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SU.PA - Q1 2015 Schneider Electric SE Corporate Sales Call

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OVERVIEW:

Co. reported 1Q15 sales of EUR5.996b. Expects low-single digit organic revenue growth in 2015.

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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Schneider Electric first-quarter 2015 results conference call presented by Mr. Emmanuel Babeau, Deputy CEO in charge of Finance. Sir, please go ahead.

Emmanuel Babeau - *Schneider Electric SE - Deputy CEO in charge of Finance and Legal Affairs*

Thank you. Thank you very much. Good morning everyone and welcome on our call to present our sales numbers for our Q1. I'm going to start immediately on page 5 with the headlines of this set of numbers.

We have delivered in Q1 sales amounting to EUR6b. It's a growth of plus 7.8%. Of course, as we will see, we have been positively impacted by the evolution of the currency during this quarter. I will detail that further later on. If we look at the organic growth, we have very significant mechanical impact coming from Invensys that I will also detail. But excluding this mechanical impact of Invensys, our organic growth has been about flat.

If we look now by business what are the headlines of this Q1, we see that buildings and partner has been growing despite the expected weakness in China and lower project activity in the US, notably leading to lower CapEx in oil and gas.

Industry is about flat without Invensys, with good demand in Western Europe coming from the OEM and a weaker China.

Infrastructure is stabilizing of course on easy comps last year, but we also have seen some good project execution over the quarter.

And then IT, difficult to read on this quarter as well. IT was growing 7% organically in Q4 2014. During this quarter you really have two big impacts, Russia and one-off on India which does not correspond to the underlying trend -- I will detail that further as well -- but that has been putting our IT business in negative territory in terms of organic growth.

Now if we look by market, we have seen Western Europe stabilizing and even growing 1% excluding Invensys. In North America we've seen the continuation of a positive and favorable construction market but, as I said, with a lower CapEx investment notably coming from the oil and gas sectors.

We knew that China would be difficult. We were facing high comps last year. We were growing by 10% in Q1 2014. And China indeed has been difficult with the confirmation of a weaker construction market. And we also have seen some of our customers in industry being impacted by a lower export activity and also the Chinese yuan appreciation, which is probably having some impact for them.

One of the significant elements, and of course which make our numbers difficult to read on this first quarter, is the Invensys performance, which has been impacted by a double fiscal year closing in 2014. I will detail exactly how this has been impacting and will detail what we see on Invensys next page. Broadly Q1 has been in line with our expectation and we therefore do confirm our full-year target for 2015.

I am moving to page 6 to go to this analysis of this mechanical impact on Invensys. And look at the bar chart on the left hand part of the slide and you see that 2014 was a very specific year during which we have seen, because of the acquisition by Schneider, two fiscal year end closings. And each time that you have a fiscal year end closing you do have an impact on the sales of the quarter, and that was the case for Q1 2014 and Q4 2014. On average we estimate that the mechanical impact of closing the year, finalizing a number of contracts/projects, finalizing selling licenses, has an average impact over the quarter of around EUR40m extra sales during this quarter.

So what are the impact of these two closings last year, Q1 and Q4 2014, for our first quarter 2015? Well, the first thing is that the extra sale that we have seen in the end of Q4 is of course not happening in Q1 2015. So it's the first impact of EUR40m for the number of, the amount of our sales for Q1 2015. Second impact, we are facing high comps of Q1 2014, which was the last quarter for the year end of fiscal 2014 for Invensys. And that's another EUR40m of negative impact, when you compare Q1 2015 versus Q1 2014.

So altogether we assess this technical impact or mechanical impact to be around EUR80m just on this first quarter 2015. Of course we do expect this negative impact to gradually decrease as we will progress through 2015.

Now if we try to look at the underlying trends for the Invensys business during this first quarter, we have seen weaker activity on field devices, impacted by the slowdown in oil and gas, and we have seen at the same time the Eurotherm business performing well. There is also another element which of course is important; we keep ramping down the China nuclear project and of course that is also having an impact on the evolution of sales. All that was expected and we had flagged that at the time of the announcement of the full-year 2014 results, and we keep on track to deliver our target for synergies in 2015.

I'm now moving to the page 7 and then page 8. As you know, we are now communication every quarter on our planet and society barometer. We are starting new Company program so of course we start a new barometer with new KPIs, a new progress plan, as we call them. We have 16 of them that we are going to track through the next three years. You will find in appendix the details of these 16 initiatives and the kind of target that we have set for each of these initiatives. We have started well the year. We are at 3.67 out of 10. So we are just starting our journey, but it's starting on a good note.

And if you look at page 8, what are the key achievements of this first quarter, as always, we try to give elements for each of the three pillars of this planet and society barometer.

First on the planet barometer, which I remind you is the impact of our business on the planet, we have been doing very good progress in the zero waste to landfill sites and we've been moving from 34 sites to 39, a good achievement in the one quarter.

If I move to the second pillar that we all profit, which is what our technology, what our offer means for our customers in terms of impact, we've been doing some good inroad in terms of carbon emission reduction.

And regarding our third pillar, we call people, what is the impact on the lives of people/community of what we can do, notably with access to energy, and also of course what are the way we develop our people, we have been continuing to develop and train underprivileged people, creating a positive ecosystem around them. That is 78,000 people trained number at the end of Q1, so it's 5,000 people being trained over the quarter. And we have a great number in terms of reduction in the medical incident rate in Q1.

The last element, we continue to receive awards for what we do in terms of sustainable development and during this quarter we've been named as one of the 100 most ethical companies in the world by the Ethisphere Index, which is a great satisfaction.

I'm moving to more detail on our sales and move to page 10 of the presentation. As you can see, our sales have reached exactly EUR5.996b. It's up plus 7.8%. We have a little bit of a scope impact here, plus 0.3%, but it's marginal. It's mainly the Gunsan acquisition in Turkey, low-voltage business in Turkey. The biggest impact of course during this quarter is the tailwind that we have now on ForEx, contributing to plus 9.5% of growth, EUR536m positive, mainly coming from the US dollar and the Chinese yuan, but not only, but the bulk of the impact are these two currencies.

And the evolution of the currency since our presentation of mid-February is leading us revise up the impact of the ForEx evolution on our sales. And in February we were expecting around EUR1.5b of positive impact. We now estimate the impact on the current parity to be around EUR2b.

Then I look at the organic performance. You see that there is one strong impact of the mechanical impact of Invensys on industry. Without that Invensys impact we would have been about flat on organic growth on industry. We have small growth on buildings and partner. We are about flat on infrastructure. And we have a more pronounced decrease on IT, minus 4.4%, which doesn't at all translate the underlying trend, but I will come back to that in the detail I'm going to give now.

I'm moving to page 11 and I start with buildings and partner. Sales have been amounting for buildings and partner at EUR2.7b. It's up plus 11.5%. And organically, without Invensys, it would have been a growth of plus 0.4%. We have seen globally good growth in our retail business and in renewables, and a more subdued activity for partner projects during this quarter.

If we look by region, we've seen Western Europe stable and even a bit positive. France, Spain and UK have been among the growing countries, when Germany and Switzerland has been declining on high basis of comparison. And Switzerland has been particularly negative, with two impacts. First of all, a technical impact. We had increased prices last year with impact on sales and that is creating some high base of comparison. And second, the Swiss market has been impacted by the evolution of the Swiss franc versus the euro, with some impact notably on price evolution and uncertainty on the market and on the business with some of our distributors.

Moving to North America, which has been flat during this quarter, we have seen mixed trends in the US. Confirmation of a good trend in construction. In resi it continued to be well-oriented. In non-resi we have seen the confirmation of a more favorable trend, notably coming first by the retail buildings and commercial buildings. Some first sign of good evolution on office construction or retrofit, but not at the same kind of positive trend.

And in front of this positive trend we have seen, as have I highlighted, some more weaknesses on project business with lower CapEx and notably coming from oil and gas, where the very sharp drop in prices has been creating uncertainty, postponement, wait-and-see attitude with this impact over the quarter.

In Mexico, after what has been a difficult 2014, we are back to more positive evolution on our sales.

Asia Pacific is down due to the expected weakness in China in the construction market. This is not coming as a surprise. It was expected. And I would say it is acting with the kind of impact that we were expecting. In Asia Pacific a lot of things has been positive. China of course is a big contributor to the global performance of Asia Pacific, but Australia and India among others have been two nicely growing countries for us in Q1.

The rest of the world, the other new economies outside Asia, has been growing, with good performance in Middle East, in South America, Central Europe with the all the new economies around Poland doing well, and Africa. So good performance for this region in Q1 for buildings and partner.

I'm now moving to infrastructure -- sorry, industry on page 12. Industry sales average EUR1.371b. It's up plus 2.6%. There is this very significant impact coming from Invensys and I did explain that we were expecting a gradual decrease of this impact in the coming months. Now, outside this Invensys impact, we've been about flat. And when we look globally for the various components of the business, we've seen a good performance on system and notably on OEM solution, and the quarter we can see has been a bit softer on the product business.

Now looking by region, in Western Europe industry business has been close to flat. Good performance in Spain and Italy, notably driven by export-oriented OEM. And Germany at the same time was negatively oriented.

In North America we've seen a slowdown. Here again lower investment in oil and gas, that accounts for this slowdown. And we may have seen also the first impact of a stronger dollar on some export-oriented customers and notably the OEM.

In Asia Pacific, mixed picture. Chine declining as expected, lower level of export activity, some credit restriction to some of our customers. Of course the Chinese yuan appreciation having an impact and taking its toll on some exporters. And at the same time we've seen Japan and some customers and some markets such as India or some countries in East Asia doing well.

Globally, for the fourth region, the rest of the world, a good performance and notably in Middle East and Central Europe.

Moving to infrastructure, which after, as you know, a difficult 2014, has been stabilizing during this first quarter. Sales amounted to EUR1.149b. It's up plus 5.5% and organically it's about flat. We've seen good activity in systems and notably MV/LV substations. Good growth as well in services. It has been weaker in products and notably with the MV transformer business, which was significantly down.

If we look by region, Western Europe has been turning positive. Very easy comps, which certainly has been helping Western Europe to turn positive, but notably France, Germany, Spain were positively oriented during this first quarter.

When we look at Asia Pacific, it has been growing, with good investment coming utility and infrastructure spending in China and in India and that has been more than offsetting the more difficult situation that we have been facing in Australia during this first quarter.

North America has continued to grow, with project execution in Canada notably. The rest of the world was down, with very high comps in Africa and very negative impact coming from Russia.

As I said, a good trend on services that we expect to continue through the year.

I'm now moving to the IT business. Sales amounting to EUR775m. It's up plus 8.2% and you have this organic growth of minus 4.4%. But really this has been driven by two main and big negative drivers during this first quarter.

First of all, something which is market driven, which is corresponding to the underlying trend, I would say, which is the Russian market very negative in Q1, tough market condition, little level of investment, probably accentuated by the decrease of the level of inventories at the level of distributors. But Russia has been one of the big drivers behind this negative number.

Second driver, and here it has nothing to do with the underlying trend, this is the Luminous business in India. There is a technical effect here, because we have been better aligning the phasing of our sales to the sales to our final customers. That allowed us to reduce the payment terms with our customers. That is am impact that will disappearing in the coming months, but that is having significant impact in this first quarter on our global evolution

I remind you as well that in Q4 2014 the IT business had been growing by 7%. So, once again, this trend during the Q1 does not reflect at all the underlying trend. Russia certainly is negative. But we continue to see good underlying trend with Luminous of course for the rest of the year, in Western Europe with the continuation of active IT investment, in the US which were positive during this first quarter. And we do expect our service to continue to grow nicely through the year.

Now going to page 16 and have some more in-depth review of what we've been achieving by region, starting with our best performer, Western Europe, which was the worst performer in 2014, it happens to be the best performer during this first quarter, growing 1% without Invensys mechanical impact. And as I highlighted, we've seen first a number of countries such as Spain, Italy, accelerating and showing some positive, largely driven by export. So I would say that export-driven activity has been the biggest driver for Spain and Italy.

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When it comes to the UK, it's really the economy doing well and we have seen the momentum building up in the UK in the order intake in the second half of 2014 and we do expect a good year in the UK in 2015.

And France was also positive. I wouldn't say that the underlying trend of the French market has been turning positive and very favorable. We still see French construction market, which is very much weak, but we think that we have been a very, very good performance, probably gaining some market share during this first quarter. And that explains the good number in France during this Q1.

In front of that, we've seen Switzerland being impacted by the uncertainty and the disruption created by the very rapid and messy appreciation of the Swiss franc. And Germany has been also weaker for us in the Q1.

Then after Western Europe we have rest of the world, which has been stable. It's a mixed bag and we have some very positive evolution here with Middle East, for instance. South America also has been performing positively although in a difficult environment. Africa has been, on the contrary, more difficult.

But of course the most tough or the toughest market in this beginning of the year, and we can expect it to continue to be as we go through 2015, has been Russia. I would say that the Russian market is globally difficult, but not at the level for all our business. The medium-voltage business is more linked with all this oil and gas activity and therefore likely to be more impacted. I've described the negative trend on IT. We see difficult evolution for two of our businesses, low voltage and industry automation, but maybe not exactly with the same magnitude. We have to carefully follow that for the rest of the year.

Then North America has been -- I have been detailing what we have seen on this market, notably with the US where we have on one side things like construction that continue to be favourable; we've been growing on some infrastructure project. But at the same time this more difficulty coming from oil and gas CapEx and also for industry some export-driven customers probably starting to be impacted or at least having some more cautiousness in front of the appreciation of the US dollar.

And then Asia Pacific, as expected, the China decline driving globally the minus 2% decline for the region. In front of China we have India, which of course is impacted by the Luminous technical impact that will, again, be corrected in the coming months. But India is moving very positively and should deliver a good year. Australia was slightly up. We've been Japan growing. We've been South Korea growing. So a number of markets doing well in the region. And probably, if beyond China we want to see some point of weaknesses we would have to go to some country of Southeast Asia, such as Indonesia, where we have seen a more difficult Q1.

I am now moving to the 2015 targets. So, as you have been hearing, globally and broadly our Q1 performance is in line with our expectation, stabilization of Western Europe, North America construction market that stay favorable, the expected weakness in China. We were expecting this significant mechanical impact on Invensys. That was of course fully taken into account and we do continue to expect Invensys to contribute to our performance for the full year.

And on that basis we do confirm our targets for 2015. First, a low single-digit organic growth in revenue. And second, an adjusted EBITA margin between 14% and 14.5%, assuming no negative ForEx impact on margin.

That terminates my presentation and I'm now very happy to move to the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Andreas Willi, JPMorgan.

Andreas Willi - *JPMorgan - Analyst*

Good morning Emmanuel. My first question is, you called the quarter broadly in line, what were the negative surprises that didn't make it fully in line relative to the expectations?

And secondly, maybe you could give us some indication on what are you seeing on pricing in the market and raw material trends in Q1, and what we should expect in general for the first half of the year.

And you singled out Germany as being weak in a couple of areas. Given that they also should feel or their customers there should also feel the FX benefit, why is that not happening? Thank you.

Emmanuel Babeau - *Schneider Electric SE - Deputy CEO in charge of Finance and Legal Affairs*

Good morning Andreas. That's three questions, if I've noted them well. First on the negative surprise, and allow me maybe to broaden your question, what maybe was coming as a difference both in negative and positive, I would say negative, in the US we were not expecting this impact coming from oil and gas and currency and which probably has been impacting the low-voltage business and the industry business in Q1. That's for the negative. I think on the positive, we are probably a bit better than what we were expecting in some countries in Western Europe.

Regarding pricing, in Q1, well, as expected, globally we're going to see net pricing altogether, so, which kind of price increase or price decrease impact we are posting, and then of course the raw mat. We have seen during this Q1, and as expected I would say notably in China and especially with the appreciation of the Chinese yuan, some negative pressure on price. I would expect globally for the H1 some negative gross price impact, but I certainly do expect to continue to be able to compensate that with the positive impact coming from the raw material.

And on Germany, I am with you. I think that we should not take this Q1 as the trend for Germany. There was probably some impact due to basis of comparable -- comparison, some action that may happen this year in Q2 and that happened last year in Q1. We certainly expect Germany to show a better trend for the rest of the year. So we are not saying that this Q1 should reflect what we can expect for Germany for the full year.

Andreas Willi - *JPMorgan - Analyst*

Thank you.

Operator

Fredric Stahl, UBS.

Fredric Stahl - *UBS - Analyst*

Hi. Good morning. It's Fredric here from UBS. Could I ask you, Emmanuel, how partner performed in China in the quarter, given the importance of the construction market there? So that was the first question.

And then the second question was, on the oil and gas weakness, I think if you look at your, the peers that have reported, it's been broadly okay. It's been flat to maybe slightly down. How did your oil and gas business perform in Q1? Thank you.

Emmanuel Babeau - *Schneider Electric SE - Deputy CEO in charge of Finance and Legal Affairs*

Thank you Fredric. On partner in China, we were declining by mid-single-digits, so I would say a trend which is about the one globally for all the business in China.

In oil and gas I've been highlighting the difficulty, but at the same time it is true that I've also highlighted the fact that Middle East was very good and one of the best performer in Q1, and of course there were still some investments being made on the oil and gas sector in this region. So we do not consolidate in one quarter an oil and gas business, if you want, but I would say it has been contrasted. Some country with a vast impact, Russia, the US once again. Other countries such as Middle East, obviously much better.

Fredric Stahl - *UBS - Analyst*

Okay. ery good. Thank you.

Operator

Gael de Bray, Societe Generale.

Gael de Bray - *Societe Generale - Analyst*

Thanks. Good morning everybody. Actually I have got probably three questions really. The first one is, what do you mean by Invensys is expected to contribute to the Group performance on a full-year basis? I mean do you refer to the top line or really more to the synergies?

Also, I think you had an interesting comment this morning when talking to the press, when you said that you had gained market share in France. So, I mean, have you launched new product ranges in the country or was it maybe more a function of your pricing strategy?

And then the third question is about the US, which is probably one of those geographies where the outlook is rather uncertain in my view. How would you characterize the investment climate right now in the US, outside oil and gas? Are there any signs of the US economy slowing down possibly?

Emmanuel Babeau - *Schneider Electric SE - Deputy CEO in charge of Finance and Legal Affairs*

Thank you, Gael, for these three question. On Invensys, well, I'm not that subtle. At the end of the day it's Invensys contributing to the growth of profit and cash flow. That's what we mean by contributing. So I guess it's globally that capacity to grow the profit generated by Invensys. Synergies will help, but that's what we mean by contributing to our performance.

Regarding the France performance, and allow me not to answer into a luxury of detail, but I would say, rather than pricing, of course we are permanently launching new offer and you would expect that from us, but I would not say that I can highlight something specific. For me it's more about commercial execution, I would say, success and efficiency, to explain the good performance.

And in the US, well, no. Beyond the oil and gas which of course indeed is creating some uncertainty because that's a sector that can react fast and that can have some impact, I don't think that we have seen a deterioration of the investment. When it comes data center we see, for instance, a lot of projects and we have a lot of discussion. I was mentioning globally this construction market both resi and non-resi. So I would not get to the conclusion that what we see on oil and gas is reflecting globally what we see today on the US economy.

Gael de Bray - *Societe Generale - Analyst*

Okay. Thanks very much.

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Operator

Olivier Esnou, Exane.

Olivier Esnou - *Exane BNP Paribas - Analyst*

Yes, good morning. Emmanuel, first question maybe on Invensys. You said you expect a gradual recovery for the year. If I look at the breakdown of sales, it looks like Q2 should already be strong up year over year so can you maybe help me reconcile these two things?

And maybe also in terms of, with the pit of performance of Invensys through the year, how do you think that's impacting the breakdown of margins H1 versus H2? That's the first question.

And maybe a second question on inventory levels in the distribution. What's your sense of what the feedback you get from distributors? We've seen for you some movements in India. We have other companies mentioning some change. What's the feedback loop do you get from distributors and their appetite for destock here? Thanks.

Emmanuel Babeau - *Schneider Electric SE - Deputy CEO in charge of Finance and Legal Affairs*

Thank you Olivier. On the gradual recovery, difficult for me to detail what's going to happen. We know that the impact of one closing are going to be recovered. So it's going to be around EUR40m, EUR40m-plus are going to be recorded in the coming months. Now I'm not able to tell you what will be exactly the schedule of that. Certainly one part of it, we should see it in Q2, that's very clear.

In terms of margin, we'll see what is the impact. We do expect margin for the full year to continue to show improvement, notably with the synergy. I'm not able to split that between H1 and H2.

On the inventory level, again, movement in India, that was our decision, and therefore I'm not sure that we'll make the link with appetite from the retailers.

I don't think that we see a kind of general trend, because that's what you seem to be saying, of we want to see less inventory. You have specific situation where people sometimes can anticipate an improvement of the market an increase their level of inventories. The kind of thing that we could see in some Southern European countries, for instance, is a market where, turning more positive, we could see this kind of restocking situation. And on other situation, that's what we've seen in Russia for IT, when you have a lot of uncertainty on the market, on the contrary, it drives to a destocking exercise.

But I'm not able to say globally we see one kind of trend that I could characterize. What I can say though is that cash pressure is there for everyone and that push everyone to be disciplined on the level of inventory at all levels.

Olivier Esnou - *Exane BNP Paribas - Analyst*

Thank you.

Operator

James Moore, Redburn.

James Moore - *Redburn - Analyst*

Morning Emmanuel. It's James at Redburn. I've got three questions as well actually. On the oil impact in the USA, can you say roughly what the percentage decline you saw in oil in the US was? And can you say what the oil exposure is at the North American business compared to the Group's 7%? I'm just wondering if it's materially higher than that.

And secondly, can you say ?- you're obviously seeing differences in the rate of decline in China from the coastal and the western China regions? Can you give us a sense to what your China sales mix is at the moment between west and coast or tier 1 versus lower tiers?

And thirdly, you helpfully outlined some of the negative issues for the (technical difficulty) at full-year results. Can you help us with any other impacts that you see for the coming quarter you haven't already mentioned?

Emmanuel Babeau - *Schneider Electric SE - Deputy CEO in charge of Finance and Legal Affairs*

Sorry James. The line was not very good and I think I missed your third question.

James Moore - *Redburn - Analyst*

Sure. The third question was to say that at the full-year results you helpfully outlined some of the negative issues for the first quarter organic sales growth. As you look currently into the second quarter organic sales growth, are there any other issues that you can help us with in terms of thinking about that number?

Emmanuel Babeau - *Schneider Electric SE - Deputy CEO in charge of Finance and Legal Affairs*

Yes, thank you James. Well, starting with your last question, no, I think that we flagged the Q1 things. And Q1 is always difficult to read. It is significantly smaller than the other quarters. It's the beginning of the year where a number of things are being put in place. You can have some big swings depending on the way a number of execution of projects happen. So Q1 was this year very difficult to read and that's why I've been taking the time to go through all the underlying trends. There is nothing new I have to flag for the rest of the year and I'm just sticking to what we've been describing and giving in terms of target for the year.

In terms of oil and gas, I'm sorry, I'm not going to be able to answer your question because we don't have an oil and gas P&L. We don't work that way so I'm not able to characterize what is the decrease in terms of percentage. I would say that if there is an oil and gas exposure rate that I could define, it could be maybe a bit higher in the US and for the average of the Group. But I would not say materially higher. So I think that we have seen indeed what certainly I would characterize as a double-digit decline for what could be the relevant underlying business for oil and gas in the US.

Now moving to China, I think that it's particularly relevant for the construction market because what we see today is that if the construction is suffering it's not at all an homogenous phenomenon. We see clearly the central, western part of the country, second-, third-tier cities being the one with this inventory stock of unsold buildings, flats, houses. That is creating the difficulty with a number of constructors in real financing trouble. At the same time I think that we see more continued and we would expect more continued dynamism for the big city in the eastern part of the country.

So I think that the recovery will come from both exhausting these variable stock of buildings and apartments in the second- and third-tier cities, and probably increased dynamism in the eastern part of the country.

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James Moore - *Redburn - Analyst*

That's very helpful. And just on your mix of business, because Schneider has gone west for so long, does it mean that you have a much higher degree of non-coastal or more western mix --

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Emmanuel Babeau - *Schneider Electric SE - Deputy CEO in charge of Finance and Legal Affairs*

No. I think that we are probably a bit closer to the GDP spread, if you want, but probably still with a significant over-exposure to the eastern part of the country.

James Moore - *Redburn - Analyst*

Thank you very much.

Emmanuel Babeau - *Schneider Electric SE - Deputy CEO in charge of Finance and Legal Affairs*

Thank you.

Operator

Daniela Costa, Goldman Sachs.

Daniela Costa - *Goldman Sachs - Analyst*

Good morning. Actually two questions. The first one, just on the trends in infrastructure that you mentioned and the slight stabilization or pickup. Can you comment a little bit more by country and how sustainable do you think that is or how symptomatic that is of a slight pick-up in utility investment?

And then the second one just on FX and longer-term competitiveness. Obviously at the moment you say transactional is more or less neutral, but you commented to a lot of your customers being impacted differently by FX. Longer term, how do you think about that for yourself? Will there be an opportunity to maybe reallocate where you export from to benefit a little bit from that or you don't -- that's not something that you will be acting on? It would be very helpful to hear your thoughts on that. Thank you.

Emmanuel Babeau - *Schneider Electric SE - Deputy CEO in charge of Finance and Legal Affairs*

Daniela, I did not catch whether your second question on competitiveness, where do we produce versus where do we sell, was specifically for infrastructure or it was more globally for our business?

Daniela Costa - *Goldman Sachs - Analyst*

No, globally for your business on the second one. Yes, thank you.

Emmanuel Babeau - *Schneider Electric SE - Deputy CEO in charge of Finance and Legal Affairs*

Okay. Thank you. So regarding first infrastructure, indeed some stabilization during this quarter. You'll remember that Western Europe was very negative last year in the first quarter, even more in the second quarter, but the beginning of the year was difficult. So I would say we've seen on easy comps some improvement. As I said, France, Italy, Spain, Germany, were all growing. In Western Europe the only negative number that we have seen is the UK during this first quarter.

North America, as I said, was stable, and notably with Canada where we are executing a number of projects. Asia Pacific, negative in Australia, positive in other places. And rest of the world, quite negative and that's where already we've seen a significant decrease, big decrease in Africa, very high comps, some specific situation in a few country, notably in Nigeria. So that explain this negative number for the rest of the world.

So I would expect, as we continue our journey in 2015, I would expect Western Europe to continue to show some easy comps. So I'm not saying that the situation is going to become suddenly wonderful, but we have globally some easy comps in 2014. I would expect some improvements, but maybe more towards the second tier on rest of the world. And for North America I think that the coming months should also be pretty positive. So that's the kind of global picture I can give for infrastructure.

Now in terms of competitiveness, we, of course we keep reallocating and I can tell you that it's difficult to have the plan which is optimizing things at a given moment because currency are moving so fast that the reality of six months ago to optimize things is not the reality that we have today.

Now we have on the long term, because of course you need to look long term, the vision and the goal to define areas of currency and areas of supply where we believe that if currency move they should move with relative a link between them. And that would be creating a lot of de-productivity to be able to produce everything in every country. But we want for all big region to have platform where we can produce the bulk of our offer to make us, as much as we can, immune to the evolution of the currency, and of course with a particular attention to the most commoditized products that we want to produce in the cheapest country in the world.

Now it won't change the fact that some of the raw material prices, copper, silver, price of energy, will always be paid in our currency and therefore we will always have this impact anyway.

Daniela Costa - *Goldman Sachs - Analyst*

Thank you.

Operator

Martin Wilkie, Deutsche Bank.

Martin Wilkie - *Deutsche Bank - Analyst*

Yes, good morning. It's Martin Wilkie from Deutsche Bank. Just a couple of questions. Firstly, going back to oil and gas, we've heard some other companies having previously outlined their direct exposure now finding the other parts of the business have an indirect exposure to oil and gas as well. You mentioned the partner business. Now when we think about your oil and gas exposure and the 7% you've given before, have you thought about the Group in a broader context as to some indirect channels that may also be heavily exposed to that, just to give us a sense as to how much of the Group might be impacted as that market weakens?

And then secondly, just coming back to China, obviously the macro data was pretty weak during the quarter. Any sense that things are bottoming out in China growth, just if you can give us some sort of sense as to what's happening sequentially? Thanks.

Emmanuel Babeau - *Schneider Electric SE - Deputy CEO in charge of Finance and Legal Affairs*

Thank you [Mark]. I will come back on the second question, but on the oil and gas exposure, the direct oil and gas exposure is, as we said, around 7% of our sales. Now there is a number of indirect exposure of course that we're not directly selling to oil and gas customer but ultimately we are working with people who are going to be impacted by the oil and gas market. Frankly, it's very difficult for me to give a number on that and exactly what are the impact.

What you can say is that the impact is very different because, when you talk about oil and gas and the 7%, you're going to talk a lot about big, long-term project. And I would say a fair share of the 7% is going to be impacted, but it's going to take some time because of course you are still working on project that you're going to deliver in the coming months and that's probably new project that are going to be impacted. And that's why we said that for this part we were certainly expecting an impact that's probably bigger in 2016 than in 2015 because of the lag.

Now when you talk with people who are indeed dealing with these ultimately oil and gas customer but in an indirect way -- they can be intermediary, they can be distributor, wholesaler, whatever -- then you have some immediate reaction which may not necessarily correspond to what is happening immediately on the market; they are just anticipation. And that's why it can happen quicker and it's more difficult precisely to anticipate.

On the Chinese market, I'm not sure that I capture your question. You were asking on the trend and the sequential trend.

Martin Wilkie - *Deutsche Bank - Analyst*

That's right, yes, the sequential trend, yes.

Emmanuel Babeau - *Schneider Electric SE - Deputy CEO in charge of Finance and Legal Affairs*

So if I back for a second on 2014, you'll remember that China was very strong in Q1, it was still very strong in Q2, and then as we move to Q3, it started to slow down and was even negative in Q4. So that is the kind of profile that we have for the basis of comparison for 2015 coming from what happened in 2015. I don't know whether I'm answering your question, but --

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Martin Wilkie - *Deutsche Bank - Analyst*

I guess there's two parts. One is the base of comparison, but also just in terms of how Q1 this year developed. I know it is very difficult to talk sequentially because of the timing of China New Year and stuff like that, but is there a sense that on a sequential basis China is still getting worse or are there signs of stability in some of the markets that you sell into, or --

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Emmanuel Babeau - *Schneider Electric SE - Deputy CEO in charge of Finance and Legal Affairs*

Right. Okay. Well, no, I think that now the difficulties are well-identified since Q4 in China. Frankly, we've seen them coming. I don't think there is further deterioration in the trend on new floor starts. But we're just now facing these difficulties. We see the industry players being impacted. And now, on the contrary, we see the government taking some stimulus measures. We see the easing on the bank balance sheet happening. So a number of action to push up the economy and that's why we said that we were expecting a better H2, with a combination of these stimulus action for the economy and the easier comps I was describing for China for the second part of the year.

Martin Wilkie - *Deutsche Bank - Analyst*

Okay. Thank you very much.

Emmanuel Babeau - *Schneider Electric SE - Deputy CEO in charge of Finance and Legal Affairs*

Okay? Thank you.

Unidentified Company Representative

Sorry, with the constraint of the time we are going to take two more questions. Afterwards we'll close.

Emmanuel Babeau - *Schneider Electric SE - Deputy CEO in charge of Finance and Legal Affairs*

And for the one not able to ask their question, we'll be able to answer directly outside this call.

Unidentified Company Representative

All right. So, next.

Operator

James Stettler, Barclays.

James Stettler - *Barclays - Analyst*

Yes, good morning. Thank you for taking my questions. Just again on net pricing, how is that really developing versus your expectations? So you said China is getting incrementally a bit weaker on pricing. When you look at what you can do on the raw material side, maybe just a comment on the net effect.

And then just could you provide a bit more color on US non-resi? Could that -- is that expected to accelerate and could that be in the second half of the year an offset to ongoing weakness in oil and gas?

Emmanuel Babeau - *Schneider Electric SE - Deputy CEO in charge of Finance and Legal Affairs*

Good morning James. On price, I said it here. Once again I would really say China, among the negative driver, is by far the biggest one. And no surprise, raw mat is going down. Chinese yuan going up. And of course the competition in a market where the market is more shrinking at the beginning of the year than expanding. So I would say, as expected, China is going to be the big contributor to the bad news on price evolution.

Then there will be certainly a number of other markets where we can see some negative. Probably US could be again a bit negative although, as we said, we don't necessarily expect the same kind of negative trend as the one we have experienced last year.

And in the raw material, I will stick to my EUR60m to EUR80m bracket for the year. Based on what we have seen on Q1, I'm happy to keep this global impact for the year as a guidance.

On the US non-resi, I can just come back on what I said. We see everything on commercial, retail building where we see investment growing. And otherwise we see the first sign of positive evolution for office space, but it's really early sign and I think it will need to be confirmed to see whether we have here something that's going to be a good driver for us in the rest of 2015.

James Stettler - *Barclays - Analyst*

Thank you.

Unidentified Company Representative

All right. The last one.

Operator

Alfred Glaser, Oddo.

Alfred Glaser - *Oddo - Analyst*

Yes, good morning. I just had questions on two countries and then on the guidance. Regarding China, just wanted to make sure you said overall sales were down about mid-single-digit in China. That was my first question.

And second one, on Russia, could you give us that sales evolution in Russia itself overall, all businesses included, organically?

And then I had one question on the guidance, which is, your guidance is now, given margin evolution excluding foreign exchange impact, could you give us your current estimate of foreign exchange impact on the margin in 2015?

Emmanuel Babeau - *Schneider Electric SE - Deputy CEO in charge of Finance and Legal Affairs*

Good morning Alfred. On China, yes, I can confirm, I said we have been declining organically around minus five. And the only precision I've been adding is that we were about that for just the buildings and partner business.

On Russia, it's a single-digit decline. It's probably a bit more because we have started on volume because we have started to put some price increase. I think we probably target to have price increase to be coping with the inflation for the year. So we start to put that in place. So I would say we are probably with double-digit decline in volume, but only a single-digit decline in terms of sales, because of some price increase.

And then for the guidance, I don't think I have much to add. I think that we haven't changed a word in the guidance. And we've just been explaining that now we are around EUR2b for the top line impact coming from the ForEx and that we continue to expect a limited impact on the margin. And we have to be very humble because I can tell you that it's an incredible, I would say, volatile environment. And of course if things change we'll keep you posted, but we continue to see today, as we said, at the beginning of the year, limited impact on the margin coming from the ForEx evolution.

Alfred Glaser - *Oddo - Analyst*

Okay. Thank you.

Unidentified Company Representative

Thank you. All right, with that, thank you very much for attending our Q1 2015 sales release and look forward to see you next time. Thank you, Emmanuel.

Emmanuel Babeau - *Schneider Electric SE - Deputy CEO in charge of Finance and Legal Affairs*

Thank you very much. Thank you all. Talk to you soon. Bye-bye.

Operator

Ladies and gentlemen, this concludes the conference call. Thank you all for your participation. You may now disconnect.