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EDITED TRANSCRIPT

SU.PA - Full Year 2017 Schneider Electric SE Earnings Call

EVENT DATE/TIME: FEBRUARY 15, 2018 / 8:30AM GMT

OVERVIEW:

Co. reported 2017 Group organic revenue growth of 3.2%, net income of EUR2.150b, and EPS of EUR3.85. 2018 organic topline growth target is 3-5%.

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PRESENTATION

Amit Bhalla

Good morning, and welcome to all of you in the room here and to the others who are following on the webcast. We're here for the announcement and sharing of our fourth quarter revenues and full year results for 2017 for Schneider Electric. The presentation as well as the release are available on the website. A quick reminder of the disclaimer on Slide #2.

And with that, I'd like to introduce Jean-Pascal and Emmanuel. Jean-Pascal, you start with the strategy presentation.

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Okay. Well, good morning to all of you. It's good -- great to be with you this morning and to comment on 2017.

Maybe before I dive into the slides, well, we have had very strong results in 2017, and I think '17 is a kind of proof of execution of our strategy. We see a lot of strengths in our 2 worldwide-leading business, Energy Management on the one side, nearly EUR 19 billion of business; Industrial Automation on the other side, EUR 6 billion of business. And those 2 are serving the 2 major breakthrough of the industrial revolution, the new industrial revolution. One is energy transition, of course, and the world is working on it; and the other one is Industry 4.0, which is the whole digitization of industry. So we see in 2017, those 2 pillars, those 2 engines, those 2 core business of Schneider delivering fully.

The second point, of course, is the adoption of digital, our platform, EcoStruxure. Digitization is accelerating, and we are in a position to capture the benefits of it in whatever markets we are serving. This goes with the development of new business services, which have been an engine for growth over the past years and confirming, again, this year; and On software, where we are in process of doing 2 acquisitions that you know, IGE+ XAO; and more so, AVEVA; which is in the process of realization.

And finally, I would say that 2017 also benefits from the global presence of Schneider, very balanced presence, where most of the geography -- all of the geographies are in growth. And because of that very complete presence around the world, we are able to capture all the opportunities which are happening in the world of today. The reality, if we put the headlines of this H2 of the year, is that H2 is accelerating. It's accelerating with respect to H1 on the full 6 months; and Q4, within H2, is accelerating on Q3.

So this being introduced, I'm going to go into the detail of the presentation and take you straight to Slide 4 to come back to the headlines and detailed headlines of the year. So first point, again, strong growth in 2017, 3.2% with an acceleration for the whole group in Q4, 4.6%. And with our 2 business in Q4, Energy Management and Automation, on the full year growing 4.3% and 5.6% respectively. That's in Q4.

If you remember, at the beginning of 2017, we defined 3 business we want to grow, and 1 we business want to reposition that we call selectivity, and it's about Infrastructure. If you exclude from the figures Infrastructure, the other 3 business, the growth business are growing by 4.5%. So a very strong performance in 2017.

Not only it's accelerating growth all over the year, but it's a profitable growth. We strike, this time, 3 historical, I would say, strikes. The highest-ever operating profit, increasing by 9% organically, which makes the margin at 14.8%, up 90 bps organically. Then the second highest ever is our net profit, which, for the first time, is above EUR 2 billion, and which is increasing by 23%. This goes with an EPS of EUR 3.85 per share. And the third historical high is our cash flow generation. And I'm proud that within a context of renewed growth, we managed to maintain a cash flow conversion above 100%, which is clearly a breakthrough from what we are doing in the past in front of such a growth.

Very happy, also, that the ROCE is going up by 1.3% to 12%. You remember that when we did the acquisition of Invensys, we announced that we would tolerate a decrease of the ROCE below the corridor, which is our target corridor, and we are back in the corridor at the end of 2017, 12% to 15%. And we're going to propose at the next AGM, in consequence of those strong results, a dividend of EUR 2.20, up 8%.

So keeping on going, what justifies such an acceleration of growth? We told you already now for the past 2 years that our strategy was very simple: more products through our unparalleled network of integrators, more services, more software, more digitization, and nothing has changed. We are just executing around those lines. So very strong growth in products. Products growing at 4.3%, above the average of the group, accelerating in H2 at 4.9%. I want to mention that for now the -- more than 4 years, what we do in the home on small building space, the space of electrician, which are Final Distribution, Wiring Accessories is once again growing mid-single digit and clearly beating competition. And clearly, the year 2017 was extremely strong in Industrial Automation, high single digit over the whole of 2017 in products, in products. And we are quite proud to receive a number of distinction, recognizing, rewarding the design of our products. You've got here a few products, which are all connectible, which have been launched on the market in '17.

Second part is, of course, more software. Well, Industrial Software was about flat, impacted once again by Oil & Gas and also the convergence of some platforms. We repositioned some of the platforms on the software and delegated the integration that we used to do outside of our Software division to integrators. I won't dwell too much on that as we are closing AVEVA and the leadership of that activity will be taken over by AVEVA, but we have spent a lot of 2017 reforcing ourselves in the field of software, launched the acquisition of IGE+ XAO to strengthen our position in electrical CAD. That's more on the Energy Management side of the equation. And good progress on AVEVA acquisition, passing the CFIUS, very recently appointed -- the AVEVA board appointed a new CEO. And the CEO will be operational on the 19th of Feb, that means very soon, and the closing is expected at the end of the month.

On the other side, the other business which has been always growing more than the average of the group is Services. So we, in orders in 2017, delivered single-digit growth in orders. 6% organic growth in Q4. And as we go and serve the installed base, we also digitize it. Digitizing the work of the operators when they go in the field, making their safety higher and their efficiency better, but more so, connecting the installed base on our cloud so that we can keep monitoring and supplying new services like predictive maintenance, asset inventory and asset management.

Going into the factors of growth, I believe we keep improving in cross-selling. That has been the strategic choice of Schneider, to build very strong synergies within everything we do in Energy Management, Medium Voltage, Low Voltage, Secure Power, and also building very strong synergies between what we do in Automation and what we do in Energy Management because this is a way that energy gets connected and where we get more efficiency in the usage of energy. So I won't dwell on it, but you've got applications here in diverse fields where we show the synergies which have been happening inside our portfolio to serve better our customers.

Our customers, it's very simple. They come to improve their efficiency and productivity. And it goes with efficiency of your energy bill or reduction of cost on energy bill and improvement of efficiency of your process, and we are in a unique position to bring the combination of the two with one integrated system within EcoStruxure.

Which drives me or which leads me to the next priority that we have beyond building solution, which is digitization. And I just will pick a few data points here that show our progress. Plus 25% in the assets that we have under management for the sake of our customers, so assets that we manage on our cloud. The ecosystem that works on our platforms, 20,000 system integrators and developers growing or working with us, multiplied by 2 in 2017 customers who are connected to our platforms. And very important also, you know that the distinctive DNA of Schneider is its network of partners. We believe and we work with partners, and we've got, today, more than 650,000 partners who interact every day on our Partner relationship management system with Schneider. So all of those indicators going into the right direction.

And I said it many times, but the proof of digitization is in the pudding, the values that you bring to your customers. And I speak to a few of those applications here that speak to those benefits. Customers don't come to us for technology. Actually, they probably don't care. What they want are energy gains, process gains, gaining more safety for their operators. So would it be in a hospital in the U.S.; in a complete Datacenter, which is a crown jewel application for Schneider; in Industry; or in Infrastructure where we build Microgrid; the benefit of digitization are obvious and are bringing a lot to our customers, and this adoption is growing fast.

I'd like to dive, probably, on one example, which is the one of Auchan. And Auchan faces a huge complexity, 3,000 retail sites potentially involved. And we did with them the rollout of energy services in 10 countries. What's the benefits? The benefits which are deriving from that are very simple. It's consume less, 20% of energy saving; consume better by sourcing the best source of energy providing in function of the profile of the consumption; and making sure that sustainability -- marks on sustainability performance is improving because all the data concerning energy consumption, resource consumption and carbon emission are now available for benchmark, for reduction and for progress. So a great example, and we have plenty of examples, it's not only about energy reduction. Once you are connected, you can bring a lot of new services to your customer. In this case, it's energy sourcing, we could speak about asset management, we could speak about predictive maintenance. These are the set of functionalities that connectivity bring to our customers.

Moving on to another important topic of 2017. We finished in -- at the end of '17, the 3-year cycle of our Planet & Society barometer. And you know that it's a big focus for all the associates and the people of Schneider. And once again, we reached our objective. So there were objectives in the direction of planet, profit and people. We've kept you informed, the results of what we do here are audited. And one thing I want to mention, which I'm very proud of, is that Schneider Electric has been listed as the fifth global company with the most socially responsible investment funds are invested today. Fifth in the world, all the industries compounded, which is a practical recognition of our leadership in this field.

Now we enter into a new cycle of 3 years, and it's time to raise the bar so that the new Planet & Society barometer that we're going to report on, it impacts many employees at Schneider in their bonus, in their incentives. It's about working on the climate, fight against climate change. We apply to ourselves all the technology that we provide to our customers. It's about circular economy. It's about health and equity. Very proud that last year, we launched a worldwide Family Leave policy, which is very innovative, very progressive, and which has been extremely well received by our employees. Ethics, of course, as we work into many places. And development, where we keep supplying energy to the underprivileged populations, especially in emerging countries.

This has been -- if I look at 2017, we've had numerous recognition in the field of sustainability, in the field of human resources, and that's very important because we are a technology company. And we -- like any company, we need the best talents on earth wherever they are living in the world, and the fact that we are a place where people want to work is extremely important. And I want to mention also, because it's half of the group in terms of headcount and I'm very proud of what they are achieving, the fact that Gartner recognized us as a #17 supply chain in the world, all industries recognized. And in Europe, #7. And if you focus on the industrial world, we are the #2 supply chain in the world behind BASF. And it means what? It means for us, many people speak about Industry 4.0 and what we can bring to our customers. We not only have the technologies to do it but we operate our technologies deeply in 200 factories and 100 distribution centers. So it's not theory, it's theory put into practice and recognized by benchmarking -- the best-recognized benchmarking entities in the world.

'17 was a lot about productivity also. So we delivered EUR 1.9 billion of gross cost savings in 3 years, EUR 650 million achieved in 2017. If you take 3 years, we had committed in industrial productivity to EUR 1 billion. We actually did EUR 1.2 billion, so we overdelivered on the initial target. On our base cost, we had committed to EUR 700 million to EUR 800 million, and we delivered EUR 750 million. So well on target. And what I like, also, is that our supply chain, which delivered those EUR 1.2 billion over 3 years, delivered also an increased customer satisfaction. We are in first quartile of customers at all companies, industrial companies included. We did a lot of network modeling to simplify the slow -- the flow, sorry, in our supply chain. A lot of end-to-end digitization. And we're going to have the -- or you're going to have, for those who are interested, to come and visit one of these examples of Industry 4.0 deployment in Wuhan, China, where we organized a day for investors on March 26. So if you're interested, come to Wuhan, see what we do in the place that chose not to be automated and that now is using automation to its best -- to get a better productivity, agility, flexibility and safety on the ground of a shop floor.

I want, also, to mention a very important plan, which is Medium Voltage Rebound, which is on track. So I'm going to come back later in the presentation. But again, this year, we increased organically by 130 bps the profitability of Medium Voltage. As we divested DTN, which was reported in this division, that 130% is coming back to 30 bps because DTN was [relative] by 100 bps on the total business. But it's 260 bps organic since 2015 that we have been increase -- that we have been improving.

Selectivity is now over. And in Q4, we are back to growth in sales at 2.2%, which is a good acid test of the termination of that policy. And as you know, we are implementing a specialized organization for everything we do in systems, which is projects and equipment, to have a more streamlined, a more agile, a more decisive management for that part of the business.

For 2018, we confirm that we want to target another improvement of 1 to 1.5 points of profitability, which would keep progressing the profitability where we want it to be in the future.

Finally, as a big headlines, we keep working -- we kept working on our portfolio in 2017. Acquisition of ASCO in the field of Secure Power. In the field of MicroGrid, everything which is source switching, which is becoming so important of the world of today where sources are multiplying, renewables, storage, grid, generators. There's a multiplication of sources. Reinforcement of Software, AVEVA and IGE+ XAO, I spoke about it. And we disposed or we divested DTN, I would say, at the right price, which was the right thing to do with what we had done of that operation. It was not a cooperation, very profitable, but not a cooperation for the future of Schneider.

And we focused, as always, in generating an attractive return for our shareholders. So we are proposing at the AGM a dividend up 8% in 2017. Of course, progressive, of course, more than 50% of our net, you know our commitments in that matter. We have a share buyback in process of EUR 1 billion until mid-2019. It has just started in '17, EUR 140 million if I remember well. So there's still more than EUR 800 million to realize. And then 75% -- if you look back for the past 3 years, 75% of the free cash flow was returned to the shareholders after the period, we know, of intense acquisitions. So we keep our word and we execute on our commitment.

Now I'd like to go on the business performance highlights. And well, the first point is to come back on our mission at Schneider, which is to provide complete efficiency solutions to our customers in our key markets and to lead the digitization of Energy Management and Industrial Automation, which are the key components of the efficiency of our customers. And the good news is that as we speak today, the new industrial revolution is having 2 major breakthrough. One is the energy transition, and the other one is Industry 4.0. And energy transition is clearly the scope and the objective of Energy Management, and Industry 4.0 is the scope and the enabler of industrial -- is enabled by Industrial Automation.

So looking back at 2017, those pillars are strengthening the growth. Energy Management, if you take out the selectivity and include what we do through Delixi in China that we don't consolidate is at 4% of organic growth, and Industrial Automation, very strong at 6%. And what we do with our customers is to cross-sell those solutions into complete packages, and I already spoke about that earlier in this presentation.

So I'm going to first focus on Energy Management, take the example of the building where we incorporated cost-structured building, cost-structured IT, cost-structured power to integrate the full building into one consistent efficiency architecture. But what we describe here for the building in energy is true for all of our core segments. And the reason why we bring together Medium Voltage, Low Voltage and Secure Power while keeping the visibility for you together, is that for every customer, they are sold together. They are sold Medium Voltage, goes with Low Voltage. And when you go into many applications, Low Voltage goes also with Secure Power. So strong, strong, strong synergies in that EUR 19 billion business when you put everything together.

Here, you have a table that we have consolidated to give you the world trends. Frankly, I won't go to the tedious comment of everything, but I'm happy to take question if there are interrogation of any square of this beautiful table. But if I try to focus on the major segments, I would say in the world today, we see a strong construction market in residential, in nonresidential building. In Industrial infrastructure, we see that strong demand at 6% and accelerating demand being pushed by Industry 4.0, the demand for machines, and we are very good or very strong supplier with machine manufacturers. And we see a lot of demand in industrial infrastructure about carbon-footprint reduction, energy reduction, which we serve together with our Process business.

One thing to mention in '17 is a rebound of MMM, of mining particularly, which was very depressed in the past years and that we see coming back as we go forward.

Crown jewel of business of Schneider, Datacenter & Networks, which we see strong everywhere. What is going very strong at Datacenter is mid-single-digit growth across the borders with the Secure Power part of it, which is more low single digit but the very fast-growing part, which goes together, which packages together is the Medium Voltage and Low Voltage part, where we have a very strong position worldwide.

What we see in distributed Secure Power is that it's relatively flat on the IT applications, but it's getting now accelerated by distributed Secure Power, what we do in the emerging world in homes, in buildings to secure the power when the grid is not there based on UPS and edge computing.

Finally, utilities. Well, utilities I would mention that we see the following: seeing electrification in emerging countries, which is a more traditional business we do with utilities. In all the other countries, utilities are reinventing their business, which is an excellent ground for Microgrids and for smart grids. This, as a transitional picture of the markets that we are serving.

As you go into a vision by subparts of Energy Management, very strong performance, of course, of Low Voltage, more than 5% growth on sales. So I'm not speaking about orders, we are speaking about real sales now with strong dynamics and with an organic profitability increasing by 80 bps. So at the best level of profitability.

Of course, all the segments of Low Voltage are increasing here. Of course, one of the sweet spots is always what we do with electricians, homes, small homes, which has been growing mid-single digit. But you see here that all the segments are growing fast. Everything that we do in power distribution, Industry, Infrastructure, Building, is packaging with Medium Voltage. So most of the selectivity that you see here is more on the infrastructure kind of application.

Medium Voltage, very happy that once again, we strike a good profitability improvement, 130 bps. And again, if you exclude selectivity, which is finishing now, it was a 2% growth in 2017.

Now Secure Power. You'll remember that in Secure Power, there was concern expressed because profitability was going down by 1.2 points. You see, and we told you that the business, it was a question of base of comparison, cycle in the sales mix of the business. Well, good news is that growth of 4% in Q4, back to growth and recovery of profitability in H2, which makes the full year roughly flat in terms of profitability with respect to 2016. The presence that Secure Power gives us in the space of the Datacenter creates the space for the growth, double-digit growth for Medium Voltage and Low Voltage in the same space. And this is really the future of many Energy Management application, mixing together Medium Voltage, Low Voltage and Secure Power together.

So I won't go through the detail of all this. I want to pick one of few data points. If you take the global of Energy Management, roughly EUR 19 billion business; world-leading, of course; high profitability, 7 point -- 17.3%; profitability increasing by 40 basis point; 3.4 points of organic growth that includes the selectivity in Medium Voltage repositioning on the right segments. I want to take a few data points here. The ADMS smart grid where we are progressing double digit, we are taking a lot of projects at the moment, digitization of the grid to manage all the complexity of the new grids. Again, the thing that we do in EcoStruxure power, connecting buildings, double-digit growth, that connectivity. And then in distributed IT, the fact that we have a very strong dynamics in emerging countries for power-related applications and non-IT applications, right?

So now let's move on to Industry Automation, which serves Industry 4.0, very strong confirmation of the excellent performance in machine automation. We grow 4x the market, again. The only limitation with last year, we had some delivery tensions because some of the products were just -- there was too much demand for what we could serve. At the level of end-user automation, we lead by being very present at the edge in PLCs, in DCS, in safety systems, and we differentiate with our portfolio of software that we're going to amplify now with the merger with AVEVA. And of course, we do always better in the segments where there is a strong interaction of power on Process Automation, which we completely work on with synergies.

So excellent year in Industrial Automation, 5%, 6% organic growth. Progress of our profitability by close to 1 point. Growth across all 4 regions, strong in products. I spoke about the machines, strong in machines, strong in end user, boosted by Industry 4.0. The only point which was below is Process Automation, very impacted by Oil & Gas still. Software revenues, I already spoke to that. Our priorities are keep growing the products for intermediaries and distributors, keep rolling out EcoStruxure Plant & EcoStruxure Machine and keep driving the growth through Industrial Software platform.

That finishes the brush up of all our strategic direction of the year. I now hand over the mic to Emmanuel, who will go into the detail of the figures.

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Thank you, Jean-Pascal. Good morning, everyone, great to be with you for this full year 2017 result. Of course, I'm going to dig into a lot of detail and share a lot of numbers with you.

Just maybe a global preliminary comment. As you have seen, we're coming up with a strong set of numbers. Jean-Pascal said it, but I want to repeat it. We believe that is a combination of, first, excellent execution and good result on implementing our strategy; and second, good or very good execution of this strategy. You combine the two, and you're coming up with this strong set of results where we're able to combine accelerated top line growth and margin improvement.

So let's now start with more detail on H2. I think it's important to spend some time on H2 as, clearly, H1 was good already, but H2 has been showing some even further acceleration. Starting with our sales, you see that all together, our organic growth for our sales has been plus 3.7% organic in H2, with even an acceleration at plus 4.6% in Q4. So yes, there was a little bit of positive walk-in there, around 0.5%, but you see that, gradually, we are accelerating on our top line growth.

One of the impact, of course, of H2 has been an accelerated negative impact coming from the ForEx. That has cost us a decrease of the sales of 4.6% over H2. Now when we look at 2018, we see continued, today, depreciation of the dollar. The euro is appreciating versus the dollar but versus other currency as well. And today, on the current ForEx, I mean, as we took them at the end of last week, we are anticipating EUR 1 billion to EUR 1.1 billion of negative impact on the top line. When it comes to the adjusted EBITA margin, we see, today, a limited negative impact of around minus 20 bps on the adjusted EBITA margin. There was also a slight negative scope impact coming mainly from the disposal of DTN.

And then when you look at the growth by region, well, that has been a pretty strong 6 months across region. Asia-Pacific is still leading the show, plus 6%. That was actually the performance already in H1. And for the year, Asia-Pac is growing at plus 6%. China continued to be strong. There were some higher comps in the Q4 of the year, but pleased the performance of China has been strong throughout the year, and China finishes the year with a plus 10% organic growth. The good news is that other countries, such as India, Indonesia or Vietnam, have been showing some very nice growth in the second part of the year as well.

North America, plus 3% for H2. But the good news is that we have seen a clear acceleration at plus 6% of the business in North America in Q4. Still good situation in residential, clear improvement in commercial and industrial building. Jean-Pascal alluded to the strong success that we are meeting in Datacenter, that's notably the case in the U.S. And we also have seen improvement in our Industry Automation business in North America, notably with the OEMs. So that's clearly good news and probably bodes well for 2018.

Western Europe, plus 3%. Most of the country has been growing. Improvement was expected in France in Q4, we've seen it. And of course, construction is well oriented. Some good news as well coming from Industry. U.K. is probably the point and the place where we have the biggest question mark today with a slowdown in Q4. That could indicate that 2018 is going to be more difficult.

Rest of the World, plus 3%. So continuation of a mixed bag there. Altogether, a nice growth, plus 3%. Good performance in Russia, good performance in Turkey, good performance in Africa. More difficult situation in Saudi Arabia and in some country in South America. Brazil is not back to strong growth, so that's still a place where the growth is limited.

Now moving to the detail by business and the profitability evolution. So you see that we've seen -- really seeing a nice performance through the H2, but of course, specifically in Q4. Low Voltage finishing strong the year in Q4 at plus 5.4% but we are, I would say, around the 5% growth space. The good news of Medium Voltage, of course, turning and moving into positive territory in Q4 at plus 2.2%, and close to flat, of course, including selectivity for the second part of the year.

And Secure Power, growing 2.2% in H2 with a very nice acceleration at plus 4% in the Q4. It's good to see Secure Power renewing and resuming significant growth.

Industrial Automation, I would say quite consistent throughout the year. We are around 6% of growth, and that has been the case in H2.

Now when we look at the margin, you see that we have a nice 100 bps organic growth in H2, which is above the performance of H1. So organically, acceleration of the margin improvement. We have had more headwind coming from ForEx, 30 bps negative for the full year and 40 bps in H2. Some negative impact of scope, that's the disposal of DTN. But in net, it's still an improvement of the margin of 40 bps in H2.

And when you look by business what is the performance, starting with the Energy Management, well, it's quite consistent. 120 bps organic for Low Voltage, 140 bps organic improvement for Medium Voltage, strongest performer. Secure Power, 100 bps. So it's really improvement across Energy Management. But Industrial Automation, of course, is pretty good as well with a full 100 bps of improvement.

Let's move into some detail on the gross margin evolution to understand what have been the dynamics playing in H2. So overall, an organic growth of 50 bps for the gross margin in H2. I have to make one comment to signal a typo in the press release where we are talking about the volume impact of EUR 130 million (sic) [EUR 139 million] coming from volume. That's for H2 and not for the full year as it is in the press release. So there is a typo mistake, if you can please take note of that.

Now let's spend together some time on net price because, of course, that's an important element. Here, you have minus 0.6 point of negative impact coming from net price, which is the difference between raw mat inflation and the gross price increase. Well, first of all, please note that by definition here, we have an unbalanced number because we are reflecting the full raw material inflation impact, covering both the Product and the Solution business when we are reporting price increase only on Product because we're not able to qualify, to quantify a price increase on the Solution. So by definition, part of the RMI is covered elsewhere in the productivity and in the evolution of the gross margin.

When we look at H2, we are pretty happy with the work we've been doing in terms of price increase because we've been more than offsetting, outside China, for products, the raw material inflation. And for the year, we have almost a perfect match, if you look at the full 2017 outside China for product between the price increase and the raw mat inflation.

When we look now at 2018, we expect another year of increase in inflation, raw material inflation around EUR 200 million negative. Almost half of that is going to come from the copper price evolution, but the lead price, the plastic price and a few other things is also going to play negatively quite significantly. And for us, the objective remain absolutely the same. We want to compensate and certainly target more than compensating on the long term the raw mat inflation on the product. And we are here, of course, looking outside China because China stay as a specific situation.

Now one word on China. It's true that on China we did not manage to compensate the raw mat inflation. Actually, there was still a reduced but still negative price impact in China. But the good work that we are doing on the mix, on the productivity and on managing our costs mean that we managed to have a positive evolution of our margin in China in 2017, and that's certainly the intention that we have for the future.

Now let's move to productivity, of course, a key contributor to the evolution of the gross margin and the performance of the group, plus 1.8 points of margin. Jean-Pascal already has commented the very strong and nice success on productivity, which, I would say, is just further increase when the top line accelerate because increased volume means better absorption of fixed cost, and that is if you want a helping, enhancing productivity. And for 2018, once again, we are targeting a very nice and very strong positive impact coming from the productivity.

The mix was also almost neutral, good news. And clearly, that is a sign that we are improving the margin on our system, which is a big objective. The EBITA margin on system is up almost 1 point. Part of that, of course, is in the productivity performance. But that good news, not to see any more negative drift coming in that respect.

Then we have the normal inflation, which probably is going to accelerate on the labor cost at the level of production. And then the R&D, we are not making the increase profitability and the performance on reducing our investment on our innovation and on R&D. And actually, we have an increased negative impact on R&D as we accelerate further the R&D effort, notably on digital.

And then you have the ForEx and the scope impact, which account for, altogether, something like 50 bps negative on the gross margin.

All right. So that gives this nice evolution for H2, with revenue up, as I said, organically plus 3.7%. The gross profit is up north of 5%. The gross margin improving organically by 50 bps. SFC stays under nice management and control, growing plus 1.3% when the top line organically is growing 3.7%. So we have almost 2.5 points of difference between the two. And of course, we keep decreasing, very nicely, the SFC on sales ratio. That's an objective in the future that we're going to keep working on.

Adjusted EBITA, north of EUR 1.9 billion. It's up organically plus 11% versus the H2 of 2016, and the margin reaching a nice 15.4% in H2, up organically 100 bps.

We had a good H1, we have an excellent H2, so that give the combination of the P&L for the full year. EUR 9.5 billion of gross profit, 38.4% of gross margin. Of course, each time, strong organic improvement. SFC growing 2 point lower than the top line, that's a nice leverage as we call it. 40 bps decrease of the SFC on sales ratio. That gives a record-high EUR 3,651,000,000 of adjusted EBITA. It's up organically plus 9.2%.

And when we look at the margin for the year, 14.8%, 50 bps versus last year and organically up 90 bps. So without the negative scope and ForEx impact, a very solid performance. And I know that the plus 9.2% is significantly above the 4% to 7% bracket that was the target that we shared with you for 2017 to 2019 at the end of 2016.

I'm not going to come back on productivity. I've been already discussing that. I want to come back maybe on SFC because we are finishing this significant SFC efficiency program. We are finishing with a nice EUR 760 million saving. We were targeting to land between EUR 700 million and EUR 800 million. Well, I don't remind you that we actually increased and raised the bar several time on this overall objective. What I think is very important is that we are able to generate this profitability improvement, thanks to this growth saving and at the same time -- and at the same time, accelerating the reinvestment which are absolutely crucial when it comes to investing more on digital, when it comes to investing behind our services and, of course, accelerating our marketing spending as well.

So that's really good to be able to do the 2 together, and that certainly is the ambition that we will continue to have in 2018. We're going to stay extremely ambitious in generating efficiency on our cost, and we're going to keep reinvesting on our priority.

Last part of this reinvestment, our digital investment, and we account that in the corporate cost. So that explains the increase of the corporate cost for the year 2017 versus 2016.

So below the adjusted EBITA, we have a couple of other good performance, which explains the strong growth of the net income. First, we have a line of other income and expenses. You have a mix here of impact coming from M&A; you have a negative impact coming from impairment of asset, notably some activated R&D; you have also some curtailment of pensions. So it's a net of minus EUR 15 million. The restructuring amount, so we are below EUR 300 million for the last year of the 3-year program. We're finishing this 3-year program with the impact that we have seen, the EUR 760 million gross saving in total.

We're going to be back to normal cruise speed in 2018, and we expect restructuring cost to be between EUR 150 million to EUR 200 million, and mainly to generate the manufacturing productivity.

Amortization on intangibles keep going down as we are fully amortizing some of the intangible that we booked related to acquisition.

EBIT, EUR 3.2 billion, it's up plus 8% versus last year. So next good news, financial cost, down EUR 100 million. A good half of that is coming from further decrease on the average cost of the debt. We are now at an average cost of around 3.4% on the gross debt. We keep increasing the duration of the debt. And at the same time, as we manage to issue debt in very good condition, we keep decreasing the cost of the debt, and that continue to decrease the impact of our financial cost.

The next good news, income tax, EUR 600 million. It's an average tax rate for the group of 21.1%. Two element here. Without the impact of the tax reform in a few country, we would have been at 21.5%. It's a significant improvement versus last year and versus what we thought would be our landing area.

Two reason behind that. First of all, we managed to generate an extra EUR 100 million of tax synergy on the Invensys acquisition, raising it to EUR 600 million, that was good news. And second, we had a positive evolution of the split by geography of our profit leading to a decrease in the tax rate. Then we had the impact coming from the tax reform or the one-off, I would say, coming from the tax reform in the U.S. but in a number of other European countries, including France, and that has had a net slightly favorable impact to move the average tax rate from 21.5% to 21.1%.

Now the good news is that all these tax reforms, the evolution of the group, allow us to significantly revise downward our outlook for the average tax rate. We were guiding to a tax rate between 26% to 28%. Now thanks to these reforms and evolution of tax law, we think that in 2018 and in the medium term, we're going to be rather between 22% to 24% average tax rate for the group. So that's a good news for our profit.

Discontinued operation, minus EUR 94 million. This is the deconsolidation of the solar business for which we are treating it as a discontinued operation as we are working for a strategic solution for that business. That is, most of that negative EUR 94 million is coming from impairment of asset linked with this activity.

And then last line, equity investment and minority. It's slightly positive. Actually here, there is a very big news and important positive news. We are now managing to be here slightly positive, thanks to Delixi. Remarkable performance of Delixi in 2017, plus 19%, 1-9, of the top line. Improvement of the profitability at the same time, and that has meant that the net income has been growing by more than 50% at plus EUR 39 million. The net income that correspond to our 50%. So it's a great, great achievement for our Delixi company.

All that gives a net income of EUR 2,150,000,000, up plus 23%. If you retreat from some one-off of last year, the restructuring, what is linked to acquisition and disposal in term of one-off cost, you get to EUR 2,378,000,000 for the adjusted net income, up plus 11% versus last year. And as we have been implementing a buyback program, we have an even higher growth at the level of the adjusted earning per share at plus 12%.

All that translates into a very nice cash flow evolution. It's an all-time high for the group. EUR 2,253,000,000, and actually, we are expecting some pressure on the cash flow because when top line accelerated, you have, by definition, to have more inventory. You increase the receivable. We managed to compensate that with a strong operating cash flow and with good management of other element of the free cash flow. So that's a pretty good performance.

Below that, you have the traditional dividend, the net between acquisition and disposal. Net capital increase where we neutralize between employee shareholding plan and the buyback. And FX and other, which is slightly positive, largely coming from the ForEx evolution. Altogether, it's a decrease of the debt of more than EUR 500 million to finish the year with a net debt of EUR 4.3 billion versus EUR 4.8 billion last year.

So interesting year, where we've been investing, where we've been growing, but the cash generation remains strong. The cash conversion remain extremely strong at more than 100%, 105% exactly. And we even further improved the financial situation of the company with a net debt to adjusted EBITDA slightly below 1 for 2017. So a great performance in that respect as well.

THOMSON REUTERS

Great improvement as well on the efficiency of the way we do business and efficiency on our asset. Look here, the improving capital efficiency, operational asset on revenue ratio, which has been moving down from 31% to 28%. When you look at the return on operational assets, so here, this is a return without taking into account the goodwill. So I would say, what is the kind of marginal return when you get an organic growth. It's an impressive 40%, still improving when you look at this return on operational asset, and that is a post-tax return. So great performance.

And last good news, of course, the ROCE improvement for the year. We were at 10.7% at the end of 2016. We are moving to 12%, and it's a combination of top line growth, margin improvement and the tax rate helping to some extent as well. We are almost back to where we were before the Invensys acquisition. And certainly, you see the progress with 2013, including Invensys, on the pro forma basis.

Well, this is it for the numbers with last one comment, but I think really, Jean-Pascal has been alluding to that. Just maybe to say again how satisfied and happy we are with the Invensys acquisition. I was mentioning the extra EUR 100 million of tax synergy, which is coming in addition with the cost synergies that we generated. We have generated the EUR 400 million of top line synergies through the full Schneider company in 2017.

And when you look at what we are doing with AVEVA, that shows really another full impact of this Invensys acquisition. I think that for the rest, we have been talking about strengthening our portfolio and focusing on the core.

Last element, the dividend. Jean-Pascal, you said it. All that good performance, excellent performance translate into a proposed strong growth of the dividend of 8% to EUR 2.20 per share.

And this is it for the financial details. Jean-Pascal, to you for 2018.

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

So going into 2018, we keep seeing a positive environment. You've seen the Q4 accelerating. So our target, as we explained it in October 2016, is to target the increase of our adjusted EBITA in absolute value. So we, at that time, committed to a bracket to 4% to 7%. In that positive environment, we are clearly targeting around the high end of it.

To deliver this, we play on 2 big parameters. Of course, the growth, organic growth of the top line, we see it for '18 between 3% to 5% and keeping on working on the margin of profit margin, adjusted EBITA margin. We, I'd say it again, in October 2016, between 20 to 50 bps, and we believe in consistency and continuous improvement, and this is what we see at the moment for the year 2018.

I would like to mention the following things as we go into this guidance. First, integrate the impact of ForEx in our very global company, consolidated in euro. So EUR 1 billion to EUR 1.1 billion on the top line, while with -- and an impact on the EBIT of 20 bps. Last year in '17, it was 30 bps negative. Next year, we see more 20 bps negative.

Scope, which is right, which should be EUR 200 million in revenues. At the end of the day, you see all the detail here.

Tax rates, Emmanuel spoke about that.

Restructuring, Emmanuel spoke about it, going to lower levels of restructuring and integrate that there is an impact, negative impact of 1.5 days in Q1 of -- as we start the year. Not that we work less but for the revenues, there is this impact.

Now that concludes our presentation. So we are ready and happy to take any question. Amit, I'll leave that to you.

Amit Bhalla

All right. Thanks. I think just -- first of all, just a time check, so I think we'll extend just to make sure that we are able to accommodate all questions through the phone line, web as well as in the room. So maybe we start with the room, Gael?

QUESTIONS AND ANSWERS

Gael de-Bray - *Deutsche Bank AG, Research Division - Head of European Capital Goods Research*

Gael de-Bray from Deutsche Bank. The first question relates to the margin target you have for the group. You actually indicated that for the Medium Voltage division, you're targeting a 100 to 150 bps margin improvement, which would be equivalent to probably a 20 to 30 bps contribution already at the group level. So I guess, implicitly, for the other divisions, the ambitions are not looking so -- well, they're probably looking a bit light, I would say, with an implicit increase in margins, probably of between 0 and 25 bps. So is this just about some kind of conservatism on your side? Or is it really because you intend to accelerate on the investment side? So that's question #1. And question #2 is about the Indian market. That'd be great if you could talk a bit more about your positioning, your strategy in India, the key areas of strength you have here and discuss, perhaps, the growth potential for you in this market.

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

I take the first one with great pleasure. I'm always happy to discuss the guidance. I think that you should take the ambition to grow the adjusted EBITA strongly. You see the performance in 2017. I think we are very clear for our ambition for 2018. We have 2 levers. Certainly, we have the ambition in this favorable environment to have a nice top line growth as well. We allow ourselves the right to make arbitration between top line growth and margin expansion. I think in this kind of favorable environment, in nascent businesses, when it comes to digital, you want to make sure that you take the market share, that you take the position. I think we are certainly ambitioned to be good in also working on profitability across businesses. Certainly, a particular ambition, you highlighted it, on Medium Voltage. We'll see what we can deliver elsewhere. You said it. Investment is going to be there. It's quite obvious, and notably, the digital investment which is exactly what is the amount for the year. You've seen more than EUR 100 million of investment for 2017. It is clear that it's not a time where you reduce your investments around digital, around services. It's a time when you accelerate them. And we see the global impact. So again, I think that we want you to retain one element of the guidance. We want to grow strongly the adjusted EBITA. We'll use the top line growth. We'll use margin expansion. I think it was important for us to share with you the ambition on Medium Voltage, and for the rest, we'll see how the year 2018 develop.

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Yes, on the other one, we'll keep you informed of the developments, of course. But it's important to be consistent, consistent in our targets and consistent in our strategic priorities. Concerning India, it has become, I would say, in the past 15 years, a very strong presence for Schneider. We have 30 factories in India, which makes us very, very local. We are one of the major exporters from India, industrial exporters. We export a lot of products that we manufacture in India for the world, which gives us a scale, an increased scale in India to be competitive in costs. India is a very competitive market in terms of cost. I would say we have deployed in India over the years a lot based on organic growth, really a lot based on organic growth, all the key specialities of Schneider in Energy Management, in Industrial Automation. So we don't disclose the selective growth country by country. But it has been one of the contributor to growth in 2017 as well as in the past years. It's a base for deployment on the local territory. As I say, a base for export, strong presence in Energy Management in all sectors. Actually, a very strong presence in distributed Secure Power. We secure the power of the highest proportion of -- we have leading market share in securing the power of Indian homes and buildings using UPS technology for power securitization business, which is Luminous that we acquired and developed and keep developing. Strong -- good presence in electrical distribution, Low Voltage, particularly, but also Medium Voltage. Very strong presence in Datacenters and good growth in Datacenters. I would say we probably equip 25% of the solar farms in India and that has been keeping on growing, thanks to the integration of the whole system again, the whole balance of system. We do everything but the solar panels. And on that, yes, a few elements of pride also. You know that PM Modi has this ambitious plan of smart cities as he's building new cities. And Schneider is equipping completely the new -- the first new smart city in India while delivering the technologies that integrate all the functionalities of that smart city. I have plenty of things to say about India. We have digitized the biggest refinery in the world, right? So it's a place where we have a very strong capability in terms of territory coverage and in terms of expertise. And actually, our Indian teams are serving larger, larger territories than India. Our factories are serving the world, and our teams in India are serving projects on applications outside of India. It's -- want to say also that India has very specific standards. So you have to be extremely local if you want to succeed there. So it took us a long time.

Amit Bhalla

All right. I think we'll move to the next question. Maybe we take the next question through the phone line. And one request, let's keep it to one question to accommodate everyone.

Operator

Our first question comes from Andreas Willi from JP Morgan.

Andreas P. Willi - *JP Morgan Chase & Co, Research Division - Head of the European Capital Goods*

The question I have is on the Industrial Automation business and the growth outlook there for 2018. Maybe you can talk a bit about Process Automation. It had low single-digit revenue growth in 2017, which is quite good compared to some of the peers. But what does the backlog look like there in terms of orders to book to bill as we go into 2018 in the Process Automation business? So just to understand a bit better, to what degree did '17 benefit from some backlog? And what could be kind of the top line momentum that we have into '18 in that business?

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Yes. Andreas, well, thank you for noticing effectively that over the past years, actually, the performance of Process Automation was better than the market, and there is a reason to that. We spoke about Invensys. One of the reasons why Invensys joined Schneider was to find a home and a home that could give access to more markets and could give the credibility. Choosing a Process Automation system is like choosing an IT system. You want to do it with a company you trust. And clearly, the combination of the technology of Invensys, a best-in-class, together with the name of Schneider, we created good dynamics for Invensys. Now as we look forward you know that a part of this business is relating to Oil & Gas. And we see the oil barrel price coming back to better level. We feel more -- we feel better about Process Automation. So we've seen some improvement coming. It's going to be -- I don't want to take commitments on that one, but we see that the atmosphere and the perspectives are clearing up for our Process Automation business, and we see that in the pipe that we are following in the various industries that we are covering as well as the order which is doing better now.

Amit Bhalla

Okay. Next question, please?

Delphine Brault - *ODDO BHF Corporate & Markets, Research Division - Capital Goods Analyst & Deputy Head of Research*

Delphine Brault from ODDO BHF. I have 2 questions. The first one is on North America, if you can share your view on this market. Can we expect the same trend of growth in 2018 as the one you reached in Q4, notably thanks to the Industrial Automation market? And the second question relates to your strategy in terms of capital allocation. You ended the year 2017 with a net debt to EBITDA ratio below 1. So what do you intend to do with your cash?

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

So I'd say, North America's dynamics of '17 are kind of answering the question. We've seen North America accelerating. So we feel quite good about the market and our presence in North America, residential construction, nonres construction, Datacenters, a lot of opportunity there. And this is a place where we have our largest presence in Datacenters and on all parts of the Datacenters, so that's all good. Industry Automation is also, as you mentioned, doing well. It's a bit more -- though the figures are all very correct, I am expecting or I'm waiting for the inflection point. And of course, all -- well, you meet industrialists from North America. At the moment there is a sheer sense of optimism within them, so there will be more investment, especially the plan for infrastructure should be really interesting for us. We can serve -- we have a very strong presence in energy management and in automation in infrastructure that we're in the first place and in first seat to serve in North America. What I see also is interesting business for us developing, microgrids, smart grids working on the future of the energy world, more decentralization, more digitization. We are really doing well there. So I don't know if that answers your question. But overall, quite positive about North America and the perspective.

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Do you want me to take the capital allocation?

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Why not?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Happy to do that. On the capital allocation, so yes, we are slightly below 1 when it comes to the net debt to adjusted EBITDA. Though it's still a debt so it's not really as if we had cash sitting on the balance sheet. It's still debt. We have the AVEVA transaction, which is coming at the beginning of March, so that we're going to deploy some capital there. We have the increase in the dividend, 8%, which is going to use some cash. We have the buyback program where we are committed to EUR 1 billion. We've done at the end of 2017 EUR 170 million, so there is still EUR 800 million to go. So that's, I think, the way we're going to deploy the cash. If behind your question there was, is anything has changed in your M&A policy, the answer is no. And the M&A philosophy remains no need to do M&A. Now we know on an opportunistic basis, if there are things on the core of the core, which makes sense, that can create value, we'll look at them.

Amit Bhalla

All right. We'll take the next one from the phone line.

Operator

Next question comes from James Stettler from Barclays.

James Edward Stettler - *Barclays PLC, Research Division - MD*

My one question, can you talk a bit more around China? The 10% you gave, was that for the quarter or for the full year? And can you maybe just give us a picture of what you see happening in 2018 given the more challenging base?

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Well, James, yes, thanks for the question. 10% is for the full year, and it has been quite consistent all over the year in China. We have had a strong China, which corresponds to our presence in the country. We see still good dynamics in China. What I've seen in 2017 is the -- of course, a confirmation of the priorities of the '13's 5-years plan. And when you look at them, many are really in sync or Schneider is really in sync with those priorities, would it be for manufacturing in China 2025, the plan for green cities, reduction of carbon footprint, energy efficiency, digitization on steroids, what China calls Internet Plus and, of course, the Belt and Road Initiative. So we -- as you know in China, we have an exceptional coverage of the territory. We have excellent teams. We have repositioned our troops in front of the new opportunities, and 2017 was kind of the proof of this repositioning, and we keep working along those lines. Of course, the base will be a bit more demanding. But we see opportunities on the market.

Operator

Next question comes from Alasdair Leslie from Societe Generale.

Alasdair Leslie - *Societe Generale Cross Asset Research - Equity Analyst*

Just a question on Medium Voltage. Obviously, we've seen quite an acceleration in growth in Q4 there. That's a business where you have a bit more of a backlog and visibility. So question is, just do you see that growth rate as sustainable over -- perhaps, over the next couple of quarters at least? I think it's still one area where consensus expectation is still relatively light for 2018.

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Well, selectivity is over. So now we want to be back to a growth, a growth which is mastered, which is positioned on the right segments of the market, which is especially positioned to all the places where we synergize Medium Voltage together with Low Voltage, and that's with all the partners that assemble them for their customers. That's for all the projects, which are mission-critical, where customers want us to deliver the full package, and there are many of them. That's for the services, that's for the digitization of application, electro-intensive application. So we are doing this repositioning. And as we finish selectivity, we are very attentive to regrow this business, which has started, but while keeping the selectivity that we want for the future. And selectivity is not only financial, it's about market positioning. So we're going to be consistent in that, and we are very attentive to make sure that this repositioning is happening in a disciplined manner. At the same time, as we said, we are streamlining our system execution to make it more streamlined, more under one center of command. And I'm expecting a large part of the profit improvement to come from that redesigning of our organization.

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

But just maybe to add to the question, Alasdair. I think we're not saying that the growth that we have seen in Q4 is necessarily the growth we're going to see for the next 2 quarters. And especially I think at the beginning of the year, we have basis of comparison and impact that could mean that this is not going to be the fastest-growing quarter for the business. So the objective is clearly to be back to growth in 2018. Don't take Q4 as a reference for the beginning of the year, to be very clear.

Operator

The next question comes from Jonathan Mounsey from BNP Paribas.

Jonathan R. Mounsey - *Exane BNP Paribas, Research Division - Analyst of Capital Goods*

So interested in sequential growth in the short-cycle businesses. So discrete automation, industrial Low Voltage. Does that continue to accelerate through Q4 and then early on in Q1 '18? Are we still getting better? Or are we now kind of just at a good rate?

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Look, I mean, the speed -- look at the figures that we commented. It's been rise in acceleration. It's a good confirmation in sales, okay, so it's real and it's now.

Jonathan R. Mounsey - *Exane BNP Paribas, Research Division - Analyst of Capital Goods*

And what is it year-on-year?

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Excuse me?

Jonathan R. Mounsey - *Exane BNP Paribas, Research Division - Analyst of Capital Goods*

Sequential as well -- more than just year-on-year though, is it getting better month-on-month?

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Look at the figures. You have them quarter-by-quarter. You saw that...

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

His question is sequentially. I think that we are still showing clearly some dynamism. I think on discrete, part of the growth is now fully delivering. I think on Low Voltage, and you've been seeing in the U.S., there is area where we see increased acceleration momentum on Low Voltage, for instance. So I would say, yes, there are still places where we continue to see acceleration.

Operator

The next question comes from Simon Toennessen from Berenberg.

Simon Toennessen - *Berenberg, Research Division - Analyst*

One question on the Secure Power margin. It came better than expected, but it's still down every year now since, I believe, 2012. So maybe aside from, obviously, growth, what are some of the drivers here that you've seen last year? And what are your expectations going forward for this business and maybe also what you're trying to do to offset this decline going forward?

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Well, the first thing is that we should agree on 2 things. First, it's a good margin. It's a profitable business. And second, the margin has stabilized. Of course, there were effects of comparison, mix in the orders -- on the sales, sorry, that kind of contrasted H1 and H2. But globally, the margin, where it is, has been stable for the full year. And it's probably a fair reflection of the business that looking piece (inaudible) quarter-by-quarter because it's not a fair reflection, really, of the reality. The second point is IT is a kind of -- opens 2 accesses, so has 2 major markets. One is Secure Power, let's say. Distributed Secure Power, which goes into the application of securing the power for IT application, and that has been quite stable because that distributed power or the distributed IT has been migrating for a part in the cloud. But today is getting -- we see the beginning of a regeneration in IT, thanks to the development of edge computing. Know that the more you put things on the cloud, the more you need computing on the edge because you have latency, you don't want to be the slave on a breakdown of communication between the cloud and the edge. So we have now more and more customers who are coming with different sorts of applications, but which are edge-computed -- edge-computing related, shops that don't want the local invoicing or billing to be stopped by a problem on the cloud, industrial applications where you need fast computing close to the machines and close to the processes. All are the examples. Second place, which is growing actually well in 2017, is distributed Secure Power. What we develop for places where the grid is weak, where you can have power outages. People used to use generators, but generators are polluting and that kind of thing, so they go for storage, batteries, UPS, but dedicated to that kind of application. That's been growing double digit.

It makes last year not the first year, so that's -- those are ramping up application for that part of the business. Then, one -- the other big market, which is really growing very well is Datacenters. So when we look at the IT, it's only part of it. It's actually more than 50% of what we sell in Datacenters. And the rest is the rest of the chain, and we package them together. And why customers want to buy package? Because they need super reliability. It's a very mission-critical application. So they want the same company to guarantee everything from Medium Voltage into Secure Power down to the server on the Datacenter. They want everything to be connected to the same cloud and to the same system. And we have launched, in '17, a very innovative software that connects all the assets, makes preventive maintenance and those kind of things. So the IT seems a bit flat. The profitability has stabilized at very good level, but actually, when you look at what it drives for the Datacenter, it drives a growing Medium Voltage, Low Voltage, growing double-digit, actually faster in some places, and that's very promising for the future because no other company can match that. The combination of Secure Power, Low Voltage, Medium Voltage that we have modularized, optimized for the application, combined with automation, connectivity. So I don't know how you answer. But the more we're going to go, we're going to give you the picture of what is happening also at the complete level of the application because this is a fair reflection of the reality. On the structure of Datacenters because there is more in the cloud happening at the moment, it was more growing faster on the Medium Voltage and Low Voltage part. But still, it's because we have very strong presence in the IT room that we can build those complete architectures. So I feel good with that business. And again, '17 has been a year of stabilization, and we need to keep growing that business which, of course, goes with the digitization of the world. It's the fastest-growing electrical consumption in the world, Datacenters, and you're going to have to think about it. It just started because today it's more a people-to-people cloud. It's going to the Internet of Things big time. And things feed a lot of data, because, as I say, we are connected all the time, but things are connected really all the time.

Amit Bhalla

All right, thanks for the question, Simon. Maybe we'll take another 1 or 2 in the interest of time. Let's get one from the room actually and then we'll move.

Unidentified Analyst

Could you please share with us your view in the Middle East market, please?

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Yes, well, Middle East for us is contrasted. Clearly, I would say it's -- we've got countries which are doing quite well actually. I was recently there. Certainly, Turkey, Egypt doing well. I would say one place, Emirates also are doing well. The place that was weaker for us was Saudi Arabia with all the changes that happened there. We are strongly rooted in Saudi, and I think it's going to improve as we go forward. But there were a lot of turmoils recently in the country. And Oil & Gas also, of course, but it's -- with the new oil price, it seems to be on the road to recovery.

Amit Bhalla

Okay. Next question, please, on the phone line?

Operator

The next question comes from James Moore from Redburn.

James Moore - *Redburn (Europe) Limited, Research Division - Partner of Capital Goods Research*

On Low Voltage, very nice 5% growth for the year. But perhaps talk in rough percentage terms for your key countries how the fourth quarter developed for China, U.S. and France. And I see some of your peers are seeing some good order growth at the end of the year. I know you don't disclose it, but can you say anything about the pace of order growth in Low Voltage at the end of the year?

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Look, James, since the space we -- the size we have in this domain, seeing also the characteristics of the business we do, which is really more turn to partners' capillary network, we have a much more stable business than many others. I can't comment on what you said since there is a lot about base of comparison going there. Our business is much more stable and keeps going up and up and developing in growth and profit. Because while we invest a lot in this business, in innovation, and now it goes with a full connectivities, EcoStruxure power that links everything from Medium Voltage to Secure Power go into Low Voltage, so we've got the full system for that. So probably, our base is much more stable. But the only thing I can confirm you is that we see a strong market as we go forward.

Amit Bhalla

All right. I think we take one final question from the phone lines.

Operator

The next question comes from Dennis Dinkelmeyer from Goldman Sachs.

Daniela Costa - *Goldman Sachs Group Inc., Research Division - MD*

This is actually Daniela here. I just have one final question, sort of, regarding AVEVA and assuming this closes, and we're getting quite close to it. What are going to be your first priorities the next couple of months there? And also, how are you going to communicate to us about this? Will they have results at the same time as you? Will you guide for it? Basically, what should we expect to understand this over the next 6 months onwards, the process?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Daniela, thank you for the question. So to be very clear, we are going to be a majority shareholder of AVEVA, but there will be a board. So our objective will be to contribute at the board. I'm sure that the objective of the company will be first to manage successfully the integration of the 2 businesses. That's a pretty busy road map already for the new CEO, he's joining on the 19th. And I'm sure it's going to be the priority of the team. When it comes to communication, I think we'll see how we choreograph that. They will probably need to communicate before us, and we will integrate their number in our communication and in our financial statement.

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

It's a very relevant question but we first have to the close, right? So with that, that was...

Amit Bhalla

Yes, I think we accommodated most. The IR team is available for further questions. Jean-Pascal?

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

So we thank you, of course, for your investment, your attention, the time together this morning. Of course, we're going to meet many of you in the next coming weeks and really looking forward to it so that we go deeper into these -- those results. As you see, we are happy of 2017. We see a good year 2018, and it's up to us to make it a super opportunity. Thank you very much.

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Thank you.

Amit Bhalla

Thank you.