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SU.PA - Full Year 2014 Schneider Electric SE Earnings Call

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OVERVIEW:

Co. reported 2014 sales of almost EUR25b and net profit of EUR1.941b. Expects 2015 organic revenue growth to be low-single-digit.

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PRESENTATION

Anthony Song - *Schneider Electric S.A. - Head of IR*

So please take a seat and we will start momentarily. So before we start, just I would say two housekeeping items. First, I would like to quickly review the agenda for the day.

So today, we have a fully packed agenda. We start 9.00 to 10.00, our full-year 2014 results release. Then from 10.15 to 4.30, we will launch our new Company program as the theme of our Capital Market Day. And in between that, from 12.00 to 1.30, we have lunch and an open marketplace for you and for all the people who'd like to visit, to show our latest technology as well as our offers.

So second thing is for the journalists. We have a dedicated Q&A session for you for full-year result, as well as Capital Market Day strategy and the finance presentation. So if you have any questions, please hold that question until 12 o'clock; we have a dedicated section for you.

So with that, I will hand to our CEO, Mr. Jean-Pascal Tricoire, for the full-year 2014 result.

Jean-Pascal Tricoire - *Schneider Electric S.A. - President & CEO*

Thank you, Anthony. Good morning to all of you. Thank you for making it to Paris. This is a pretty full room, so thank you for being with us today.

For us, it's a very important day because not only are we going to speak about 2014, but we're going to be speaking about the next Company program which is pretty much a roadmap of execution we have in front of us for the next coming five years. So I'm going to share that with you and to have a solid discussion about that.

So I'm going to be sharing the presentation about 2014 with Emmanuel Babeau, our CFO; and the Head of our Investor Relationship, Anthony Song. And you see how much China's become important at Schneider because we are closing 2014 and starting 2015, the day of the New Year of the Chinese calendar, so Happy New Year, Anthony.

Anthony Song - *Schneider Electric S.A. - Head of IR*

Thank you, Jean-Pascal.

Jean-Pascal Tricoire - *Schneider Electric S.A. - President & CEO*

And let's move on a look back together at 2014. On a broad perspective, 2014 has been a complicated year from external factors to the Company. It started with a massive shift in currencies which affected us in H1 particularly, but all over the year I would say with carryovers [and a pretty big one].

If you put together H2 2013 on 2014, it has been a hit on our bottom line due to currency swings of EUR400 million. You add to that new dynamics in China there in the second half, you add to that a certain number of geopolitical issues in Middle East, in the East of Europe including, of course, Russia, so we can't say that we lacked surprises and swings in the external environment in 2014.

As we like to face even more challenges, the year 2014 was also a year of considerable reworks on adjustment inside the perimeter of Schneider. We brought on board one of our largest and most strategic acquisition, Invensys, and that's going to be something that we shall report as one of the top highlights of 2014, the first steps of Invensys inside Schneider are flawless; but we also divested or pruned part of our portfolio with, for instance, the exit of CST or the exit of the appliance part of Invensys.

So pretty volatile, unpredictable environment outside and pretty heavy duty works inside the Company.

With that general observation, I will jump into the presentation and I'm going to start the presentation with the strategy and the business update; Emmanuel will go into the real stuff, the figures, in the second part; and then we're going to be taking questions and answers.

So two titles to the year: solid execution delivering full-year targets in the environment that I was describing, pretty much with many moving parts; and the second big title, which was extremely important for us in 2014, is the Invensys integration, well on track, above target.

Four headlines: a strong H2 performance which lifted the full-year revenue growth. If you take -- if you focus on Q4, which is the new news on the side of revenues, total growth of 13%; an organic growth of 2.5%; H2 with an organic growth of more than 2% and the total year with a growth of 6.6%, of which 1.4% organic.

So a few elements to highlight here, is that one business only was down and it was infrastructure. If you take the three other businesses of Schneider, all of them were growing, so those three businesses grew by 3.2% on the total year of 2014.

The interesting thing is that we benefited once again of our balanced footprint in H2, mature countries grew more than new economies and that can be summarized to the fact that the US was extremely dynamic and China slowed down as we had anticipated.

And finally, one of the key growth engines of the Company, services kept its place and overgrew the rest of the business by more than 7%.

Second title is that the gross margin was up 20 bps, 60 bps if you exclude ForEx, and the EBITA improved at constant ForEx by 40 bps. As we were impacted by a negative effect of ForEx by 40 bps, that makes 13.9% at the end of the year for our adjusted EBITA.

That was due to a very strong work on industrial productivity. I remind you that we globalize all supply chain two years ago under Annette Clayton, -who is here in the room and that you're going to be able to interact with during the day; great job done there.

We manage a price, and we call it the positive net price because we adjust prices also in function of raw materials, and the addition of the pricing which we had on products, which was negative, was more than offset by the raw material impact, which was very positive.

Now third title, the net income grew by 3%. If we wouldn't have suffered this [heavy] negative ForEx, we would have grown double digit by 11%. That's a disappointment that we were facing, so adverse headwind. We delivered solid cash flow at EUR1.7 billion, which is pretty much in line with the model of Schneider.

Probably the biggest headline of this year, 2014, has been the integration of Invensys, which is more than well on track, delivering a revenue growth of 2%. Profitability improving in the first year of more than 5% and this contributes to a double-digit accretion of the EPS in the first year. So there we struck every aspect of the integration of Invensys.

We don't speak enough about that together, but one of the biggest motivation for satisfaction in this first year is the fact that the people of Invensys have joined Schneider and they are leading now very significant part of our business. They have taken more responsibilities inside our Company and they are very confident they will help us to progress in the field of software and in the field of automation.

Now briefly if we take a more precise look at our business. There the Group organic growth, what you see that the quarters Q3 and Q4 have been growing. Is that a fundamental trend? Difficult to say; we have had a very strong and precise execution, particularly of projects in Q4 that justified a rather good organic growth in Q4.

What is most important is to see that three of our business, which are the early cycle business, are back to a pretty solid growth. We're going to go into the detail of that, but you see partner at 3.5%, and it's a large business for us. It's almost 45% of our business. 4.3% of growth in industry; [Clemens] is here and will speak about both Invensys and industry today. IT, with a strong rebound at the end of the year, in particular Q4 at plus 6%, and we're going to speak about that.

On infrastructure minus 4.4%. If you want to summarize, 90% of the issues that we face in infrastructure has been mostly utilities in West Europe that we have been compensating by different actions. Frederic Abbal is the head of this business; he's here in the room and will be able to take your questions.

Building and partner, I'm going to scroll quite fast on that one. You've got all the details in the communique. As you see, it has been a pretty steady pace of growth all of the year. 3.4%, 3.5% helped [and served] by a dynamic construction market, res and non-res, in the US, supplemented by strong dynamics of data centers.

When we take large data centers in which medium voltage and low voltage portion -- or parties important, this is reported in infrastructure business and partner business. So our business in the IT field is larger than what we report in IT. You know it but I want to repeat it because the growth that we have had in 2014 in the IT space generally, was larger than what you see in the growth reported by our IT division.

We experience a slowdown in China, which is a big market for partner business. Australia and India improved. Of course West Europe stabilized and that is probably a general remark that we're going to have in many places, except for infrastructure. The Rest of the World experienced mixed trends.

We launched quite a lot of new products. You see here the smart panel, which is -- with a marginal cost, you can connect your electrical panel on the cloud and get a simple and very efficient reporting of your whole electrical distribution. You've got also a medium range of products that we launch into new economies. This is growing faster than the average to the new economies as we go into secondary series.

Moving onto industry, pretty dense year for industry; integration of Invensys, strong development of our historical operation in industry. 5% growth in the first half, 3.5% growth organic in the second half. That's mainly due to high base of comparison in Q4. If you remember, we had started a strong rebound of industry in Q4 2013 but I would say the fundamentals are remaining steady and solid.

Solid demand in the US, especially on the OEM market. Soft China market, which is mostly for us on OEM business, offset by growth in Japan and growth in Australia. What we have seen in Europe is a sustained OEM market for those OEMs who are export-oriented. We are speaking about Italy, Germany, North Europe, which has been rather good at the end of the year.

A lot of new products that we just launched. Here you see PACs, the renewal of our large-size PAC platform. One more version of our machine solution business, which is developing quite fast today, simple platform to automate machines.

Going into IT, much better second half respect to first half, due to recovery of mid-size data centers in the US, as a first factor. Again, we have never [happened] on a good dynamic in the IT business in the past two years, but a large part of the growth in the US was driven on large-size, what we call XL data centers, which are mostly medium-voltage and low-voltage systems.

Now we see a rebalance of that market, and more private data centers that are benefiting to the reporting of our IT business. We always had good dynamics in West Europe; good IT investment in Asia, in Australia, in Southeast Asia.

I'd like to mention also one thing, that we have had tough times in Russia, which is a significant market for us, at the beginning of the year and this seems to be stabilizing gradually. So, that has been a fact of stabilization in our IT business.

Infrastructure. So again, a pretty difficult year due mostly to utilities in West Europe. Again, in infrastructure we benefited from data center on construction market in the US.

Again, growth in Australia and India, thanks to project execution. They always go medium voltage, low voltage; the customer logic in a large part of our infrastructure market is making packages. And we had mixed trends in the Rest of the World but most of the issue, again, utilities in West Europe.

Again we launched also some new products. Premset, which is a revolutionary breaker on the switchgear, which is now starting to take off but as it revolutionizes quite a lot the rules of the market, we need first to specify [and get it] accepted on the market.

Now I move on to the geographic part of 2014. So strong US, mild improvement in Europe. Actually, we were disappointed in Europe. If you rewind one year ago, many of us were more bullish on Europe and 2014 was -- disappointed us and we're going to speak also, of course. We were more optimist than we should have been at the beginning of last year on Europe.

Really the good news -- well, the bad news is that we saw China slowing down, which we had forecasted. So, no crash there but it's really a soft landing of China, comparing to very high base of comparison coming from 2013. But there the balance, the geographical balance of Schneider that we're going to describe again and again today, has been a great help because if you look at H2, mature countries that we are regaining, especially the US, and the stabilization of Europe, helped us to counterbalance the negative effect of the slowdown of China.

I want to mention a place for investment, continuous investment, which are services. Due to our specialization, due to our large market share, due to our past DNA, which is to be a product company and then we -- our products are somewhere in the field, we have been in the past not too active on our installed base of services.

And we have plenty, plenty of breakers that we sold, that I sold, that many of us sold in this room 20 or 30 years ago that need repair, retrofit, upgrading and when we upgrade those products, we can bring connectivity.

We can bring the value that you as a customer -- you used to have this loss system that now will be connected and you can get to digital image of it so that you can make preemptive maintenance, asset management and those kind of things.

This has been growing consistently over the past years. Over the average of the Group we can do more, want to do more. It's a large part of the investment that -- in cost that we are doing, because to do that you need to recruit people. And between the time you recruit them and train them and they take their first [holiday], you've got something like 18 months, but it still remains a large potential and we have not finished speaking about services. The whole team is taking an active part in it.

The guy who's heading that at the level of the Group is [Daniel] and, again, he's in the room and will be able to answer to you today.

A big highlight here, and I want to pay a tribute to all the people who worked on that, Emmanuel and Clemens in the room who are the leaders of that, but I think everybody had a contribution on that, is Invensys joining Schneider.

We've bombarded you with the rationale of this acquisition but I remind you it's about reinforcing our automation capability, reinforcing a lot our software portfolio, boost the Group position in electro-intensive segments. Well, we can say that after one year Invensys is fully integrated in our business.

The value proposition has been upgraded to integrate the pluses of Invensys to the segments we serve, and the Invensys software has been completely embedded in the Group software and has been a major reinforcement, actually, a major thrust or a major development in our software story at Schneider. And we've got in the room the head of Invensys software. Ravi will be able, there, again, to answer questions.

Going into more detail about Invensys, and I won't dwell on it, we've got some examples here of synergies that we have started to establish.

Just after the acquisition, we managed to package completely the offer energy and automation in India with the Reliance refinery in Jamnagar, a more hybrid system in wastewater treatment plants.

In Invensys you had the control part doing PCBs for repetitive machines called Eliwell that we integrated into our OEM offer, and that has been a serious help for everything we do in [Asia Pac], for instance.

And then construction of coal-to-liquid plants for a coal enterprise in China where we make there again energy on DCS.

As I told you many times, it's not about automation plus automation mainly, it's about automation on power, helping customers to manage the whole efficiency equation, reducing their energy consumption, which is very big in electro-intensive processes and also managing and diminishing the waste of the process into one integrated system.

I remind you also that 2014 -- in 2014 we kept investing in R&D. We are a technology company and we're [attached] to keep our advantage in terms of R&D. I think this slide exemplifies quite well what we are doing today. Of course we do products but those products are part -- they are building subsystems which are integrated directly, modular systems into our customers' installations.

You've got a new PAC platform here. You've got the smart panel I was referring to; a secure powered pod to secure offices or decentralize facilities, and a large investment into integrated software platform connecting our Internet-connected products into local automation software that then are connected to our cloud and able to activate analytics on the key segments we want to serve.

Again, I want to pay a very special tribute to our supply chain and to the work done by Annette's team. We've taken a pretty bold step a few years ago to globalize all of our supply chain under one roof, to work into better synergies in -- with our plants, with our logistics centers, with our suppliers and, more fundamentally, leveraging better the competency that we have in this part of the Company, which is half of the headcount.

Once again on world volumes we are not absolutely great. We delivered a strong -- the teams delivered a strong productivity, which means we have reached our objective of EUR1 billion productivity in three years but also the inventory to revenue keeps improving and we have reached the improvement level of 2 points of sales over three years.

So, a great, great achievement there which is helping us to fund some initiatives and also to compensate for the adverse ForEx effect that we had to face, the headwind that we had to face in 2014.

Finally, still Schneider wants to be at the forefront of sustainability. As a Company we want more and more and we do that every day. We want to be the sustainability advisor of our customers, making sure that they progress with us in sustainability.

To do that we have a barometer that you know well. We have overshot our target respecting -- in the Connect plan. Now this has been also recognized by a number of rewards of -- on [premiums] that we received in Davos three weeks ago.

We were recognized as the ninth most sustainable corporation, all industries [compounded], in the world, and we have received a number of recognitions which is a subject of loyalty and a subject of pride for loyalty for our customers and a big subject of pride for our employees and a big argument to recruit the best talents in [general] and which is -- that is very positive.

On the top of it, the whole mission of the Company is geared and directed to making this planet and the world we live in more sustainable.

Okay, with that -- that finishes about the year in review from the strategy point of view and now I'm going to hand over to Emmanuel.

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

Thank you, Jean-Pascal. Good morning, everyone. So, let's enter into a bit more details on our numbers and let's start by ourselves, looking at ourselves, by region.

First of all, a [good] amount of our sales, almost EUR25 billion of sales for 2014 for our Group, it's a growth of plus 6.6%. Two big effects from scope and ForEx.

On ForEx, as expected, we've been, thanks to the evolution of the currencies versus the euro in the second half, moving towards neutrality in the second part of the year and, of course, the big scope impact is largely coming from Invensys.

When we look at our organic growth, plus 1.4% by region, three regions have been growing and best performer has been Asia Pac and Rest of the World.

Asia Pac started the year with a lot of dynamism. It continues in some countries but, as Jean-Pascal highlighted, we've seen the expected slowdown of China happening towards the end of the year and that has been slightly curbing the performance of Asia Pac for the full year.

North America, at the same time, was accelerating. It was a negative, slightly minus 1%, in the first half. It delivered a stronger H2 and notably a very strong Q4; the US of course, and that is the biggest impact, but we also have seen some improvement in Mexico, which started the year with a lot of difficulty, and which improved in Q4. Plus 8% for North America in Q4. That was quite a remarkable performance.

When we look at Rest of the World, well, as you can expect, it's more of a mixed bag. We have growth globally for the year in Middle East, in South America. It has been tougher in Africa where we were facing some high comps.

And regarding Russia, at the end of the day it has been, of course, a tough year with all the events that we all know, but we nevertheless are close to stability and when we look at Russia, it's a mixed picture with some businesses such as buildings and partners and industry growing and growing nicely.

And it has been much tougher, as you would expect, for our medium-voltage activity. Nevertheless, Electroshield Samara was around flat year on year, which was quite an achievement. And as you know and we flagged that during the first half of the year, we had some very important destocking in the IT business.

Western Europe, minus 2%, still negative, I would say slightly negative only in Q4. We no longer see the kind of big drop that we have experienced during several quarters in Spain, Italy and to some extent in France.

So we are seeing some improvement of the situation. Most of the countries are around stability and we have seen some pockets of growth in Q4 like in the UK. So too early to move to a global positive situation, but we seem to be heading to stability.

I am now moving to the analysis of the gross margin to understand what has happened on our gross margin, Group EBITA in 2014. You see that globally we've been growing by 20 basis points and in fact that corresponds to the organic evolution of the gross margin.

You first have two big impacts; the first one is a positive contribution coming from Invensys, so Invensys is coming notably with software but not only with higher gross margin rates; and in front of that, as expected, we experienced a significantly negative impact coming from the currency.

Then you look at the detail of the organic evolution; volume around zero impact, net price plus 0.2%, so when you take the combination of the price evolution which remains a bit negative on H2 and the positive contribution coming from the raw materials, you have a net price positive for the full year.

Then productivity. It has been largely commented by Jean-Pascal so I don't come back on it. And then the mix impact, negative, which accelerated in H2. We had more solution in the mix of our sales and that has been impacting. We can say also that we have been seeing some pressure on price for some businesses. There was some drift in some margins for some projects.

But we really want to highlight the fact that we also consciously take projects at a low margin because this is the name of the game. You take greenfield at low margin, but this greenfield will generate in the future some nice services business with nice margins. So there is also this element playing in the impact of the solution.

Then of course the geographical mix; Western Europe continued to be a poor performer that has been having a negative impact on the mix clearly.

Another element of development of the business that we see globally as positive, which is the very nice growth that we see in our mid-market offering, notably in the new economy which is coming at a margin which is a bit lower than the average of the product of the Group today. And then you have the traditional inflation and other elements.

Now that means a gross profit of EUR9.4 billion; it's up 7%, organically plus 1.7%. And we are now moving to support function costs, which reached almost EUR6 billion, organically growing by plus 2.4%. And Jean-Pascal mentioned the fact that we started the year with plan of investment, certainly expecting an environment that would be a bit more positive, notably in Western Europe.

We've been adapting, but we've not been fully adapting to the final evolution of the top line, so we have this 1% difference on the top line and the SFC evolution. You will see in the Company program that you have in -- we have in front of us some clear plans and program to generate efficiency on our costs in the future.

That gives an adjusted EBITA of EUR3.463 billion. It's up a little bit more than 3%. That would have been up 8% at constant ForEx. And we try to make things as clear as possible on the evolution of the margins. Last year we published and we reported the margin of 14.5%; we have two big changes of parameter which restate 2013, the first one being the disposal of CST, the other one being the full consolidation of Delixi. So the comparable without Invensys was 14.3% for 2013.

Then we have integrated the numbers of Invensys for 2013 to build a pro forma and that gives you 13.9%, so that's the fully comparable basis for 2013. And then you have the two evolutions, the ForEx minus 0.4%, which is line with our expectation at the beginning of the year, and then the margin improvement of 40 basis points at constant ForEx.

Looking now at the margin by business. Starting with buildings and partner, you have a decrease here. It's mainly coming from the ForEx. This division has been the one where -- this business has been the one with the biggest impact coming from the ForEx evolution. And in addition to ForEx, you also have what I explained on evolution of this mid-market offering, which is positive but having a negative impact on the mix. And then there was also a number of initiatives that have been financed by this business.

Industry. Nice growth at same scope year on year, 0.7 points. Of course then you introduce Invensys and it decreases the margin, but on a like-for-like basis the margin has been growing. Infrastructure, which of course has been the [pain] point for us in terms of evolution of margin, mainly because when you have a poor top-line evolution, you have a difficult absorption of fixed costs and that reflects into the erosion of the margin.

And then IT, which is stable year on year and that's quite a remarkable performance. There was some growth, but it was limited, and we remain significantly higher than any of our competitors.

On the rest of the P&L, I'll try to go fast. Other income and expenses; it's a lot of pluses and minuses, but you have the big minus, minus EUR81 million which are costs of integration of Invensys, very much as expected. Restructuring, the EUR202 million, we flagged that looking at the evolution of the infra business. We had to adjust, we had to react; so we started the reaction and you will see in the Company program that there is more adjustment to come.

Then amortization impairment of purchase accounting intangibles is just the impact of the acquisition of Invensys. Net financial expenses, the charge is going down as expected. The cost of the debt continue to go down and that's a trend that we expect to continue. We will comment that later on. So that explains why we've been improving things.

Income tax. A significant decrease of the tax rate of the Group at 22.7% versus 25.5% last year. This is the expected impact from Invensys, so we are indeed materializing the tax synergy on this acquisition.

Then the discontinued operations, CST and Appliance from Invensys impact. So it's both the profit generated before disposal and it's also the capital gain that we generated on the disposal.

Equity investments, minority interest. That gives a net profit of EUR1.941 billion, up 3%. At constant ForEx, we would have been growing by 11%. So strong progression on a like-for-like basis for net income if we exclude the ForEx.

And then just for your reference, we highlight the impact of the integration costs of Invensys and the growth would have been by -- of 6% without that.

The free cash flow, EUR1.7 billion, EUR1.8 billion without the integration costs of Invensys. Just a few issues I would like to mention. On CapEx, the amount is higher. This is, firstly, Invensys impact and also the fact that last year we had some disposal which was of course helping the net impact of the CapEx. In addition, this year we had a one-off significant project in the US in Boston, that is impacting the CapEx.

The change in trade working capital, well, we're not that far off what it should be given the growth of the top line. Last year it was particularly good because of a strong performance on the payables that of course we did not reproduce this year.

For the rest -- we've been paying the dividends, the net impact of acquisition. Here you have the net impact between the share buyback and the employee shareholder plan. And then you have other effects, which are mainly the negative ForEx impact. As you know it's a picture of the debt at the end of the year; there was an increase of the dollar versus the euro with a significant ForEx impact on the debt.

So that gives us at the end of December 2014 a debt of approximately EUR5 billion.

On Invensys, that has been largely commented. I don't think I need to go into a lot of detail. All lights are green. Revenues are going up. Adjusted EBITA was growing significantly and Invensys was accretive, in fact, on our margins from the first year.

The cost synergies are there; Jean-Pascal mentioned the top-line synergy. Tax synergies are also delivering, so all lights are green once again on Invensys.

Regarding the cash conversion. For the full Connect program we are absolutely in line with our objective of transforming 100% of the net profit into free cash flow through the cycle, through this three-year period it clearly has been the case. And then we have this ROCE objective that we take as a priority.

We've been really improving significantly the ROCE on a like-for-like basis, and fortunately for that criteria as well, we've been negatively impacted by the ForEx. Without the negative evolution of the ForEx, we would have been moving from 10.9% to 11.7%, so compared to the ambition which was to be back in one to two years to the pre-Invensys level, we would have been well on our way.

Unfortunately we have a negative impact which is being explained quite easily by the fact that we have negative EBITA impact, which is coming largely from emerging country currency and in front of that when we look at the capital employed, [whether] the equity [or] debt, we have a much lower exposure to this emerging country currency at the level of the capital employed. And we have much more exposure to the dollar notably and the Chinese yuan, which have been growing against the euro at the end of the year. So you have a kind of scissor effect on the ROCE for the year.

And we will propose to the shareholder meeting an increase of the dividend by 3% at EUR1.92 per share, reflecting both the growth of the year and the strong contribution from Invensys.

Connect. A lot of success; we've been commenting that service was a success, productivity was a success, inventory efficiency was a success. Two areas where we have not delivered or we have only partially delivered. On solution we have done half of the improvement that we were targeting. So 1 point only.

And on SFC we've been largely commenting the investment that we have been making. The fact that the top line has been lower than what we anticipated at the beginning of the program and that's why we maintain the level of SFC on salary issue, but we did not generate the improvement that we were targeting.

And that leads us to the full-year 2015 targets. Jean-Pascal, I hand over to you.

Jean-Pascal Tricoire - *Schneider Electric S.A. - President & CEO*

Yes, so when we look at 2015, we expect North America to continue to grow solidly. Western Europe, we are cautiously becoming more optimistic, so we could see sign of improvement. New economies show a mixed picture so we see places like Kenya accelerating. Russia will face difficult environment. Then China will have a soft start of the year and should gradually -- our estimation is that it should gradually improve during the year. Also the base of comps will become a bit more favorable.

Invensys will contribute to the Group performance, but the Group -- Invensys performance will be impacted in Q1 by the fact that last year it was the last fiscal term of their year. So you had a kind of --in this industry which is a project industry, customers tend to push you or to push invoicing in the last quarter of your year. So last year at Invensys we had two end of the year, the one with Invensys previous group and the one with Schneider. So that bumped up probably the year 2014.

So our targets in this context in 2015 is low single-digit organic growth in revenues; adjusted EBITA margin between 14% and 14.5%, assuming no negative ForEx impact on [margin]. It may seem strange to say that at the beginning of the year, but we've become cautious, in the past years, on those swings.

And an expected significantly positive FX impact this time; it is a euro decrease, principally in respect of dollar, which if you take an estimated level of the dollar to the euro at the present level, could drive to a positive effect on our revenue of EUR1.5 billion, around. But no material impact on the EBIT line, because, if you remember, a large part of our actions in the past has been to rebalance our base of cost and revenue between the US dollar and the euro.

But probably in the past 10 years that I've been at the lead of this Company, first time that the euro, in terms of translation, will be positive news for the Company.

Okay, that closes our presentation on 2014. We are ready to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

James Moore - *Redburn Partners - Analyst*

James Moore, Redburn Partners. A couple of questions if I could. One on China and one on mix. You talked about a soft start to the year and then some gradual improvement. What gives you confidence on the improvement in China? Is it just the basis of comparison or do you see some genuine sequential improvement coming in China?

And could you help us dig a little deeper into what's happening within China in terms of tier 1 versus other areas, different end-markets, to give us a flavor for that important market for you?

And secondly on mix. The number in the second half, I think [155] if I remember, was a bit higher than I thought, and explain why perhaps the number was a little more at the lower end of your 40 bps to 80 bps [clean] range? You mentioned the mid-market, you mentioned Europe, you mentioned solutions. I'm really thinking as we look forward on mix into 2015, how do you see those pieces, or mix in general, moving and is there anything exceptional in that mix effect that might drop out?

Jean-Pascal Tricoire - *Schneider Electric S.A. - President & CEO*

I'm going to take the first question and Emmanuel will answer on the mix.

On China, of course there is a comparison with the comps to which we're going to be going through 2015. We had a very strong year at the beginning, very strong H1, and H2 was much slower, so that in itself is a reason. But what we see also from the environment point of view, 2014 has been characterized by a certain number of things, restriction on credits.

There was also the anti-corruption campaign which is a good thing for the country, but which has slowed down a number of decisions of investment. That has stopped a lot of projects as a collateral of those decision on very large projects. So there has been a slowdown that really happen -- that really affected us from the second part of 2014.

What we see is that the Government and the regions are releasing some credits and tightening some of the conditions. So slowly, slowly and very selectively and very professionally re-stimulating parts of the economy. On the side of China, what we see also is that the investment we've done over the past two years of going into more cities, there again you recruit people, you put people into places. It takes lag on the time to come and translate into sales.

And where we do it and it's valuable according to regions and according to places, the results are good. But it takes time to go through. So we see it, we don't expect huge boom in China of course, we expect beginning of the year that will keep being tough and gradually a recovery based on the macro of the country.

By the way, China will be one of the first beneficiaries of the new price of oil in the first place. That will free a lot of purchasing power in the country. And then due also to our own efforts in investing selectively into more remote places of the country.

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

Regarding the mix, I foresee still pressure coming from the geographies and good development of the mid-market; I think that mid-market offer is going to continue.

Regarding the solution, there was some drift in margin compared to expectation. That may ease, but globally I would remain cautious on the impact of solution on the mix. So we'll certainly work hard in order to improve that dimension, but you should continue to expect mix to play negatively in 2015 and beyond.

Gael De Bray - *Societe Generale - Analyst*

Gael De Bray, Societe Generale. Two questions, please. The first one is on the margin performance at the partner and buildings division. I think it's been a bit disappointing here, at least relative to the margin performance at the other divisions, given the good growth you had there. So could you elaborate a bit on the key reasons behind the decline in the margin and maybe talk a bit more about your mid-market type of strategy and how it affects the margins?

The second question is on the solutions business. So you're clearly a bit short of the targeted margin improvement for solutions. What's the margin profile right now for solutions and what kind of actions could you take to improve performances in a structural way? Is there anything that can be done to potentially refocus your solutions offering? I guess it's some of the lowest profitable solution areas, for example.

Jean-Pascal Tricoire - *Schneider Electric S.A. - President & CEO*

Yes, well I'll take the first one again. So on buildings and partner, you've got several parts in that business, but the large part of it is really what we call low voltage. That goes from plugs on sockets up to low-voltage panels.

On that part of the business, we are in a very strong worldwide position, with the leadership which is -- we are twice larger than any other competitor in the world. We have a very, very established global footprint and we keep the (inaudible) very well; and the level of profitability that we have in this business is second to none, so I --

But what we faced in 2014, there are several aspects into it. First, it was one of the places where we are the most -- it's one of our most international, it's a new economy, [twisted], [a] directed business, so the ForEx impacted us quite a lot on that one.

The second thing was geographical mix. Then this is a place where we have a strong position in China. The slowdown didn't help very much, the [scissor] between the cost and the margin didn't help.

This is a year where we launched a lot of medium products in the new economies. When you go into those secondary CDAs that we do not only in China but in other places, you need more ruggedized, low price point products that still are a very nice margin but that tangentially decrease the mix.

And the last point is that we invested into new technologies and new offers. When we go into smart panel, launching this initiative on a worldwide scale is something that takes a toll on the results.

When we launch simple low-cost home automation systems for energy efficiency connected to the cloud, connected to the Internet, that's also an investment that we do.

Electric vehicle, today, yes, it's not making money, charging stations, but this is an investment that we do for the future. This we are putting some lines out to see what it will yield.

Solar is a place where we've gone a long way and now we are on a good trend, a good catch-up, a good recovery but still, it's quite dilutive for the business.

So there is a part of investment for the future which is taking a toll, but the main one remains ForEx and the geographical mix.

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

Gael, on solution and how can we improve the margin on the long term, the first thing, of course, is to push as much as we can all services software where we enjoy in this solution package the highest margin.

And then, looking at the project, it's certainly for us to focus on what we like in terms of project, which is small to mid-size. So a few hundred thousand, a few million is really the sweet spot. We take sometimes projects at tens of millions, but it's so that it's coming with generally more competition, more pressure and more risk as a whole. So we don't want to give up on that because there is a lot you can learn through these projects, but it's true that it's not our preferred kind of beauty, I would say, in terms of solution.

Then, of course, to develop as much as we can solution on shelf. So we develop one solution, we sell it many times. That's where you optimize the margin. That's very clear.

But having said that, there will still be a number of projects, and I think Invensys is very clear on that front, where when you take the greenfield, that's probably for 20 to 30 years and you have to accept that you take the initial project at the low margin, so you have to take the hit. And as you know, we have the ambition to put Invensys back in the race, gaining market share on greenfield; that's one of the elements of the success of the acquisition of Invensys.

And when you do that, you make the effort at the beginning and then you are able to service your client in better condition on the long term. So we have to take that into account as well.

Jean-Pascal Tricoire - *Schneider Electric S.A. - President & CEO*

And yes, this is anyway a very good question. I think in the past three years, we should have done better on that, but we are learning. I'm quite confident that the guys from Invensys brought a lot of know-how in controlling the project. They also brought an operating model which was significantly different from what we had in the Company; much more discipline and we want to take that [CP] and apply it to other parts of the Group and particularly the infrastructure part of the Company.

So not happy of what we've done in the past three years on that front, so all the reasons that Emmanuel explained are the right ones, and I think we're on the right track to get much better on solutions. We are focusing much more. We are really focusing on very precise segments and every time we repeat the -- address the same segment, we really deliver a much better performance.

Andreas Willi - *JPMorgan - Analyst*

Andreas Willi, JPMorgan. The first question is on Invensys. The nuclear project in China, if you could provide an update on that and whether there was any positive impact of provision release in the 2014 results for Invensys.

And the second question on China. In industry, you noted a bit weaker second half or Q4. Is this a market share issue or an underlying slowdown, given that others reported very strong Q4 numbers in PLCs in China? Thank you.

Jean-Pascal Tricoire - *Schneider Electric S.A. - President & CEO*

Well, let's start with Q4 in industry in China. Our prevalent positioning in China is not on the end-user market in industry for the PLC part of the business; it's more on OEMs and the market has been more difficult in the second part of the year.

So, as we embark or bring on board Invensys, it's a way for us to build muscles around end users and be better positioned on the Chinese market for automation.

On the other hand, we've got the industrial solar part of products that we sell on the market and all of those products are not doing strictly industrial applications, they are going into the construction market; and those have been affected and reported into our industry business. We report still more by technologies than by markets. We report by technologies.

On China nuclear, I will let Emmanuel take it.

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

Yes, so on China nuclear, things are improving generally at the end of a project, but technologically, things are, again, now on good track as we said. The project is coming at a more normal margin, which certainly has been helping versus the previous situation. So that doesn't, of course, explain the global improvement, but that's one element among many others that contribute to the improvement of Invensys margin.

Jean-Pascal Tricoire - *Schneider Electric S.A. - President & CEO*

And we shared that when we did the operation, and China nuclear was a kind of question mark. On the technical process we had due diligence situation, but it's always easier when things are working.

Technologically we are [out of the wood]. We have already brought three power plants online, so that works. Now we still have to manage all commercial relationship with the customer.

Anthony Song - *Schneider Electric S.A. - Head of IR*

We'll take two more questions in the room; then we'll move to the (multiple speakers)

Ben Uglow - *Morgan Stanley - Analyst*

Ben Uglow, Morgan Stanley. Can you say a little bit, in general terms, about pricing? Because the price less raw materials has obviously moved to positive, which is good. But what I'm curious to know is are you actually getting price increases, in absolute terms, in any of your divisions? I think you called out industry; but what is the general mood at the moment, in terms of pricing?

In the past you've talked about this idea of tactical pricing. Is that something that you're still pushing? Or is this some -- are we going to get back to the old days, where Schneider consistently generated price increases? So that was question number 1.

Question number 2 is just on the thought process around the adjusted EBITA margin. Given that you expect some organic growth, what conditions would we see Schneider performing at the bottom end of that 14% to 14.5% range? Is this to do with concern about solutions? Or why not have a slightly more aggressive EBITA margin target? What led you to put us at the bottom end of the range?

Jean-Pascal Tricoire - *Schneider Electric S.A. - President & CEO*

On pricing, may I question your memory, okay? Because you've been following Schneider for a long time, and have been at Schneider for a longer time. So what we've been always good at is to make sure that the net pricing will be positive. It takes us a bit of time to catch up on raw material, but we always make it; and then it decreases when competition is bringing down prices, when raw material are easing.

I don't think there is nothing abnormal happening at the moment. This story of, it's always price up doesn't -- it's not true. I can bring you to some of the presentations, you never listen to me attentively enough, okay Ben? (laughter). But it's -- it has been a kind of a traditional story.

And this is what we are doing. So if -- now if you take a look at 2014, we've been pricing up in most of the regions, and especially the prices, the places, where there was a combination of raw material and ForEx. And we've been doing that quite efficiently.

I would say there have been two places where our pricing has been more complicated. One is North America, where there has been a more intense competition, I would say, at the beginning of the year. And I think we -- I think we could have played it a bit more smartly in this; but we've reacted, and we've reacted well. The last quarter shows it, in terms of growth, in terms of dynamics.

And China has been also more difficult in H2, but because of this raw material decrease. We are a price leader in many places, and there is a limit to the place to -- there is a limit anyway, when your gap with your competition is too high.

Now back to this story of tactical pricing. I've seen so many interpretation of what I've said on that one, so I try to be very cautious in my way to express.

We are price leaders on our market. We are pricing up. Sometimes, when there is an obvious case where we are trading too much volume against too much -- against too high price, then we're going to make a special movement that's mostly on the project part of our business and we keep on working on our pricing capabilities. That means bringing more functions into our new lines of products; valuing those functions, those new facilities, those new services; being very selective on our -- on the discounts we can offer on very specific projects.

So be ensured that it is at the top of our agenda.

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

On the margin-adjusted EBITA target. I don't know what you mean by being more aggressive on -- would it be to narrow down the bracket, in order to be more precise?

I think -- or to be in the upper end of the bracket, I'm not too clear.

What I can say is that -- we give a guidance which is not the case as you know with all companies, on the margin. I'm sure that everyone in this room understand that we're in a challenging environment, with a lot of uncertainty, so we have to take that into account when we fix our objective for the full year.

And then you have many uncertainty on, of course, the top line, depending on what's going to happen in the various market. We have uncertainty on the way we're going to steer the evolution of the mix between businesses and product and solution.

We have, as you will see later on, an important ambition, in term of productivity and SFC efficiency, but then the speed with which it's going to be implemented is, I think, a number of doubt.

So I think that if you take everything in account, that bring us to be cautious in the kind of magnitude of the bracket of our landing. So that's why we go for this 14% to 14.5%.

Martin Wilkie - *Deutsche Bank Research - Analyst*

Martin Wilkie, Deutsche Bank. Just coming back to the question on the impact of FX on your margins. You comment that the EBITA margin shouldn't have a material impact from FX; but your guidance does say, assuming no negative FX impact. Am I reading too much into that, that you think that if there is an FX impact it will be negative?

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

No. We're just saying we don't want -- let's suppose there is a new collapse of the currency from new economy, we don't want to be back in front of you in six months from now, saying oops, by the way, we forgot that this guidance was given assuming no negative ForEx impact.

So that's all, we just want to be very clear on that. But you should not read anything else behind that.

Martin Wilkie - *Deutsche Bank Research - Analyst*

And just following on, the (technical difficulty) a more balanced cost base, and therefore it should reduce your FX impact. But obviously, historically there has been a drag where you have emerging market currency weakness. In your thinking for 2015, is any positive benefit for the euro potentially offset by the weakness in the ruble, and so forth? Is that how we should think about it, that it's just that at a Group level these are netting each other out?

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

That's exactly right. When we look today at the various trends, you have some positive element in a country where the euro is mainly the currency of the cost of goods. But then we buy all our copper in dollars. So when you look at the ForEx impact, it says, even if copper evolution is positive, it's a negative impact.

So when you take everything into account, we get to something which we -- which is close to neutrality in term of impact. And that's what we have been mentioning.

Jean-Pascal Tricoire - *Schneider Electric S.A. - President & CEO*

So we have to realize, we are truly -- we have a truly global footprint, right. In terms of sales, and in terms of cost. AsiaPac has become our first region in 2014. Above West Europe, right. Just passing West Europe. Then North America is roughly at the same level. Anyway the first time that the euro is going down into my 10 years, so I like the idea but let's make no mistake, we are very balanced. We are the product of many currencies.

Anthony Song - *Schneider Electric S.A. - Head of IR*

As we are slightly behind schedule, we'll take two questions from the people on the phone.

Operator

We have no questions over the phone, sir, for the moment.

Anthony Song - *Schneider Electric S.A. - Head of IR*

Then we'll take one more question in the room, yes.

Alfred Glaser - *Oddo Securities - Analyst*

Alfred Glaser, Oddo Securities. So I just wanted to know in Invensys you have been performing pretty well. What's the outlook in terms of growth for the Invensys business for 2015?

And also regarding the margin evolution, you really made the jump in terms of margin profitability for Invensys in 2014. What can we expect now looking forward into 2015, 2016?

And one other question here, on oil and gas exposure, that didn't seem to hurt that much the Invensys business so far, and Schneider overall. Could you comment a bit on the overall impact you'd see or you expect, coming from the oil and gas businesses?

Jean-Pascal Tricoire - *Schneider Electric S.A. - President & CEO*

Let's take the oil and gas question; including Invensys direct sales or indirect sales to the oil and gas industry represent roughly 7% of the turnover of Schneider. Now when you look at it there is 60% which is pure downstream, and there is 40% which is upstream, but almost nothing in exploration. The whole upstream that we do is about mid actually and it's about production. Okay?

As we see today, we see -- well, first we are cautious because it's been a long time that anybody has been through such a change into the oil barrel price. But we have intense, very intense, discussions with all the customers. What we can feel, probably the impact will be more limited in 2015. And if there is a stronger impact, that's going to be more in 2016 because the projects we are working on are already launched, they are already progressing.

And 50% of what we do is OpEx, 50% of what we do is CapEx. So we feel that here there will be a slow impact coming. But I am cautious on that one. Anyway the total impact that we would see in 2016 and this is our worst estimation, the estimation of the worst would be a maximum impact of 1% negative on the total turnover of the Company.

Now the low oil price is helping plenty of other sectors of the Company. It will free purchasing power for construction. It's good for what we do in food and beverage. It's good for everything we do in many other industries. So all in all we see the effect as relatively -- and when we see the mix of countries also, we are seeing more in the countries which are helped by oil price decrease than in countries which are benefiting from those resources.

On Invensys, we've just done a part of the cost synergies. We've barely started the revenue synergies. 2014 has been a year of intense distraction because you have to put all the teams together, particularly in end-user automation. Now on the other side of the equation, remember that 2014 has been boosted by two end of years. So that establishes a high base of comparison for Q1.

But globally I find that the teams are in place now. They have been merged. They work well together. And we still have a bit less than -- half of the costs to be delivered on the synergies are just starting to kick in, barely actually in 2015, but more in 2016 on top line.

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

But don't expect the same kind of improvement in 2015 as the one we've experienced in 2014. Nevertheless I think we said since the beginning that, fully synergized, Invensys should have a positive contribution to the margin of the Group. So it's not coming as a surprise. We knew since the beginning that Invensys, because of the software, because of the synergies, had the capacity to nicely contribute to the evolution of the margin.

Jean-Pascal Tricoire - *Schneider Electric S.A. - President & CEO*

We have time for one more question.

Unidentified Audience Member

Maybe I would like to have the same granularity on Russia because for 2015 you commented IT getting better through 2014 but, at the same time --

Jean-Pascal Tricoire - *Schneider Electric S.A. - President & CEO*

Stabilizing.

Unidentified Audience Member

Yes, stabilizing, so improving through the year and still difficult. So in your guidance, what have you put in as a buffer risk for Russia, please?

And secondly on the mix side, I was a bit surprised that it's still quite negative because at the same time you said Europe is stabilizing, which I remember in the past was a pressure geographically. So maybe it's helping now.

And also in terms of short cycle versus long cycle, I was under the impression maybe short cycle is still leading the way for you, so it's helping. How do you see that dynamic short/long cycle in 2015? Thank you.

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

On Europe, it's still minus 1% with the Group growing at plus 2.5%. So it's still a drag, to be very clear on Q4. So even if it's improving, it's still a drag and the Group without Europe would have been growing above 3%. So it's still playing negatively.

On Russia, we don't expect great things. And certainly it's going to be a tough year. Economy expected to decrease by 4% to 5%, GDP decrease. So we've been cautious. We're not going to give you what are the assumptions, of course, that we have been taking, but we've been cautious on Russia. Now we'll see what are the scenarios that materialize.

Jean-Pascal Tricoire - *Schneider Electric S.A. - President & CEO*

The teams are reacting well. We are adapting our costs to the new volumes. But we are very local in Russia in respect to many places. That has been helping. Tendentially the local activities have been faring better than imported activities.

And for obvious reasons. But it's a place of maximum cautiousness. Now it's not a dominating part of the portfolio and it's overlapping with the impact of oil and gas I was mentioning before to a large extent.

Thank you for your attention. Enjoy the aperitif. So let's go back to the (inaudible) conversation, more to come.

Anthony Song - *Schneider Electric S.A. - Head of IR*

We'll be back in 10 minutes. So stay close. And we start at 10.15