondered whether you would observe that for your business as well.

Then finally for Dominik, I'm just wondering why the corporate cost guidance has gone up relative to the numbers that you gave last quarter.

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

Maybe I'll start with question one and three, and then Patrick takes the question two.

So if we just look to the trading, the trading day impact, we had a negative trading day impact in the second quarter. We will have also a negative trading day impact in Q3 for the whole Group.

That said, we have to differentiate; whereas the negative trading day impact in the second quarter was, for example, in Germany because of the bank holiday, this had also impact then on the gross margin in Q3. It's just because of the sales, because it's just the number of trading days. So it's always the question where does it come from.

But it's through that there is a slight negative impact also in Q3, and then there is a positive one in the fourth quarter. It's just how the calendar is.

Then regarding the corporate cost guidance, it's basically more a reallocation, but we want to guide this number. The background of this is the following. As you know, one of our strategic priorities is IT investment, and in this respect, we're aiming to centralize IT much stronger going to more common and platforms.

So we're running our IT organization which was before decentralized, there's a Group CIO, we're running this now as a fully central service, directly reporting direct to the CIO. That means to a certain extent, some of the management overhead within IT is now allocated in corporate, which under (inaudible) was before in the country.

So it's much more a kind of allocation and that's the reason why we have in the second half, as of the second half, a higher cost in corporate; or for the full year, better to say EUR100 million instead of EUR90 million.

Kean Marden - *Jefferies & Co. - Analyst*

Understood.

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

On the reduction, or the potential reduction of subsidies in Spain, actually, there is none. I know that this is out for one or the other reason in the market, but this is not the case. On the contrary, Spain introduced now also the EU Directive and makes the labor markets a lot more flexible, from which we should -- okay, in a very different market environment, of course -- benefit.

Companies are also obliged now to offer outplacement solutions to their employees which will also help our Career Transition business. And on the training subsidies there is actually a push from the Government to -- not to increase, but to stimulate that so that more training is given to people to bring them back into the workforce. So we don't see any reduction in labor subsidies in the Spanish market.

Kean Marden - *Jefferies & Co. - Analyst*

That's great. That's very clear. Thank you.

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

Next question, please.

Operator

Paul Sullivan, Barclays.

Paul Sullivan - *Barclays - Analyst*

Just a couple of questions. Firstly, could you provide any more color on the phasing of the cost savings you expect in France as we go through the fourth quarter into next year? As those plans take shape, any more color there? And that's the first question.

And then secondly, just on the buyback, would you -- should we assume that you're going to complete that in the second half of this year?

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

If we start with the first question regarding France. So first of all, we are very happy that we progressed this to plan as expected. That means we will have towards the end of Q3 a major reduction of FTEs. But the cost savings out of it will occur into Q4, because based on this plan, the people will leave rather at the end of September, so they are until the end of September off the payroll.

So from a phasing point of view, you will see in the French cost structure a reduction into Q4, and then an even stronger one into Q1. So there's really then coming the real impact, the first impact into Q4, and then the big one basically into Q1. This basically the phasing from this point of view.

Looking to the share buyback, we don't want to guide until we finalize this, the opportunity of buying back shares. It depends primarily also on the trading volume. And as we have to do this over the second trading line, it's also different concept than over the first trading line that we just can do it over the market because of the withholding tax and so on.

But we are in the process, we started in it July successfully. You have of course to see -- before, 10 days before the release of results, we have to stop this, so and then we continue again.

Paul Sullivan - *Barclays - Analyst*

Fine. Can I just follow up on the tax rate? Your guidance looks quite conservative. 35%, do we view it as conservative?

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

This is the underlying tax rate which we have. What is true, and basically the last couple of quarters, we have often a positive discrete event, because of structures of resolution of tax audit. And this can always occur, but I cannot guide it. I guide you the official tax rate, and based on the business mix today, it is currently 35%.

Paul Sullivan - *Barclays - Analyst*

And so that's for --

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

But it should go down next year underlying, so the 35% rather for this year for next year should be little bit lower.

Paul Sullivan - *Barclays - Analyst*

So that's 35%, and you're still assuming for the full year rather than just the second half; but for the full year?

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

No, only for the next couple of quarters. So basically for the same --

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Paul Sullivan - *Barclays - Analyst*

For the next couple of quarters. Fine, perfect. Okay. That's clear. Okay, thank you.

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

The next analyst, please.

Operator

Marc Zwartsenburg, ING.

Marc Zwartsenburg - *ING - Analyst*

Couple of questions from my side, first of all, France. Is there any way you can split out the impact on your top line from on the one hand your restructuring, and on the other hand your price discipline that you probably let go of some contracts? That's my first question.

Then the second question on Japan, the minus 10% organically. So the impact from the outsourcing contract was around 6% to 8%, so it seems that underlying the Japanese market has weakened a bit. So what should we take as a trend, going into the third quarter?

And then finally on Germany. Over there, it seems on the Professional side, particularly in Engineering, the plus 6%, that it's a little bit weaker than what we've heard from Hays and some other peers. Is that also perhaps explaining a bit that the margin is a bit more under pressure than perhaps we've seen at peer Randstad?

And lastly, sorry, a last one for Dominik. Was there any cash impact from the timing of June 30 being in a weekend that you had a negative impact on your working capital, like Randstad was mentioning?

That was it. Thanks.

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

Marc, I will take your first two questions, and Dominik will take the one on his home country, and then on the cash impact.

On the top line in France, the impact of the restructuring. As you know, we already said in Q3 that we are willing to give up market share for profit, and that's actually what we are doing. Fair to say that we are also hit a bit more because of our exposure to the automotive sector, which is now down 27% for us.

I would not say that there is any impact at this moment from the announced restructuring. As we said, we go ahead now. We were willing to take there, let's say, 5% of our sales that we clearly said when we announced the restructuring that these were at risk. And this might come. We will do whatever we can to avoid that. But our clear focus in France is, as you have seen, on the profitability. Hence, the fact that we are only down 30 basis points with a sales decline of 13%.

So the majority of the gap is coming, and this gap has not widened by the way in Q2 versus Q1, but the majority of that gap is coming from businesses where we don't participate in, or business that we have walked away from. And you clearly see that with the 13% drop in top line. We have a drop in earnings of 19%, where others with a 5% drop have drop in earnings of close to 30%.

So we want to be in this business here, especially -- certainly in France, which is not the highest margin country we want to be in this business for the bottom line and not for the top line.

On Japan --

Marc Zwartsenburg - *ING - Analyst*

Patrick, can I interrupt, maybe? Could you give us a bit of an indication how July is trending then for France?

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

July is a bit lower, but not a lot lower. So it's a bit weaker, but not more than that.

Marc Zwartsenburg - *ING - Analyst*

Okay, thanks.

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

And then on Japan, like you're saying, indeed, the impact of the outsourcing contracts is 6% to 8%. As I said in the speech, last year, we [were on top] -- after the Fukushima disaster, we were on top quite substantially our business in the insurance sector, and this is now fading out. And we saw that effect towards the end of the second quarter, and we will see the full effect of this in the third quarter.

So it might further go down a little bit also in Japan, because we're not going to have the outsourcing contracts at all any more in the third quarter, and we're going to have this full negative effect of the ramp-up of last year in the Insurance business which we don't have now any more.

Then again, also in Japan, look at our profitability, 6% compared to 6.3%; our profitability also there will stay strong, despite the drop in sales.

On Germany, Dominik?

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

If we look to the Engineering business, so the profitability in Engineering is strong and continues to be strong, so there are no doubts on the profitability there. Definitely not.

And that our growth rate in the Engineering business slows somewhat from 14% to 6%. I think this is just more or less reflecting the market development as a whole. There is maybe one bigger competitor who is doing better, but otherwise this is more or less the market.

It is also related to the fact that we have seen, given also the amount of all these bank holidays, that the engineers has taken also a lot of holidays in the second quarter, so we are quite optimistic for the second half when it comes to our Engineering business in Germany, so there's no doubt.

If you look to the whole business, trend under DIS, it continued to do well. It's up; the brand is up 11%. Engineering, plus 6%, a little bit lower, but overall, I think that Germany in this respect in a good way.

Regarding the impact of the cash flow because the month ending June, it's true here and there, there were some impacts, but I would not say this is now totally material. But, yes, there was some impact. Yes.

You see this also by the DSO. Our DSOs are down from 55 days to 54 days, so that means DSO are on a good track.

Marc Zwartsenburg - *ING - Analyst*

All right. Thank you very much.

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

Thank you, Marc. Next question?

Operator

Andrew Grobler, Credit Suisse.

Andrew Grobler - *Credit Suisse - Europe - Analyst*

Just a couple of very quick questions from me, firstly on the gross margin. You noted that other activities had boosted gross margin by 20 basis points, what -- could you go through what exactly those other activities are?

And then secondly, just on bad debts. Again, Securitas were noting some impact in Iberia through Q2. Have you seen any rise in bad debts through the quarter?

Thank you.

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

If we look to the others, we see there a positive trend, also already a little bit in Q1. And the main reason is basically that our Solution business, so VMS Solutions, so Beeline, but also MSP Solutions, Adecco Solutions, of course, they're growing strongly.

And this is a fee business, so this is like Perm Placement fees. And this is then, of course, triggering also higher gross margins, especially if this business is growing strongly when the whole Company starts to decelerate. So this is the main explanation that we have.

And this is shown under 'other' because it's not Temp, it's not Perm, it's other, and it's the reason for the positive development on this side.

If we look at bad debt, if we look to bad debt development for the whole Company, bad debt expenses are more or less in line with last year. We have seen no major hiccups from this point of view. I said before, these old trends are in a [different] way. They are for the Company down from [55] to [54] trend.

In Spain, I see stable DSO, and also there from the bad debt exposure, we don't see this. But I would also say that in every country, but especially in Spain, we have very well diversified client portfolio.

Andrew Grobler - *Credit Suisse - Europe - Analyst*

Okay. Thank you very much.

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

Thank you, Andy. Next question, please.

Operator

Tom Sykes, Deutsche Bank.

Tom Sykes - *Deutsche Bank - Analyst*

Just on the SG&A decline in Europe, does that include any reduction in France at all? And maybe could you just say what the SG&A reduction in Europe, ex-France, approximately was, and what the outlook for further cost reductions outside of France might be, please?

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

If we talk about Europe, of course, it includes France. But of course, also in France, we have reduced our cost base. If you look, we have in France [13%] base decline. We said our gross margin is up, but you need also some cost reduction that the EBITA is only suffering 30 basis points, if your top line is down 30 basis points, so of course.

We have (inaudible) in this respect, the decline in the cost base in France is pretty similar than in Rest of Europe, because this cost reduction was not yet done because of our social plan; the social plan that kicks in, as I said before only as of Q4. This was the underlying management of the cost base, and so on. And here and there, already some impact of restructuring.

That said, we manage our cost base always very tight to the market needs, to the sales development, and we will continue to do so. So what does it mean? In one or the other [camps], in Europe we definitely see also cost reduction into Q3.

And let me guide here. To flat cost development, you have to take into account that the Olympics is happening now in Q3, and this is quite a sequential increase in cost in the UK for the Olympic Games. So if I would take out the Olympic Games contract, then our cost base on Q2 to Q3 would go down.

Tom Sykes - *Deutsche Bank - Analyst*

Okay. And in terms of any other countries where maybe there's any more material branch rationalization to do at all, or redesigning a bit the network, are there any other more formal plans that you might have to do that, or is it --?

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

Tom, really the major branch restructuring we have done in the recession '08 and '09. But as you know, (technical difficulty). Sorry, I think the line was just blocked by --

I repeat, I don't know what you heard from my answer. So if we look back in '08 and '09, we have done the major branch restructuring, and [the restructure] reduced massively the network across the world. But at this time, we were not in a position to make major moves in France. So therefore, with the combination of Adia and Adecco, we are now in a position to do this, and have successfully started the process.

In the other European countries, also in Japan, and the big part we have done -- and it's now more about that we have typically here and there optimized the things. And here and there, of course, there always is potential to reduce something; the branch (inaudible) is down 2%.

But it's not that we today have to make now a major reduction. We have done this also in Italy in the downturn '09; we have done it in '09 in Spain when we brought Humangroup and Adecco Spain together.

So the big piece really needs to be done in France where we started the plan, and all the other things is more compared to trading conditions, more from a cyclical point of view.

Tom Sykes - *Deutsche Bank - Analyst*

Right. And just -- you obviously said that France is down in SG&A, similarly to the Rest of Europe. Given what you've just said about the branch rationalization, that you've in theory made your cost base a bit more flexible, why maybe given the outlook for Europe and given what's happened to your revenue line, are you not taking out heads in Europe slightly more aggressively outside of France? Or do you feel that you have been but it's just not showing up in the SG&A in this quarter yet?

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

The FTEs in Europe, they are down 4%. So now you have to see also [hours] by France, labor laws are not like in the US where you just can reduce the headcount; also in Germany not. So there is always a little bit of a lagging effect.

So it's not -- I think we managed this, like always, very close to the revenue development. And now we have also to see if -- we have to be also to see this from market to market, do we see now in one or the other European market things going aggressively down, then we would accelerate the things.

Or is it --? If you look to Germany, the sales duration from plus [10] to minus [1], this is much more a function also of the last year's strong base. We have to consider these things. And if we look into July, I'm not seeing that Germany is further suffering.

Tom Sykes - *Deutsche Bank - Analyst*

Okay. Thank you. And then just briefly on the North American profitability, you've been investing quite a bit in your IT headcount which is up quite strongly internally. You're getting the growth out of MSP, VMS, and I assume you're annualizing or maybe getting to the point of annualizing some of the setup costs for some of those contracts maybe and the Outplacement side is stabilizing. What's the outlook for the US margin in the second half of the year? Do you think you can make a step change higher in the US profitability?

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

First of all, you have -- because you just mentioned outplacement. Outplacement is not any more reported in the US segment, because since we started, it's as a global business.

Tom Sykes - *Deutsche Bank - Analyst*

Right, sorry. Yes.

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

(Multiple speakers). But historically, in the US, the margins were always higher because Outplacement inflated them.

So for the other part, I have here really good confidence that we continue to grow our profitability in the US. It's true that we invest a lot in SG&A, but you have but you have also to see that our gross margin is very strong in the US because we're really focusing on good margin business. You have to see that our Perm Placement is growing 15%.

If you look to our IT investments which we have done, so our IT business this is not only for Temping, where we see now back to growth and, of course, we expect those improvement there. But it's also that we invested in IT and Perm Placement and this IT business where we now added headcount is growing 20% in Perm. So from a mix point of view, I'm confident for the US profitability in terms of increase.

Tom Sykes - *Deutsche Bank - Analyst*

Thank you. If could just very finally on the subsidy issue again. The subsidies in France, is there any update on that? And what are the levels of discussion around subsidies in France and removal, or otherwise, please?

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

It's absolutely not clear at the moment. We have seen some small changes recently, especially on the overtime, which have an impact, and will have an impact of a couple of million. Anyway, if something would change, we are determined to pass this on, like we have done last year. You've seen that and you see that good evolution also now in our recent results.

But I would like to take this occasion to also say that when we announced the restructuring in March, we said that we wanted to anticipate some developments in France. And if you look at the overall profitability of the industry in France, and the economical and political situation, I can only conclude that we did the right thing going for the restructuring there to anticipate whatever what happened.

But again, if something would happen on the subsidies, and for the moment it's not clear, we are absolutely determined to pass this on to -- like we have done last year.

Tom Sykes - *Deutsche Bank - Analyst*

Okay. All right. Thanks very much.

Operator

Michael Foeth, Bank Vontobel.

Michael Foeth - *Bank Vontobel - Analyst*

Just two questions. First of all, you obviously made good progress in the US IT Professional Staffing. I was wondering if you have any numbers for the market growth and where you stand versus the market growth. And also, how you are progressing on the IT Professional in Canada?

The second question would be just once again on France. Year over year your profitability was down, but compared to first quarter, you were up quite significantly. Can you just remind us again what the increase from Q1 to Q2 on the profitability in France stems from?

Thank you.

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

On North America IT, indeed, the situation is getting better; we are now in positive territory in the US. As far as Canada is concerned, we were about minus 24% in the first quarter; we are now at minus 7%, so still negative. But the situation is there also improving and it will further improve into Q3.

It depends on whom you are comparing us with how are doing against the market, but overall, I would say we are still somewhat behind the market. But there are -- there is one or the other player who is going into more negative territory in Professional Staffing. So it really depends on whom you are comparing us with.

But let's say for ourselves, we say that we are still somewhat behind the market, but our situation will further improve into Q3. I am confident that this will be the case, because we said from the beginning that we didn't want to give up on profitability in order to buy market share, and that the whole game was to broaden our customer base. We were too dependent upon a few number of large customers. And now, recently, we have really seen that our customer base has been broadening, and that we are less dependent upon financial services and government and telecom. That's why I'm confident that the situation will further improve into Q3 and onwards.

Dominik on France?

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

Regarding the profitability, the sequential increase before restructuring costs in France from Q1 to Q2 was plus 100 basis points.

Michael Foeth - *Bank Vontobel - Analyst*

Okay. And that comes from the gross margin primarily, or --?

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

It does come mainly from leverage, because in France, for the seasonality, you have always rather weak -- not weak, but a weaker Q1 compared Q2. This is mainly in France, not in a lot of other countries we have this. Then of course, if you then do more sales in the second quarter, you have a kind of of increase. So sequentially, our gross margin was pretty stable.

Michael Foeth - *Bank Vontobel - Analyst*

Okay. Thank you.

Operator

Konrad Zomer, Berenberg Bank.

Konrad Zomer - *Berenberg Bank - Analyst*

A few questions, the first one on your EBIT margin. You mentioned quite a few times in the past that as long as we're going to grow this year was going to be minus 5% or better, you should be able to keep your EBIT margins flat year on year. Is that still a statement you're comfortable with, given the [20%] basis point drop in the first half?

Second question is on Lee Hecht Harrison. The earnings contribution in the first half versus the first half last year was obviously seriously impacted by the [gray] profits of DBM, and it now represents a little over 10% of your Group EBITA. Can you give us a bit of guidance as to what's like to happen to margins in the second half? Because last year, pre-DBM, your margins went down in the second half in Lee Hecht Harrison quite significantly from the first, and I wonder if there's any seasonality that we should factor into our numbers.

Then finally, pricing pressure in Germany, your margins went down quite significantly. We know about the trading day, or the holiday, I should say. But is there anything you can help us with in of terms of pricing pressure in the German market?

Thanks.

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

If we look to EBITA, Konrad, what we said is it is much more kind of indication between, as we had also seen in 2008, it may be different now, but in general, we say between zero and minus 5%. We have approximately a similar EBITA margin than the prior year, of course, before restructuring costs.

And we're absolutely confident to stick to the statement. We have now minus 20 basis points in Q2, with 4% sales decline organically. Please consider that the bank holiday impact had some impact. As I said before on the call, the Temp margin would be about Germany 15 basis points better than Q2. But the minus 20 basis points we had in Q1 -- in Q2, in Q1, we were actually 20 basis points up. And this statement was always seen for the whole year and not for every single quarter.

So for the whole year, I have absolutely no problem with approximately similar EBITA margin. It's also more a direction also internally that people are sticking to the pricing, manage this gross margin very well in the quarter, and of course, we are taking the adequate steps on the cost side.

When it comes to the Outplacement business, Lee Hecht Harrison and DBM, you have to see -- they are the following. The strong quarters in Outplacement from a seasonal point of view, not from a (inaudible), but from a seasonal point of view, are Q4 and Q1. So these are really the strong ones.

Q2 is from a seasonal point of view a little bit weaker, or it is a bit weaker than Q1. We have shown now before integration costs. Nevertheless in Q2, nonetheless, there is seasonally weaker, the same profitability or even better with [30.5%]. This is affected by the fact that we see, of course in Outplacement here and there some improvement. But this improvement comes mainly from the US. We have not yet seen the pickup in France because until Q2 there are still elections, and the French Company is deciding only after the elections. So that should happen in the second half of the year.

Now Q3 is seasonally really the weakest one. This is where you see a weaker contribution of Outplacement. But again, in Q4, it will be again just from a seasonal point of view again, very strong.

I hope this helps and then --

Konrad Zomer - *Berenberg Bank - Analyst*

Pricing pressure in Germany.

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

In Germany, you have to see we book under US GAAP the bank holidays as occurred. So if we have one more bank holiday, the Tuesday, May 4, we pay the people like they would work, so you could easily calculate we have one day less out of normalized 59/60 days. This has a massive impact on the EBITA in the second quarter.

So if you adjust for this, you can hardly say that you see in our Company price pressure, yes? And I'm very confident that in Q3, we will have a very good high single-digit EBITA margin in Q3. So from this point of view, I think we're going in the right direction.

Then our gross margin is in Germany somewhat down. It's more related to the business mix like Uwe said before, or in previous calls, because we have more clients which are already on the equal pay. But there we always the opportunity to set off this with a lower cost to serve model. And that's the reason why we're showing here, if you adjust for bank holidays, definitely not margin decline in Germany.

Konrad Zomer - *Berenberg Bank - Analyst*

Okay that's all clear. Just one quick follow-up on Lee Hecht Harrison.

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

Yes.

Konrad Zomer - *Berenberg Bank - Analyst*

If I look at last year, and you say that Q4 and Q1 are normally your best quarters, the EBIT contribution in Q4 was the lowest of all four quarters.

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

Yes, but then you have not adjusted the integration costs. We had in Q4 last year EUR12 million of integration costs for DBM, yes? And most likely you have not adjusted it. If you add back the EUR12 million, you will see that the profitability is quite -- or the contribution is quite strong.

Konrad Zomer - *Berenberg Bank - Analyst*

Yes, got it.

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

Because we consolidated in September, I think we had in Q3, if I remember rightly, EUR2 million. But then we had EUR12 million in Q4. The big chunk of the integration happened in Q4, and that was the reason. So if you adjust it, you will see the contribution's quite strong.

Konrad Zomer - *Berenberg Bank - Analyst*

Right, okay thank you.

Operator

Alain Oberhuber, Mainfirst Bank AG.

Alain-Sebastian Oberhuber - *Mainfirst Bank AG - Analyst*

Just two questions. The first is about can you give us a little bit more insight about the EUR10 million of cost savings in North America and why did you do it? What happened? And where do you think it will hit first? Could it be Q3 or Q4?

Secondly, about price pressure. Did you see any price pressure in France, given the strong decline we currently see in the market per se?

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

On the EUR10 million, this is actually related to the data center consolidation. We have now in North America and South America, we have seven different data centers.

We consolidated, as we have done in the last couple of years in Europe. We consolidated that now into one. And, of course, you have some contracts which are still ongoing and which we have to cancel and there some penalties involved. And there are also some consolidation of the team. So this is the investment that we are doing.

You know that IT is one of our strategic priorities and it only has to do with that. It's a further consolidation and, of course, longer-term, we will have a cost benefit of this, but now it's an investment of EUR10 million just to deconsolidate, or let's say dismantle these data centers, the different data centers that we have and bringing them all to one. And the costs for this will happen over the course of Q3 and Q4.

Now as far as price pressure is concerned, here and there we see some price pressure, of course. And again, if you look at the results in France, if some of the players have a 5% decline and a close to 30% decline in earnings, they must do something on the pricing.

For us, this is clearly not the case. Our gross margin and our Temp gross margin is up in France. Otherwise, we could not have a result of 3.3% with a 13% decline in sales.

So I can only speak for ourselves that we are not participating in any price battle, whether this is in Japan or whether this is Switzerland or in France. We're just not doing it. And as the market the leader, we should not do it. I hope you appreciate that we are in this business for the bottom line and for not for the top line.

Alain-Sebastian Oberhuber - *Mainfirst Bank AG - Analyst*

Absolutely. Just a follow-on. Do you see anything from the big ones, from Randstad and Manpower?

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

I'll send you their numbers. You can ask them yourself.

Alain-Sebastian Oberhuber - *Mainfirst Bank AG - Analyst*

Okay, good. Thank you very much.

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

One final question, please.

Operator

David Hancock, Morgan Stanley.

David Hancock - *Morgan Stanley - Analyst*

Just two follow-ups from me, please, just on the Outplacement business to start with. Obviously, the trend in top line has been improving. I think minus 6%, minus 3% and now flat. Would you expect that based on perhaps conversations you're already having with customers, would you expect that to now turn positive as we go through the rest of this year?

And the 30% margin you're delivering there, even without having seen a pickup yet, is pretty impressively higher than what you've delivered in the past. If we do start to see positive growth in that business, do you think the margin can go higher from herein in Outplacement?

And the second question was just a follow upon the buyback. I appreciate that you don't want to be specific on timing, but I think the filing with the Exchange says between now and June 2015 to complete that buyback. Could this be spread out over several years?

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

If we look to the Outplacement business, now the numbers you're referring, but we said under revenue, under Outplacement, only Outplacement but not to the Lee Hecht Harrison organization. The Lee Hecht Harrison organization has also some leadership [confiding] where we also disclose the margins. And this whole unit has seen now a little bit of growth at 2%.

Now what is interesting is where has it come from; we see double-digit growth in the US. We have double-digit growth in Australia. But in Europe, we have not seen a recovery. The reason for this is primarily that our second biggest Outplacement business in the world is France, doing roughly 20% of the Outplacement sales. And, of course, this is still a lot down in the first half given the fact that elections only recently happened.

And I think one or the other French companies will restructure in France. So there is some upside. Whether it comes -- I don't think it comes in Q3 because in Q3, there is a very long vacation in France. But into Q4 and then the year after, there's definitely some upside from this point of view.

It's also interesting; we have not yet seen a lot of activity in the UK. Nonetheless, there may be an over-need in one or the other sectors in the UK for Outplacement. It's just the activity hasn't yet started in the UK. So there's upside whereas the US has already accelerated, just to take this plus 2% recently into perspective.

From a profitability point of view, of course, and the 30.5% is a very strong margin. It's much higher than any of the competitors and we are very satisfied with it.

Now if we have also to see in Q3, you will have much lower margin from a seasonal point of view, but the model is basically also based on the assumption if we make growth there, of course, there is still operation leverage in this model. Yes?

That's the case.

David Hancock - *Morgan Stanley - Analyst*

Great, thanks.

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

Then to the share buyback and to your last question, that's true that the filing is saying 2015, but you know this is just more a technicality. This is not really that we seriously plan to take such a long time to buy back these shares, yes? So we have also once to bring this to the AGM that the shares get cancelled, so the AGM is next year April. Maybe this is more or less an indicator.

David Hancock - *Morgan Stanley - Analyst*

Perfect. Thanks Dominik.

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

^ Okay. Ladies and gentlemen, this concludes our second quarter call. We would like to thank you for your attention and for your interest in our Company.

As you know, we announce our Q3 results on November 6, but hopefully, we will see you sooner, especially at our investor days in Paris on September 19 and 20. I really look forward, together with Dominik and Karin to see you all there.

Thank you very much and hope to meet soon. Have a good day or a good evening. Thank you.

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

Thank you.

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

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.
