

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

SU.PA - Q3 2014 Schneider Electric SE Corporate Sales Call

EVENT DATE/TIME: OCTOBER 29, 2014 / 8:00AM GMT

**OVERVIEW:**

Co. reported 3Q14 revenues of EUR6.285b.



## CORPORATE PARTICIPANTS

**Emmanuel Babeau** *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

## CONFERENCE CALL PARTICIPANTS

**James Stettler** *Barclays - Analyst*

**James Moore** *Redburn Partners - Analyst*

**Andreas Willi** *JPMorgan Cazenove - Analyst*

**Olivier Esnou** *Exane BNP Paribas - Analyst*

**Simon Toennessen** *Credit Suisse - Analyst*

**Fredric Stahl** *UBS - Analyst*

**Martin Wilkie** *Deutsche Bank Research - Analyst*

**Ben Uglow** *Morgan Stanley - Analyst*

**Daniela Costa** *Goldman Sachs - Analyst*

**Nick Wilson** *Espirito Santo Investment Bank - Analyst*

**Alfred Glaser** *Oddo Securities - Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, welcome to the Schneider Electric third-quarter results conference call, presented by Mr. Emmanuel Babeau, deputy CEO in charge of finance. Sir, the floor is yours.

---

**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

Thank you very much. Good morning, everyone. Good to have you on this call to detail together our sales numbers for the third quarter of 2014. And I will start immediately on page 5, with the headlines of our sales numbers for this third quarter.

Globally, we have seen an improvement of our sales during this Q3. Our revenues have reached EUR6.3 billion; it's up 7% versus the third quarter of 2013 in total. And on a like-for-like basis, we are up plus 1.6%.

The integration of Invensys is on track.

Looking by business, we see that the like-for-like growth has even been of plus 3.9% excluding the infrastructure business. And certainly, the positive evolution that we have seen during this Q3 has been our IT business turning positive.

The two businesses that did perform well during the first half of 2014, industry and buildings & partner, continued to perform well. And they've been growing across all regions: they respectively grew by plus 5.4% and plus 4.2%, organically.

The IT business has been growing organically by 1.2%, and we will detail the improvement by region later on.

Infrastructure continued to be difficult. It's not exactly the same decrease rate than in H1, but it remained very difficult evolution at minus 5.8%. There is one element been positive on infrastructure in Q3, is the fact that our orders have turned positive in Q3, but I will come back to that.



By region now, all regions have been growing during this Q3, even if it has been marginally for Western Europe. But let's note that this was the first time since the third quarter 2011 that Europe was not negative.

North America was expected to accelerate, and did. We have seen the US accelerating. Canada was also good. And some of the good momentum that has been building up in the US has been compensated by a weakness in Mexico.

Asia Pacific has been the best performer, plus 3% organically. But, as expected, we have seen a slowdown in the growth in China, when the rest of the region has been performing well. And Rest of the World has shown a modest growth.

As I said, the Invensys integration is on track. I will detail the numbers on the order intake. We are flat, without excluding the special event of last year.

In terms of sales, and I put aside here the Chinese nuclear project, on which I will come back, which is a very specific element in Invensys, we have been growing low single-digit. And I will detail the performance of Invensys later on.

One of the good news, of course, of the Q3 has been the ForEx evolution. We see, notably, the dollar and the Chinese yuan strengthening versus the euro. And we see already in Q3 a lower negative impact coming from the ForEx with a minus 1.4% impact on our sales for this third quarter.

After this third quarter, we maintain our full-year targets. Again, I will come back to that in my conclusion.

But before going to more detail on our numbers, I would like to remind you of our commitment to [corporate] responsibility, and sustainable development.

As you know, we track our achievement in that field through what we call the planet and society barometer, which is a barometer made of 14 different indicators. And we have reached some very, very good achievements in the third quarter with a global score of 9.20, on a maximum objective at the end of the Company program of 10.

And for eight of the indicators, we have already reached the three-year target. So we are very, very well on track on this planet and society barometer.

And I'm moving on the page 7 here to detail the three pillars which are making this planet and society barometer. The first one, we call it planet; it is about the impact that our business, the way we do business, is having on the planet.

On this one, we have been exceeding 73% of our products, benefiting from the green premium level. So more and more of our products are having a much more reduced impact on the planet during their lifetime, and at the end of their lifetime.

We also have been continuing to -- we have been decreasing further our CO2 impact; not exactly at the level of Q2, but still with a strong impact in Q3.

The second pillar of our planet and society barometer is what we call profit, which is, at the end of the day, what we can do to help certain growth of the planet globally; and what we can do to grow access to energy for the less favored people.

Here, again, we have had some very nice achievements. We have more than 1 million household of the base of the pyramid, the less favored people, who have had access to energy thanks to our work; our technology; our teaching; what we've been doing for this community. We are very proud of this achievement.

Everything we do, of course, in terms of sustainable development has to result into our presence in key indices, recognizing the sustainability work. We have been designated as industry leader for the second year in a row by the Dow Jones Sustainability Indices. And we have been named among the 10 best performers by the CDP Climate Performance & Disclosure Leadership Index. So, two great recognitions of what we do.



Third pillar, which is very important as well, the people pillar, which is about the way we develop our people and diversity within Schneider. And here, we do a special work on gender balance.

Second element of this people pillar is what our people can do in order to favor, through energy access, through energy management, the development of less favored people communities. We have had more than 300 missions, 338 exactly, in Q3 with Schneider Electric professionals going to these communities and doing some training, some teaching, and, again, creating a positive impact on the eco system around this community.

I'm now moving back to more detail on our Q3 numbers. I'm on page 9 with the detail of the sales for Q3. As I said, in total, our sales amounted to EUR6,285 million. It's up plus 7% versus the third quarter of 2013. The organic growth has been of plus 1.6%. And I will, later on, detail each element of this organic growth.

The scope impact, of course, is still mainly coming from Invensys, with a few disposals of business in front of this positive impact.

Of course, what is the most striking change in the third quarter, it is the ForEx impact. It was minus 5.4% in H1; it's only minus 1.4% in Q3. And based on the current parity, when we look towards the end of the year, we believe that for H2 the ForEx impact on our sales and on the adjusted EBITA should be, for the second half of the year, neutral, or marginally positive. So, of course, that means that for the sales we do expect a positive impact for the fourth quarter.

Now entering into the detail of our performance by business, I'm now on page 10, buildings & partner, which kept its momentum and has been growing in all regions. You remember that the buildings & partner business was up plus 3.5% in H1, organically. It is up plus 4.2% in the third quarter.

And when we look by market, we see, as expected, the US accelerating. The growth in the US has been close to 7% in the third quarter in buildings & partner. And we see, notably, good investment coming from the residential market; datacenters, which is consuming more and more low voltage.

And regarding the non-residential construction, we can speak of a slow recovery. So no acceleration, still a positive evolution, but it continued to be a slow recovery.

In front of this good evolution in the US, we have seen Mexico remaining very difficult; and that has been, globally, a drag on the performance of North America.

In Asia Pacific, most of the countries have been growing. Australia turned positive, notably, thanks to a slight improvement in the residential construction.

China, as expected, has been slowing down because of the construction market. And certainly, for the coming months, uncertainty remains regarding the evolution of this construction market.

Western Europe was slightly positive globally for this business, notably, thanks to Germany and the UK. And we have seen some moderate decline in other markets.

Rest of the World was solid. We've seen growth in South America, Russia, and Middle East.

Moving to industry, sales in industry amounted to EUR1,381 million. Of course, you have a huge scope impact coming from Invensys. And organically, I would say, a little bit like for buildings & partner, we have seen continuation of the positive trend of the first half.

First half organic growth was at plus 5.1%. Organic growth in Q3 is at plus 5.4%.



Looking by market, we have seen Western Europe achieving a strong performance, largely driven by export-oriented OEMs, and despite the fact that we all have seen slowing industry indicators during the summer.

North America also has been posting a good performance. Here, again, it's OEM demand and oil and gas projects which have been driving the growth.

Asia Pacific was up as well. China was growing at a lower pace, notably, due to weaker industrial activity. But we see some good performance in India and in Japan.

Good performance as well in the Rest of the World: again, machine builder demand in Turkey, and good growth in South America, and Russia.

Moving on page 12, infrastructure, which is certainly, by far, the most difficult business that we have for the time being. And unfortunately, Q3 has been in line with H1. Globally, sales for infrastructure amounted to EUR1,273 million.

The first half was down minus 6.7%, while Q3 is still very negative at minus 5.8%.

And the only positive news that we have on this business in Q3 is the fact that we have seen a significant improvement at the level of the order intake with a high single-digit growth. But this order intake improvement is driven by long-cycle projects and, therefore, we don't expect the situation to improve materially in Q4 for that business.

So we still expect a difficult Q4 in terms of growth for infrastructure. And the improvement that we are seeing in order intake should materialize, but with a significant deferral in time.

What we see as well, and which is certainly penalizing the infrastructure business globally, is a number of delays in deliveries asked by the customer, a number of postponements, things taking more time; all that, certainly driven by an uncertain economic environment.

When I look in detail by market, we see revenue in Western Europe continuing to decline sharply, reflecting, of course, the continuation of weakness in the utility market.

North America was up, US benefiting from data center and oil and gas investment. And Canada as also up, driven by oil and gas.

Asia Pacific was positive: project execution in Australia in oil and gas; project execution in South Korea; but a slowdown seen in China, as well.

Rest of the World was declining, with a particularly difficult situation in Africa, but also slowdown in South America, and a decrease in Saudi Arabia on high basis of comparison.

One positive note on sales: our services were up during this period double-digit, so we are delivering on our ambition on services.

Last business, where we have seen the biggest change in terms of trend during this Q3, the IT business; I would say, as anticipated. Globally, our sales in the IT business reached EUR869 million. Organically, it's up plus 1.2% versus an H1, which was at minus 2%.

What are the reasons behind this improvement? Well, first of all, you'll remember that we have been massively impacted by de-stocking in Russia during the first half. Russia was still negative in Q3, but the de-stocking has been easing significantly, so less penalizing.

Western Europe was good in H1. It continues to be good in Q3, with very solid growth.

North America is still down, and the US is still down. But we have seen order intake improving significantly with a high single-digit growth in order intake. And what we see is that we have a continuation of strong investment by the web giant.



And I mentioned several times the positive impact at the level of low voltage and medium voltage of the development of data center. But we have seen a number of players in data center of smaller or more mid-sized data centers, like co-location, financial institution, governmental spending back to projects, and that explains why we have order intake moving in positive territory.

Asia Pac was flat. China was also slowing down on high comps on IT. But we have seen good growth in India and in East Asia.

Here, again, we see installed base services continuing their growth.

Moving to a look at the evolution by region, I'm on page 15, starting with the best performer, Asia Pacific. Asia Pacific has been, in Q3, 29% of our sales. So Asia Pacific is now ahead of the pack, and significantly ahead of both Western Europe and North America, which are, in Q3, neck to neck with 26% of the total of our sales.

The region grew organically at plus 3%; very much in line with the plus 4% in H1.

As expected, we have seen a slowdown in China. China was growing, at the end of H1, around mid single-digit growth rate. It has slowed down to low single-digit growth rate in the Q3. This is on the back of a soft construction market; also some weakness in some industries; and, as I mentioned, some high comps on the IT business.

In front of this slowdown of China, we have seen some acceleration and improvement, sometimes linked to clarification of the political landscape.

In India, in South East Asia, so that's places where we are seeing an acceleration of the growth. Australia has posted growth; notably, as I said, thanks to a good construction market in residential, and also some execution in oil and gas. And Japan was good as well for us during this third quarter.

Second best performer, North America, has been detailing already the acceleration of the growth in the US, thanks to residential; thanks to oil and gas; data center; OEM demand. So that is coming, I would say, as expected.

Canada was up as well. Here, it's some projects on the oil and gas which are mainly driving the growth.

And we had a drag impact coming from Mexico, and a double-digit decrease in Mexico, due to the impact of the governmental policy, and some uncertainty and concern that it has created. That's something that we have seen since the beginning of 2014, in fact.

So, all together, North America has been growing organically plus 2%, and very close to Western Europe now in terms of global size on this quarter.

Third performer, Rest of the World, an organic growth of just 1%. It continues to be a mixed picture. We have seen growth in Middle East, in countries such as Turkey, in the Emirates, in Qatar. This is about OEM, construction largely driving the growth.

Russia was flat. And really, what we see in Russia is a mixed picture between the buildings & partner business, the industry business still growing. I mentioned a reduced situation on the IT business. And where we see more difficulty, I would say as expected, is the infrastructure business, where we see some postponement, more difficulty to have projects being launched, with potentially some connection, of course, with the sanctions following the crisis in Ukraine.

Among the difficulty in Rest of the World, I will mention Africa, where we have seen a number of delays in terms of investment. We are also facing high comps. But we have been facing some significant declines in Africa during this quarter.

Fourth region, but, again, very happy to have Western Europe back to stability; in fact, slightly growing at plus 0.2% exactly, if we want to give the precise number. Good to have this stabilization, but we believe that it's a fragile stabilization at that stage.

We have seen Italy posting good growth, driven by this export industry, machine builder that is driving the growth.

In France, that has been the case as well; industry performed well, while other businesses has been more difficult.

Germany was globally flat. And we all have seen some softening economic indicators.

And the other countries were about flat year on year.

So a lot of performance between minus 1% and plus 1%, this stability for many countries.

It is true that Western Europe would have been growing much more significantly without another strong negative performance coming from the infrastructure business.

I am now moving to the Invensys update. I'm on page 17. We are clearly happy with the way the Invensys integration is developing, and things are firmly on track.

Order intake is difficult to analyze, because last year we had a very big change order on the China nuclear project. And there was one specific big project in India. So the level of orders is difficult to read. But without these one-off specific projects, order intake was flat.

The good news is that we have industrial automation growing in order intake, which bodes well for the rejuvenation of the Foxboro franchise.

And when we look at the sales, it's growing low single-digit outside the China nuclear contract, which is now starting its phase out. So it's declining, and it's really a specific element on the Invensys business.

And, no surprise, the software business has been the business driving the positive performance.

Back to the China nuclear project, we have some good news. I want to remain cautious, of course, but we have some good news, as seems to be developing according to our expectation. The first reactor has been connected to the grid and has started to produce electricity. So it shows that we did manage to deliver on the first reactor, which, again, bodes well for what is coming next.

And, of course, after this Q3, I'm able to confirm the cost synergies that we are targeting, globally, for 2014.

I'm now moving to conclusion and our vision for the full year, until the end of the year. To summarize, what we have seen in this third quarter is a fragile stabilization of Western Europe.

We have seen this expected improvement in North America, which has been compensating the slowdown in China. We have seen a mixed picture in other new economies.

Globally, what we see is that we continue to operate in a challenging environment, with our early-cycle businesses continuing to grow; IT turning positive; and infrastructure remaining difficult.

After this Q3, and on the basis of this environment, we maintain our 2014 target, which I'm happy to remind you. For sales, we talk about a low single-digit organic growth in revenue.

And for the adjusted EBITA margin, we are targeting an improvement of 0.4 points to 0.8 points versus the 2013 pro forma level of 13.9%. This is excluding the currency impact of the year. And we foresee the negative currency impact on the adjusted EBITA margin to be approximately around 0.4 points the full year.

That terminates my presentation, and I'm now more than happy to answer your questions.



## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). James Stettler, Barclays.

---

### James Stettler - Barclays - Analyst

First of all, can you just talk about pricing trends across the different segments, what you're seeing?

In terms of the mix with the much higher growth in the two -- in low voltage and automation, will that be a positive driver for the second half of the year?

Then finally, just in terms of Invensys, could you maybe talk a bit more about what level of growth you're seeing in industrial automation and software? Thank you.

---

### Emmanuel Babeau - Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs

James, on pricing, no change, I would say, versus H1. We continue to be in an environment with very low inflation, even some clear signal here and there of deflationary pressure. We see raw material prices going down. Energy price seems to be now going south, as well. So I would expect pricing to remain under pressure.

I certainly keep this objective of having a net between the raw material inflation and pricing evolution, neutral or positive. But I would certainly expect pricing to continue to be negative in the second half of the year. I would say, no further deterioration, but no improvement. We could have an H2 performance without the similar features than the one we have seen in H1

Regarding the mix, it was already positive in H1. So I would not say that we expect a material change on that respect in H2 versus H1. Product were already growing quicker than solution in H1.

Regarding the Invensys businesses, we will detail that for the full year, because I think that really what will be, I think, relevant in terms of global performance. But we talk here about whether low to mid single-digit growth. We are not, today, seeing any element of the Invensys business, whether in order intake or in revenue, at that stage, growing high single-digit growth, but we'll revisit that in detail at the end of the year with you.

---

### James Stettler - Barclays - Analyst

Could I just ask a follow on, on pricing? Are you seeing any big differences between the divisions?

---

### Emmanuel Babeau - Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs

Well, as you know, we track, really, the -- when we communicate the pricing impact, it's for the product business. So it's really relevant for the businesses with the highest product content, which are certainly the buildings & partner and the industry division.

I would say that the pressure are happening everywhere, so it's difficult for me to say that one business is clearly better than the other.

We have a significant exposure in China, as you know, to the buildings & partner business. And as we mentioned during our H1, this is a place where we see pressure on prices, so that would be one element, I would say maybe more specific, on the buildings & partner business.

---



**James Stettler** - Barclays - Analyst

Great. Thank you.

---

**Operator**

James Moore, Redburn.

---

**James Moore** - Redburn Partners - Analyst

I've got three questions. Firstly, you mentioned the Chinese nuclear project is progressing well. If you continue to execute well there, could we expect a provision release? If so, what might the timing be? In terms of scale, are we talking EUR50 million, that sort of magnitude?

Secondly, the infrastructure growth wasn't great. And given the easing comparative, I wonder if you could help us understand the moving parts in that. Last quarter, you talked about Western European utility demand being down 20%, 30%. Is that still the case, or has that changed? Are there any movements in the oil and gas piece, the medium voltage data center, or the mining side of it as well?

Finally, we're now starting to think about 2015. I know it's very early, but in terms of general end market trends, when you look across your big end markets of construction, and industry, and data centers, and others, do you have a sense for where you're more optimistic or more concerned on growth?

---

**Emmanuel Babeau** - Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs

James, starting with Chinese nuclear, well, no, I'm [not] going to rush, the fact that we see the project on track and stabilizing doesn't mean necessarily that we're going to have some reversal of provision.

What I would expect, nevertheless, is a significant cash impact, because there is a lot of receivable on that project. And, of course, the [current] delivery will trigger a number of payments. I'm more waiting for good news on the cash flow, at that stage, [back on the end of] China nuclear project than on the P&L front.

Regarding Western Europe, your question on infra globally, Western Europe was still globally declining, almost minus 10% in the third quarter for infrastructure. It's not exactly as bad as H1, but it looks pretty ugly still, with most of the market being still very difficult.

I will not say that we have seen any kind of improvement in the trend. Maybe a softening a little bit of the decrease, but it's still very difficult.

The other element in infra for this Q3 is the fact that in the Rest of the World we've seen, as I said, notably in Africa, but also in the Middle East, because of high comps, but also because of a delay on some project, and a lower level of order intake in the past quarter, which is materializing today, a significant decrease as well. And we talk about a double-digit decline there, as well.

These are the two dark spots for the infrastructure business. Certainly, it's less the utilities in the Rest of the World; we talk more about project related to mining, it can be oil and gas. But these are the two pain points for the infrastructure business.

The two other regions, North America and Asia, have been growing for infrastructure in Q3.

Regarding 2015, I'm here on Q3 and I really don't want to start commenting 2015. That would be too premature and unwise for me, so I won't start or try this exercise.



What we see today in the macro study is that people still expect continuation of the recovery of the economy. Now at what pace and now with which kind of geographical impact, I think that remains to be seen.

---

**Operator**

Andreas Willi, JPMorgan.

---

**Andreas Willi** - *JPMorgan Cazenove - Analyst*

Thanks for the time. The first question I have is on China, whether you could give us a bit more color on how the quarter progressed. Did we see a material slowdown in September, and what you expect for Q4? Whether you think you can hold a zero in China, or whether China will go negative in Q4.

The second question: on infrastructure, you've given us quite a bit of data just now on explaining the performance, but do you think there is a market share issue as well in Western Europe? Or is it just the market in terms of the decline you're seeing?

The last question, if you maybe could give us the exposure to upstream oil and gas for the Company now, including Invensys, given the concerns around oil and gas, CapEx, and the oil price. Thank you.

---

**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

Andreas, on China, the order intake was not materially different from the growth in revenue. So I don't think that this help us to understand what's going to happen.

Certainly, evolution of the slowdown in China for the end of the year, and of course, related to James's question on 2015, is one of the questions that we have today. I'm not able to be more specific. I would certainly expect slowdown to continue, versus H1, in Q4, but I don't know which kind of magnitude it will take.

What we said when we were commenting the H1 number is that maybe China could be turning to something more, I would say, around stability in H2. We are a little bit better than that in Q3, because we are still growing. I think that I will stick to my vision of China being around stability in H2, globally.

On infra and market share, well, I think that it's difficult to talk about market share and the right benchmark, [as the thing that] everybody has been reporting a significant decrease in the end market.

Now, of course, you may have some big orders here and there changing the vision. By the way, it's complex because it's also on the basis of comparison so it's not that easy to analyze. We don't think that we are losing market share. But I would recognize that I'm not sure to have necessarily all the element on one quarter to qualify a market share evolution.

Then, on the oil and gas business, it's certainly a question mark that we are going to work upon for the coming months. It's probably a couple of billion euro, I would say, in our sales to date; probably around EUR2 billion.

Now, it's difficult to give something extremely precise, because you have a lot of things which are in the oil and gas, which not necessarily would answer to your question.

My feeling is that today we have, with Invensys, once again, probably an exposure to oil and gas [end] market which is around EUR2 billion. It's a market where you have big project, which are the one that can be, of course, impacted. You also have some recurring businesses. So it doesn't mean that [they all] challenge, but that's the kind of order of magnitude that we could have.



---

**Andreas Willi** - *JPMorgan Cazenove - Analyst*

Thank you very much.

---

**Operator**

Olivier Esnou, Exane BNP.

---

**Olivier Esnou** - *Exane BNP Paribas - Analyst*

Coming back on China, maybe -- you said that there's high uncertainty on the outlook for construction. Can you qualify maybe a bit more what you expect in terms of outlook for industry, which you said was slowing as well? And maybe if you can give some granularity by vertical market, do you see large differences?

And also, maybe geographically within China, do you also see a significant difference between the coast and inland trend? It's a big country. So that would be helpful.

Second thing: maybe just qualitatively, how happy are you, at the moment, with the progress on the solution business, which has a target to improve margin for the full year? It may be too early to give numbers, but maybe on your sense of the progress here. Thank you.

---

**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

Thank you, Olivier. On China, I'm not sure I'm going to enter into the kind of granularity you want me to give.

I think that what we have seen in Q3 tells about what the Chinese economy has been facing in terms of industry. And we've seen a number of bad macro indicators on industry, as well. So not a question that, with many Chinese industry players being skewed toward export, with the global economy not accelerating, not recovering at the expected pace, that is having an impact on investment in industry as well.

Access to credit is another dimension. Many of these companies are of small-, medium-size capacity; to access land from the banks is very important.

So I would say cautious on the evolution of industry in the foreseeable future, in India as well, for the reasons I've just mentioned.

On west coast, east coast, certainly, there is an underlying secular trend of things, investments, being driven by the central government, by the way, in the center, and the western part of the country. That's certainly helping, to some extent, the development westward. And we continue to be engaged on that, including, by the way, in terms of manufacturing presence and presence of our skills and people.

Now, when I look at the construction, it's a bit more complex than that. Because we have seen some secondary cities facing difficulties, and probably too much construction, which is taking too much time to find buyers, and that is also creating on construction.

So I think it's not a black and white, where everything will be difficult on the coast and things much easier in the center of the country.

Now, moving to your question on solution and progress we are doing on solution, we have a huge headwind here, with a big decrease in infrastructure. Because, as you know, infra is, by far, the biggest business in terms of exposure to solution. So to have such a huge decrease, minus 6%, minus 7%, means that we are facing a very poor absorption of our cost. And that will be certainly penalizing the performance of the margin on solution at year end.



So I'm not able to say where we're going to land. We'll see where we finish the year at the end of December. But that is clearly something I can highlight at that stage.

---

**Olivier Esnou** - *Exane BNP Paribas - Analyst*

Thank you.

---

**Operator**

Simon Toennesen, Credit Suisse.

---

**Simon Toennesen** - *Credit Suisse - Analyst*

My first question is on the industry business. I know you usually don't give that figure, but, given we've seen quite some encouraging trends from other customers in the discrete automation space, I would like to get a sense of whether you can give us some indication how the orders for your industry business have trended in the third quarter; whether you've actually seen a decent step up in order activity.

The second question is on Invensys. You reported about 3% organic order growth in the first half. It seems it's flat now, if you exclude some of these large orders. Could you just give us, maybe, a bit more granularity around the order trends, and what has caused this slowdown from the first half? Thank you.

---

**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

Simon, no, I think on order intake you will allow me not to go further. We don't report, normally, order intake. We've done that here because we saw that there was such a gap between the order intake for the infra business, and for IT North America, that it was making sense. Otherwise, we don't do it, because we don't think that there are material differences, and we don't think that there is a big difference between the two.

And certainly, that would be my comment for discrete automation. When we talked about the Schneider legacy business, you generally don't have a big, big difference between the order intake and sales.

So I would stick to what we do normally, which is not to go into the detail of order intake.

On Invensys, I think I said it, and I'm going to repeat it: what is going well is today, at the level of the order intake we see industry automation moving positive. So that's something which is good news, because that's again the Foxboro/Triconex business.

In term of sales, we've seen sales going well for the software business. A little bit of softness in the order intake, but we had some significant comps last year from some special project on software.

Again, I think that we need to wait the end of the year to confirm that we continue to enjoy a good trend in software. And the team continue to be clearly very positive about it. Where we are facing more difficulty is notably in the residential business, where we have seen a material decline in the business.

---

**Simon Toennesen** - *Credit Suisse - Analyst*

Thanks very much.

---

**Operator**

Fredric Stahl, UBS.

---

**Fredric Stahl** - UBS - Analyst

Could you maybe give us more color on the project of the larger orders you took in infrastructure? What type of orders are they; for delivery over how long of a time period? That's the question number one.

Then on infrastructure as well, I was wondering if you're -- the reason of the weak performance here is related in any way to changes you do into the business in terms of the integration there. If there's anything that you're causing yourself here. Thank you.

---

**Emmanuel Babeau** - Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs

I was clear on your first question on the order intake. Can you repeat the second question, the connection was not good?

---

**Fredric Stahl** - UBS - Analyst

Yes, I was wondering if you're implementing any changes to the organization, or the way you run the business in infrastructure right now, that may explain part of the, let's call it, underperformance that you're seeing in terms of sales at the moment.

---

**Emmanuel Babeau** - Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs

All right, very clear. On your first question regarding the nature of the order intake, again, as we know, we don't report order intake. And I'm not going to spend a whole call on order intake, because I think that's a route I don't want to take.

But I'm happy to say that is there a long-term project, or long-cycle project, it's because we talk about long oil and gas; (inaudible) for natural resources project; some, the project related to nuclear as well. So these are the type of projects that have been improving the order intake trend in the third quarter.

Now, regarding the infra business, no, we're not changing the way we are working, or route to market.

We continue to be working on the Areva acquisition, and we are still working on aligning the offer, to have one unified range. So this is the kind of thing that we are still doing, and it takes a lot of time from an R&D standpoint and then to bring it to the customer. But it's not something, I would say, new to 2014; that's something that has been happening for a while now.

---

**Fredric Stahl** - UBS - Analyst

Okay, very good. Thank you.

---

**Operator**

Martin Wilkie, Deutsche Bank.

---



**Martin Wilkie** - *Deutsche Bank Research - Analyst*

Just had a couple of questions. There was a headline on one of the newswires this morning, I think an interview, you said that the challenging environment might go beyond Q4 of this year. I was wondering if you could give us some color as to what was driving that comment. Is it what customers are telling you? Is it just reading industrial indicators, like PMIs, and so forth? Or just maybe some description behind that.

The second question was on FX. I think the FX headwind, from a revenue perspective, is perhaps a little bit less than maybe feared earlier in the year, off the back of a weaker euro. But, obviously, you've left unchanged the headwinds in your earnings guidance, your margin guidance. I'm just wondering what's behind that. Is it emerging market currency volatility, or just something else we should think about in terms of why that number is unchanged? Thank you.

---

**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

Very clear. Thank you, Martin. Well, on the changing environment, I was reacting to a question on -- well, things today, as I said, are challenging. We see this world with some deflationary pressure; we see this world with a lot of uncertainty; we don't have a normal recovery for the world economy. Things turning positive; at the same time, lack of visibility. That's what we meant by challenging.

Today, I don't have the element to say that this is going to cease in 2015, and that's what, very simply, I said. I don't have the element today to say that things are going to turn more positive, or easier, in 2015. Again, the jury is out. I don't know. And I would be very happy to comment that with you at the beginning of 2015. But you should not read anything more than what I've just said in these comments.

On the FX revenue, the improvement that we are seeing today is mostly driven by dollar and Chinese yuan appreciation versus euro. Unfortunately, these two currencies -- I mean it's good because they have an impact on sales and on the adjusted EBITDA.

But at the level of the adjusted EBITDA margin there are much more impact coming from the currency of emerging countries. And we don't have the same kind of improvement there. You even have some currencies, such as the ruble, that continue to depreciate. So this is not going in the right direction, so that is why we don't change this around 0.4 guidance for the full year.

---

**Operator**

Ben Uglow, Morgan Stanley.

---

**Ben Uglow** - *Morgan Stanley - Analyst*

Couple of questions. First of all, Emmanuel, could you elaborate on the comments about strong growth in the industry division in Europe? That was definitely a standout from the press release. Did that continue over the course of the quarter? Did you see any softness into the end of the quarter? Is that something we should feel confident about in Q4? That was question number one.

Question number two: I did want to pick you up slightly on a comment earlier about pricing. My understanding, and maybe it was wrong, was that the pricing should be positive in the second half of the year, the net effect, with raw materials. Was that a misinterpretation on my part? Or has something changed in terms of your expectation on pricing in the second half?

---

**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

Ben, on the Q3 for industry in Europe, indeed, we continue to see very good performance until the end of the quarter. And actually, except a very small decrease in UK, all countries have been growing for industry in Q3. So it has been a pretty full achievement; again, all countries, such as Italy, Germany, but also Spain, France, and really our customer focusing on export.

Now, it doesn't allow me to say, well, then we can be very relaxed for Q4. Frankly, I don't know. Unfortunately, the good performance for Q3 is not necessarily driving a good performance for Q4, so you will allow me to be a bit cautious on that one. I don't know whether this means that our Q4 is going to continue to be good for us, for industry in Western Europe.

Now, on pricing and the full year, impact versus raw mat, what I said, and I want to be very clear, is that the full impact for the year between pricing and the positive raw mat evolution should be, at worst, I would say, neutral, and preferably positive. I expect to have a bigger contribution coming from raw material deflation than the negative price impact for the full year. I hope it clarifies.

---

**Operator**

Daniela Costa, Goldman Sachs.

---

**Daniela Costa** - *Goldman Sachs - Analyst*

Two questions, actually. Can you update us a little bit on the progress of the productivity actions, and whether the still quite uncertain environment has made you change in any way the speed at what you were targeting those?

And then just I think you mentioned something even during one of the prior questions regarding even cash, for example, from Invensys being slightly better. You continue to generate cash quite fast, so, in terms of capital allocation, has there been any changes in terms of priorities there? Thank you.

---

**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

Daniela, I'm happy to confirm that we still expect very strong productivity for this year. So nothing has changed, really. A lot of action going on, and we should have a very nice contribution coming from productivity for the full year. So nothing has changed, and nothing new, I would say, to report.

On the cash from Invensys, I was just referring to the fact that if things continue to improve on China nuclear the positive impact would come from the payment of what is a significant outstanding receivable, rather than a P&L impact. But for -- I'm not changing, of course, our long-term guidance, which is a transformation of 100% of our net profit into free cash flow.

In terms of capital allocation, no, nothing is changed. You have seen that we have done a share buyback in a significant manner at the end of September. We continue to be exactly along the line that we have described, and we have nothing new to report, or no change to report, today.

---

**Daniela Costa** - *Goldman Sachs - Analyst*

Thank you.

---

**Operator**

Nick Wilson, Espirito Santo.

---

**Nick Wilson** - *Espirito Santo Investment Bank - Analyst*

Just three quick questions; I'm afraid all Invensys-related. Can I slightly tease out of you what the size of that receivable is, please, for the China nuclear? And I understand you might not be able to recognize it all, but just to get it to scale.

Then secondly, from memory, Invensys, if it's seeing better software sales and the automation has turned positive, is that positive for the mix overall, and margin?

And then a final question, please, just a polite reminder of the funding costs on Invensys; whether there's been any change to that, or an update on that, please.

---

**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

Yes, thank you, Nick. On the amount at stake, no, I don't think I can disclose it. But we talk about several 10s of millions, and I don't discuss [it here], it could be above EUR100 million. So it's a significant receivable which -- it will be very good news the day we will, of course, be paid for that.

Regarding the software, yes, of course it is having a positive mix. That's certainly one of the drivers, by the way, on the long term, a positive that we expect from Invensys. Because we do expect the software business to grow, on average, quicker than the rest of the Invensys business, with a positive impact on the margins. The software business is enjoying an adjusted EBITA margin above 20%, so it's a great business to grow.

Regarding the funding cost, I guess you are on the cost of the debt. There is a cyclical trend here of decreasing the cost of our debt, and that will continue in H2.

Given the fact that we have some refinancing and bonds coming to refinancing at the beginning of next year, bonds which were pretty expensive compared to what we're going to find in the market today, I expect that to continue. So, a continuation of the decrease of the cost of our debt.

---

**Nick Wilson** - *Espirito Santo Investment Bank - Analyst*

Thank you.

---

**Operator**

Alfred Glaser, Oddo Securities.

---

**Alfred Glaser** - *Oddo Securities - Analyst*

I wanted just to ask you what is your current outlook on Q4 organic growth, given that Q3 has been significantly positive after a significantly negative Q2? So, could you give us some more precise indications on that?

Second, could you give us also a bit more detailed comment on South America outlook overall?

---

**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

Alfred, no, I'm not going to give you a Q4 outlook. I think we confirm the guidance for the full year.

I think I've highlighted the things where we see some firm trends. I think that when it comes to North America, I would expect a good Q4 in North America. I mentioned some rebound in India, South East Asia; I would expect that to continue.

For me, the areas of uncertainty for Q4 are the fragility of the rebound of stabilization, I would say, in Western Europe; the evolution of some slowdown in China; and then, probably, Russia. These are really the big question marks that we have for our Q4, and I won't be more specific than that.

Now, on South America, you're right: we've been enjoying a pretty good quarter in South America, notably, in Brazil, but not only; it has been the case in Colombia, in a number of countries in the sub-continent.

Now, I would expect Brazil to show, first, some sign of, I would say, more wait-and-see attitude in the coming months before, hopefully, a number of projects are launched with the clarification that occurred on the political landscape for the coming years.

I think that, first of all, there will be probably a phase of transition before a number of things are being clarified and new projects being launched. So, I would be a bit more cautious for South America for the Q4.

All right? I think that this finishes our conference call for our Q3 sales numbers. Thank you, all, for participating to that call. And talk to you soon, to further talk about Schneider Electric. Thank you very much.

---

### Unidentified Company Representative

Thank you for joining us. See you next time.

---

**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

Bye-bye.

---

#### DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2014, Thomson Reuters. All Rights Reserved.