
Operational

REVIEW



Strategy

The Group's strategy is to expand the business with the objective of being the leading specialist recruitment consultancy in our chosen markets. As recruitment activity is dependent upon economic cycles, our strategy to counter the impact of economic downturns is to diversify our business by industry sectors, professional disciplines and by geographic markets. By being more diverse the dependency on individual businesses or markets is reduced, making the overall Group more resilient. This strategy is pursued entirely through the organic growth of existing and new teams, offices, disciplines and countries with a consistent team and meritocratic culture.

This growth is achieved by drawing upon the skills and experiences of proven Michael Page management ensuring we have the best, most experienced, home grown talent in each key role. When we invest in a new business we do so only with a long term objective and in the knowledge that at some point there will be periods when economic activity slows. While it is difficult to predict accurately when these slowdowns will occur and how severe they will be, it has been our practice in the past and our intention in the future to maintain our presence in our chosen markets, but with close control over our cost base.

	2008	2000
Gross profit	£552.7m	£238.3m
% of gross profit by Region		
EMEA	47%	36%
UK	32%	49%
Asia Pacific	12%	13%
Americas	9%	2%
% of gross profit from four largest countries		
UK	32%	49%
France	16%	25%
Netherlands	7%	6%
Australia	7%	9%
Top 4	62%	89%

Our team based structure and profit share business model is scalable. The small team size also means that we can rapidly increase our headcount to achieve growth. When market conditions tighten these teams then reduce in size largely through natural attrition. Consequently, our cost base will be reduced in a slowdown, but having invested years in training and developing our highly capable management resources our objective is to retain this expertise within the Group. By following this course of action we typically gain market share during downturns and position our businesses for leading rates of growth when economic conditions improve.

Pursuing this approach does mean that in a downturn our profitability declines as, in addition to the lower productivity levels that come with a slowdown, we also carry spare capacity. Adopting this strategy of toughing out economic slowdowns also drives our funding strategy and balance sheet position. In slowdowns, the business continues to produce strong cash flows as working capital requirements reduce. With uncertainty around the length and depth of economic slowdowns, a strong balance sheet is essential to support the businesses through these tougher periods and, when conditions improve and the businesses start growing, to fund the increased working capital requirements.

Review of 2008

At the start of the year the problems within the banking sector, which had begun with US sub-prime lending in August 2007, were beginning to impact more generally on banking clients. While this slowed our growth rates in businesses and locations with a high proportion of banking clients, elsewhere, we continued to experience strong demand from almost every other industry sector. To capitalise on this demand and continuing our investment in new businesses for longer term growth, we increased our headcount during the first half of the year by nearly 500 people, 263 of these joining in January 2008. We opened in Austria, Turkey and New Zealand, added a number of new offices in other countries and continued the discipline roll out across our office network.

As the problems in the financial markets increased, business confidence eroded and economic growth slowed with gradually more and more industries and countries feeling the effects. This loss of confidence became more marked and spread rapidly in the fourth quarter to impact virtually every industry sector and geographic region in which the Group operates. Our businesses reacted to these weakening market conditions by reducing headcount, most noticeably

	2008	2000
% of gross profit by Discipline		
Finance and Accounting	49%	66%
Marketing, Sales and Retail	19%	21%
Legal, Technology, HR, Secretarial and Other	17%	10%
Engineering, Property & Construction, Procurement & Supply Chain	15%	3%

during the fourth quarter, with over 500 people leaving the Group during that period. As visibility reduces in a downturn and productivity declines, reductions in headcount inevitably lag the reductions in activity levels and gross profits. The reduction in headcount was achieved largely through natural attrition and without incurring significant restructuring charges. At the end of the year our total headcount was 4,943 (2007: 5,052) operating from 163 offices in 28 countries.

Continental Europe, Middle East and Africa (EMEA)

EMEA, the Group's largest region, contributing 47% of the Group's gross profit, reported strong growth with revenue increasing 32.8% to £426.4m (2007: £321.1m) and gross profit increasing by 31.7% to £258.8m (2007: £196.4m). The reported growth rates benefit from the weakness of Sterling, revenue and gross profit growth rates in constant currencies being 14.8% and 13.9% respectively.

In the first quarter of 2008 the businesses grew year-on-year gross profits by 38% in constant currency. This growth rate had slowed to 25% in the second quarter, but with all countries in the region still achieving year-on-year growth. In the third quarter the region grew by 13%, but with Spain and the Netherlands being the first established countries recording year-on-year declines in gross profit. In the fourth quarter all countries recorded year-on-year declines in gross profit, save for Poland, Russia and the UAE.

Headcount in the region increased from 2,078 at the start of the year, peaked at 2,363 in July and ended the year at 2,155. As well as opening in Vienna, Austria and Istanbul, Turkey we launched new offices in Stuttgart, Seville, Massy, Breda, Gothenburg, and in the first quarter of 2009 in Abu Dhabi. The cost base increased during the first half of the year to support growth. As growth rates slowed, visibility reduced and productivity declined, with the combination impacting on profitability and conversion rates.

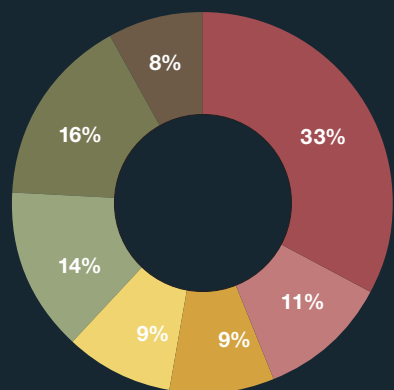
The region produced an increase of 5.2% (8.2% decrease in constant currency) in operating profit to £66.3m (2007: £63.0m) and the conversion rate reduced to 25.6% (2007: 32.1%).

France (33% of EMEA), which remains our second largest and most established business after the UK, had a very successful year growing gross profits by 17% in constant currency. The business in France recorded year-on-year growth until the fourth quarter, with Page Personnel being more resilient than the Michael Page business.

The individual performances of the countries that make up the rest of the region demonstrate the benefit of having a diverse geographic spread. In constant currency, the Netherlands (16% of EMEA) gross profits were the same as in 2007, Germany (14% of EMEA) grew gross profits by 21%, Switzerland (8% of EMEA) grew gross profits by 21%, Spain (9% of EMEA) saw a decline in gross profits of 10%, while Italy (9% of EMEA) grew gross profits by 20%.

United Kingdom

The UK contributed 32% of the Group's gross profits in 2008. Revenue increased by 1.4% to £365.6m (2007: £360.4m) while gross profit was 5.0% lower at £176.7m (2007: £186.0m). The lower gross profit from an increase in revenue is almost entirely due to a shift in mix as gross profit from permanent placements declined while gross profit from temporary placements grew. At the beginning of the year the crisis in the financial markets was only affecting our banking business, while the other disciplines were experiencing strong demand and continuing to grow. We opened offices in Newcastle and Cardiff with headcount increasing from 1,799 at the start of the year, to peak at 1,880 at the end of April. While headcount has reduced by 13% in the remainder of the year to 1,640 at the end of December, it has lagged the reduction in gross profits. Consequently, operating profits



EMEA GROSS PROFIT 2008

- +17% Growth France
- +36% Growth Belgium, South Africa, UAE, Sweden, Poland, Portugal, Russia, Ireland, Luxembourg
- +20% Growth Italy
- -10% Growth Spain
- +21% Growth Germany
- +0% Growth Holland
- +21% Growth Switzerland

Growth rates in local currency

for the year are 21.6% lower at £46.6m (2007: £59.4m), representing a conversion rate of 26.4% (2007: 31.9%).

The gross profits of the Finance and Accounting businesses, which generated 50% of UK gross profit, was 11% lower than in 2007, with gross profits from permanent placements declining as the slowdown, which started in the City, spread to impact London more generally and latterly the regions. Gross profit and margin from temporary placements remained broadly flat on last year.

The combined gross profits of Michael Page Marketing, Michael Page Sales and Michael Page Retail, were in line with 2007 and represented 24% of UK gross profit. The Marketing and Sales businesses performed well in an increasingly challenging market achieving considerable growth in temporary gross profits as permanent activity slowed. Retail, which had a strong first half has experienced a sharp slowing from the summer onwards reflecting difficulties in the sector.

Michael Page Legal, Michael Page Technology, Michael Page Human Resources and Michael Page Secretarial, which combined represented 16% of the UK, had a 4% decline in gross profits. As with the other UK disciplines, they achieved growth in temporary placements and lower permanent placement activity. The spreading of the financial crisis has impacted heavily on the legal recruitment market while Technology and Human Resources performed well, growing in the year.

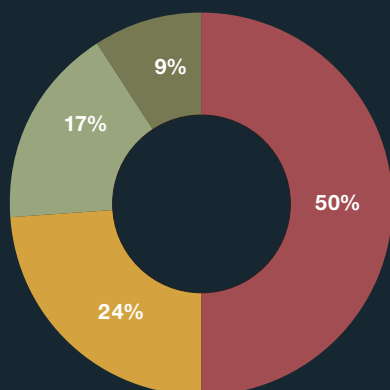
The more recently created Michael Page Engineering & Manufacturing, Michael Page Procurement & Supply Chain and Michael Page Property & Construction businesses, grew at over 30% and together now represent 9% of UK gross profit. These businesses all grew gross profit in 2008, with the growth in temporary placements exceeding the growth in permanent.

Asia Pacific

In the Asia Pacific region, revenue was 14.0% higher at £111.4m (2007: £97.8m), gross profit was 16.7% higher at £66.8m (2007: £57.2m) and operating profit increased 7.3% to £22.4m (2007: £20.8m), representing a conversion rate of 33.5% (2007: 36.4%). The reported results benefit from Sterling's weakness, using constant currency, revenue grew by 3.1%, gross profit grew by 5.2% and operating profit fell by 3.4%. Headcount in the region grew from 632 at the start of the year to a peak of 716 at the end of October. As the effects of the economic slowdown spread rapidly in the fourth quarter, our businesses responded quickly by reducing headcount in the last two months by 80 to end the year at 638.

In Australia and New Zealand, (61% of Asia Pacific) gross profit and operating profit grew in constant currency by 11.7% and 13.7% respectively. We opened an office in Auckland and with the Australian economy remaining strong we increased headcount and continued the roll out of disciplines. The Australian economy started to show signs of slowing in the second half, with market conditions then weakening rapidly in the fourth quarter.

In the Rest of Asia the performance was more mixed. In Tokyo, which is yet to rollout all disciplines, our business is heavily dependent on the banking sector and has had a difficult year, but remained profitable. In China we continued to invest and grow our business opening offices in Beijing and Shenzhen. In Hong Kong and Singapore our businesses performed strongly until the fourth quarter when market confidence eroded rapidly and activity levels reduced sharply.



UK GROSS PROFIT 2008

- -11% Growth Finance & Accounting
- -1% Growth Marketing, Sales and Retail
- -5% Growth Legal, HR, Technology, Secretarial and Other
- +30% Growth Engineering, Property & Construction, Procurement & Supply Chain

The Americas

Revenue for the region was 32.3% higher at £69.3m (2007: £52.4m) and gross profit increased by 31.3% to £50.5m (2007: £38.4m). The reported results benefited from Sterling's weakness, using constant currency, revenue grew by 19.2% and gross profit grew by 17.7%. Headcount in the region increased from 543 at the start of the year and peaked at 624 in July. As the effects of the downturn in North America became more severe and with the weakening spreading to Latin America, headcount was reduced substantially in the second half and ended the year at 510. As a result of the slowing in activity levels, operating profit was 14.0% (30.4% in constant currency) lower at £5.3m (2007: £6.2m), with a conversion rate of 10.5% (2007: 16.1%).

In North America, we opened a second Canadian office in Montreal at the start of the year and continued our discipline diversification in our US offices, reducing our dependency on the financial services sector. In Latin America we achieved strong growth in Mexico and Brazil, where we opened a fifth office in Belo Horizonte. Our business in Argentina, which opened at the end of 2007, achieved a successful first year of trading, exceeding our expectations.

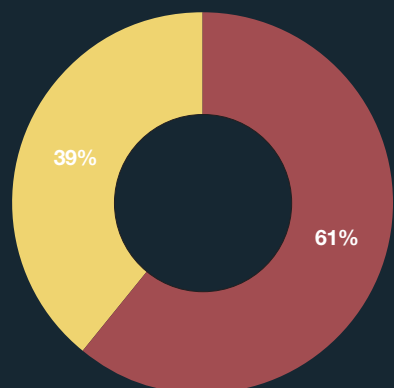
Discipline development

Placing people in Finance and Accounting roles, the large majority of which are professionally qualified accountants into industry and commerce, generates around half of the Group's gross profits. Revenue from Finance and Accounting placements was 9.2% higher at £542.0m (2007: £496.5m) and gross profit increased by 5.5% to £273.0m (2007: £258.7m), using constant currency, revenue increased by 1.1% and gross profit reduced by 3.0%. The reduction in gross profit is largely as a result of the financial crisis substantially reducing the number of banking placements, particularly in permanent roles.

Placing Marketing, Sales and Retail professionals generates around 19% of the Group's gross profit. Revenue from these disciplines was 18.0% higher at £140.6m (2007: £119.1m) and gross profit increased by 15.6% to £103.9m (2007: £89.9m), using constant currency revenue increased by 9.2% and gross profit increased by 6.5%. Marketing, the larger of these disciplines, achieved good growth particularly in the UK from temps and the public sector. Sales, mainly a permanent business, achieved good growth particularly in Australia and Brazil where it is a relatively new discipline focus. Retail, which is the smaller of these disciplines and predominantly permanent rather than temporary, had a tough year reflecting the difficulties in the sector.

Legal, Technology, Human Resources, Secretarial and Other disciplines are all comparatively small with the largest of the disciplines accounting for less than 5% of Group gross profit. Revenue from these disciplines was 24.7% higher at £168.2m (2007: £134.9m) and gross profit increased by 26.2% to £93.2m (2007: £73.8m), using constant currency revenue increased by 15.9% and gross profit increased by 16.8%. With the notable exception of Legal recruitment which was severely affected by the financial crisis all the remaining disciplines grew well off a smaller base, as they were rolled out.

The most recently established disciplines of Engineering, Property & Construction and Procurement & Supply Chain all grew rapidly, with the largest, Engineering accounting for almost 7% of Group gross profit. Revenue from these disciplines was 50.4% higher at £122.0m (2007: £81.1m) and gross profit increased by 48.3% to £82.6m (2007: £55.7m), using constant currency revenue increased by 35.2% and gross profit increased by 32.5%. These higher rates of growth reflect the benefit from rolling out new disciplines across our established network and in more recently launched countries such as the United Arab Emirates.



ASIA PACIFIC GROSS PROFIT 2008

■ +12% Growth Australia and New Zealand
■ -4% Growth Asia

Growth rates in local currency

Outlook

We have made significant investments over the past few years, organically diversifying our business, geographically and by discipline, where market opportunities exist and when we have a senior experienced member of the Michael Page management team available to pursue them. This diversification has undoubtedly benefited the Group's performance as economies around the world have slowed. Given the difficult global outlook, we have limited our own investment and expansion plans and will aggressively manage our costs to reflect activity levels, including where possible consolidating offices and merging teams.

Given the current uncertainty over the economic outlook it is extremely difficult to predict the performance of our business in the short term. We have an exceptional pool of ambitious and talented people in the Group, particularly at the senior management levels, who have experience of managing these businesses through periods of economic slowing and recession. We have a track record in periods of economic slowdown of maintaining our infrastructure and market presence, seeking to position the business for strong growth when economic conditions improve. It has always been, and will continue to be, our intention to take decisions and make investments for the longer-term benefit of our stakeholders.

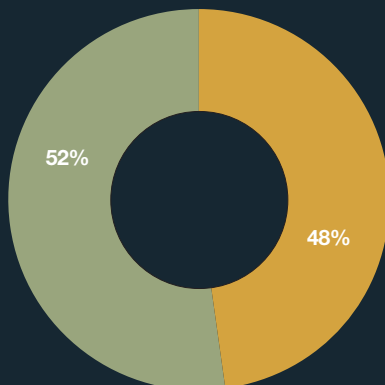


Steve Ingham

Chief Executive
5 March 2009

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THE AMERICAS GROSS PROFIT 2008

+1% Growth North America
+40% Growth Latin America

Growth rates in local currency