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SU.PA - Half Year 2015 Schneider Electric SE Earnings Call

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OVERVIEW:

Co. reported 1H15 sales of EUR12.848b and gross profit of EUR4.752b.

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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Schneider Electric 2015 half-year results, presented by Mr. Jean-Pascal Tricoire, Chairman and CEO; Mr. Emmanuel Babeau, Deputy CEO in charge of Finance; and Anthony Song, Head of Investor Relations. Gentlemen, you have the floor.

Anthony Song - ***Schneider Electric SE - Head of IR***

Welcome, everybody, to come here to join our first-half 2015 result conference. Today we have our Chairman and CEO, Mr. Jean-Pascal Tricoire, and our CFO, Mr. Emmanuel Babeau join us to share with you the highlights of our performance in the first half of 2015.

Within that, I hand over to Mr. Jean-Pascal Tricoire to start.

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

So good morning to all of you and thank you for being with us in this end of July in Paris. I'll go first through a presentation with Emmanuel and start with strategy and highlights of the first half and Emmanuel will then go into the detail of the presentation.

So let's move on immediately to slide 5 and take a picture of Schneider at the end of H1.

So a turnover which is close to EUR13 billion in current increase of roughly 10% of H1. And you know the other ratio. Probably the striking difference with respect to last year is the fact that AsiaPac confirmed its number 1 position as a zone of the Company. But this time North America comes second and West Europe comes third, due mostly to currency impacts, which have impacted, of course, the beginning of H1.

Now if we go straight to slide 7, which are the highlights of H1.

Adjusted EBITA up; current up 6% in an environment which I would characterize in H1 as challenging. Challenging because of geographies. The epitome of that being China but it's not only about China. There is Russia, which is a big country for Schneider. Other emerging countries, like Brazil, where we experienced a sluggish market which we had to react strongly.

Second point, of course, oil and gas. Division of the oil price by more than 2 in the past six months, which affected directly our turnover, or indirectly, because you have collateral investments of oil and gas happening in other sectors, like construction.

And one thing that will appear very clearly in our presentation is the fact that Invensys' results are impacted by a rather high base of comparison in H1 2014, which gives place to one-offs which are not likely to repeat in the future.

So those are the major elements.

So if you want to summarize, because we are still in the aftermath of the integration of Invensys and simplify to the extreme, if you consider Schneider in organic terms and exclude Invensys, H1 is stable in terms of organic growth and in terms of margin, adjusted EBITA margin.

And this translates either -- and this is due to the fact that we've managed very rigorously our costs and we've generated a good productivity, despite of rather low volume in the challenging environment that I was describing.

Now if you take the full picture of Schneider and include Invensys, revenues are, in current terms, up by 9.8%. And the margin is coming to 12.5% for the first half.

Now focusing on Invensys, we are on track for costs and revenue synergies. But Invensys' performance in H1 is impacted by one-offs and the two majors are the shrinking of our nuclear business, which you know, and especially in China, which you know, was a major problem at Invensys.

And the second point is this famous double end of fiscal year that we had in 2014, which created an inflated base of comparison in H1, and especially concentrated in Q1, and reduced our Q1 2015, by pushing more invoicing in at the end of 2014.

So that explains most of the shortfall we have on Invensys.

The second point is, of course, the dynamics of the oil and gas market, which delayed significantly some projects.

And finally, the investment we put back [and any] investment that we had announced in our acquisition file, which is mostly the refreshment of our Foxboro and Triconex platforms.

So that's about Invensys in H1, which impacts quite significantly the top line and the bottom line of the Company.

Now finally, net income up by 4%, adjusted net income. Impacted by higher restructuring, as expected.

It shouldn't come as a surprise this. We had announced it clearly in our Schneider [recent] program that we would restructure more than we had the past to adapt to the new level of volume, particularly in Europe. 70% of the restructuring is happening in Europe, due to the new levels of business, unfortunately, in Europe.

And the free cash flow is up in H1 by 21%.

So those are the major headlines of the first half.

Now if you look to more salient points, three of our four businesses are up. The only one which is really somewhere the center of our issues in H1 is industry. Industry, one-half of the decrease is explained by the specific comparison or specific phenomenon I explained on Invensys.

And one-half of the rest, which is negative, I would confess is probably linked, or is certainly linked, to the lack of attention, or the loss of attention, on this Schneider historical industry business, which happened in 2014 due to the integration, which was quite an important operation for us, of Invensys inside the Company.

We are working hard today to recover dynamics on this side of the business. Nothing's broken, but I believe it's just a loss of attention that happened last year.

Now good news is that our infrastructure, which was a problem child of the previous year, is confirming its stabilization or its recovery to growth, and is even becoming positively growing in H1 with particular utilities which are stabilizing in Western Europe.

As a salient point, recovery of Western Europe, with better dynamics in the south of Europe. Good management of the situation in France. Can't say the economy is brilliant in France, but the teams are doing a very good work to keep and develop the opposition. Mixed picture in Germany, where I think we should be doing better. But a permanent improvement over the six past quarters in Europe.

And finally, confirmation that services, our growth engine, I'm in slide 9 for those following on the pack, growing 6 points more than the rest of the Group. And, within those services, the biggest potential remains with medium-voltage and low-voltage energy services, which grew double digit among all of the services we are providing.

Now I'd like to go into the detail business by business. I'm moving on to slide 10.

So buildings & partner posted a solid first half, being positive in terms of growth, while suffering, I have to say, a lot from the size on the exposure to China, so compensating the China dynamics by good results and good dynamics in the Rest of the World. This translates, by the way, also an improvement of margins, which are already quite superior to the competition.

So benefiting from a solid construction market in North America. On the other hand, handicapped by a high base of comparison of low voltage that we are selling on data centers last year, which is not repeating in low voltage this year. So construction market having very solid dynamics in North America.

Western Europe growing in the UK and the south of Europe. Weaker in Germany and Switzerland.

Rest of the World having mixed dynamics, but with very strong results posted in Middle East.

And AsiaPac really penalized by China, for reasons which are quite obvious.

So that's about buildings & partner. Very solid first half.

Infrastructure. I already spoke about the return to positive in infrastructure. And there there are different dynamics.

So what we see is that Western Europe is re-growing, especially once again in UK and south Europe.

In North America we are benefiting from good dynamics in Canada. We are expecting better growth in the second half due to projects in data centers, which are significant.

We have mixed trend in Asia Pacific. Once again, we are reacting to a low market in China. We are growing in East Asia.

Again we have good dynamics in Middle East, but weak situation in Russia, which especially is impacting the profitability of our solution business.

And I would say not only Russia across a certain number of projects, the economic situation of Russia is well known, only remember that Russia is a place where we do quite a lot of projects of infrastructure, especially with Electroshield Samara, but it's also other emerging countries, like Brazil.

But, on the other hand, the profitability of this business is helped by the excellent development of our services business. And you know that the dynamics of such a business is a combination of projects, which come at tight margins but which are followed with recurrent flows of services.

But, clearly, more positive dynamics here while facing big headwinds on some geographies, which are affecting our whole performance in solution.

Moving on to IT. IT is slightly up. Good in the US, good in Western Europe.

We have this secured power business in India that had a weak Q1 for internal reasons of improving the quality of our payments.

And good growth in Middle East and Africa, compensating for the continued weakness in Russia where you know we have an extremely strong position.

Of course, and you'll see that margin is a little bit under pressure but at levels which are far above the one of our competition. So we keep developing in IT all the aspects of secured power from products to complete data centers and keep developing a larger offer in this sector.

At the end of the day, one of the major problems we had in this first half after a brilliant year 2014 is industry. So industry. I spoke about Invensys, and I'll come back into more detail about Invensys, but the whole half of the decrease is explained also by the dynamics of the Schneider historical industry business.

Well, I had already shared that during the quarter during some conference, but I believe we've lost attention, some attention, to the development of that business, particularly the product business, the OEM business. And we are working on correcting this situation, on regaining the momentum, because there is no reason at all to have this kind of situation, especially at a time when we launched a flurry of new products in this sector.

This has been also quite impacted by China, where our prevalent position is with machine manufacturers, and machine manufacturers which have been also impacted by the crisis.

Focusing on Invensys. On one side very positive in terms of synergies: revenue synergies, cost synergies. Middle of the year 50% of the synergies on both sides are in process, are being fulfilled, with related integration costs to generate the cost synergies.

On the other side, and I don't come back into the detail of all this, two one-offs are impacting quite a lot the first half, the Q1. And I spoke about it and we spoke several times about it.

And the second point is the nuclear business, which, as you know, we had to resolve. And we are phasing out to services. So that's a reduction of volume and with some costs associated to finish resolving these issues.

We, of course, suffer from the dynamics of the oil and gas market and one proxy for that is what we do in field devices, which are the valves that go into oil and gas system. And you see they are down by 20%.

But, on the other hand, we are repositioning ourselves into other segments. And what strikes me is that the underlying trend of sales, if you exclude the one-offs, is slightly negative and not exactly a mirror of what we hear and what we see from the global oil and gas markets. So I believe we are, on that side, from the turnover point of view and the profitability difference point of view, doing a reasonably good job.

Now going on the costs equation, we worked on productivity, kept working on the productivity. Solid figures in H1 2015. Though, I have to say, we were disappointed by the volumes, so that doesn't help in terms of productivity. And we had to suffer in some geographies, especially Western geographies, of this optimization of our base cost for manufacturing, which we are working on and you've seen the restructuring cost increasing.

Second point, working hard on our support function costs, working on global functions, on the optimization of sales and marketing, optimization of R&D to adapt to the level of business.

To mention also that H1 has been marked by a number of launches of new products that we developed in the past years. We don't yet have the volumes associated to those products, but we have the costs of amortization of some of the capitalized R&D associated to those products and that sees out in the gross margin of this first half, especially in the industry, which, at the same time, is knowing the slowing down that I mentioned before.

That's not only on products, but also in software. To mention some of the software suites that we just came out with: Resource Advisor for energy management; StruxureWare for data centers; StruxureWare for healthcare, hospitals particularly.

Of course, I'd like to spend a few minutes, though it was explained last week, on the announcement that we did of our deal, or the intention of doing a deal with AVEVA to build one of the global leaders of industrial software.

Here we are combining our two platforms of software to roughly double up the size of what we are both of us individually and propose to our customers full management of their assets on the digital front, from design and build to operations.

So we are starting or we have engaged into due diligences with AVEVA over the past week and now we work with them to finalize the building of this project, which is very promising and going exactly in the direction of Industry 4.0, industry of the future, which is a big topic today with our customers, especially to help them reduce their cost.

And I will finish this overview by speaking about our Planet & Society barometer. You know that when we restarted our new Company program, Schneider is on, we fixed ourselves new targets. At the end of the first half we are in advance on those targets. Well, it's a kind of classical that it's easier to start than at the end, so a good start but we have to keep working hard on achieving those objectives.

With that, I'm switching to Emmanuel for the details of H1.

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

Thank you, Jean-Pascal. Good morning, everyone. Let's move to detail on numbers and let's start, of course, with a look at the sales and notably the sales by region.

So altogether our sales have amounted to EUR12.848 billion. It's up plus 9.8%.

As you can see, we benefited from a very strong positive ForEx impact, mainly coming from the US dollar and the Chinese yuan.

We have also a small positive scope impact; plus 0.2%. This is mainly the Gunsan acquisition in Turkey. And, by the way, we are extremely pleased with the first months of Gunsan within our portfolio; delivering even above our expectation.

Now looking at the organic growth, altogether minus 0.9%. That would have been flat, as we said, excluding Invensys. And, as you can see, China has taken its toll on the performance with plus 1.1%. So China is costing us around 2 points of growth on the first six months.

Now entering into the detail by region. Best performer, Rest of the World, which, basically, are the new economies outside Asia Pacific.

And here it's quite an achievement because, of course, in the Rest of the World you have the Russian market and Russia, as we could expect, has been globally very difficult, but especially for two of our businesses. Jean-Pascal alluded to that already: first difficulty with our infrastructure business and second difficulty with our IT business. And we have seen a very significant drop in volume and in sales for these two businesses.

But outside Russia, good performance in the Rest of the World, notably for the Middle East, also for Central and Eastern Europe. And, in a difficult environment, South America has been growing as well and notably outside Brazil.

Another region which has been growing during this first half is Western Europe; up plus 1%. Good to see Western Europe back to growth.

And we've been seeing a number of countries, such as the UK, Spain, Italy, posting nice growth. Even France has been on positive territory. Not so much, frankly, on the dynamism of the market but probably more on the efficiency of our action on the French market. Really, the significant dark spot for us in Western Europe for the first half has been Germany.

Now moving to countries which are close to breakeven, or regions, North America; minus 1%, with a contrasted situation in the US.

Construction market going well and we have clearly benefited very nicely of that with very good growth in everything linked, for instance, with our retail business.

In front of that, we have seen oil and gas investment going down significantly. We have seen a slowdown in investment on data centers. And we have seen also some of the players in the industry sphere being impacted by the strong dollar. So some impact on our H1 in that respect.

And then Asia Pacific; down minus 5% but, of course, we have a very contrasted situation there. China is down double digits and the rest of the region is up around 3% and notably with a good performance in India.

Now moving to the analysis of the gross margin rate, which has been the big headwind that we have faced in our financial results during the first half. We are losing 1.1 point of gross margin; down from 38.1% to 37%. I think it requires to really enter into the detail to understand what are the dynamisms and trends and drivers playing there.

First, we have the traditional two positive drivers to our gross margin improvement.

The first one is what we call the net price, which is the net difference between raw material evolution and the price that we are posting. And, as expected, in that respect, we have faced a nice positive decrease in the raw material prices; contributing close to EUR80 million. And we expect EUR100 million and we could be above that number for the full year.

And in price, as expected, in an environment with very low inflation, we have a negative price contribution on our products of EUR33 million. It's mainly China. Some impact as well, but to a weaker extent, on our IT business. So this is accounting for an improvement of 40 bps of the margin.

Then you have the productivity; 1.2 points positive. If you look at last year's same period of the year, it was plus 1.5 points. So we are a bit lower in terms of contribution coming from the productivity for the reason that Jean-Pascal mentioned; i.e., we have lower volume, we had also made some investment, built some capacity, lower volume. So a poorer absorption of fixed cost, which has been limiting to some extent the contribution from the productivity.

And then we have the big negative, the minus 1.6 points of negative [coming] by what we call the mix. Within that, you have the traditional mix coming from geographies, evolution between the solution products, the mix within products that is contributing for 60 basis points negative.

This is the kind of trend that we see normally. It can reach between 40 and 80 bps negative. That's really what we have seen in the past. But the big negative here during the first half has been 1 point that we have lost on the margin on solution.

And here really I would say three drivers for this negative trend.

The first one is globally an acknowledgement of price pressure on solution business, with a shrinking pie and, therefore, you take solution at a lower margin, notably to feed your factory.

Second, conscious decision that we want to take a number of projects, whether in industry, IT or infrastructure, at a low margin. But this is going to give, on the long term, services. So you cannot stop analysis this on a semester; it probably needs to be looked at over several years, second element.

And third element, Jean-Pascal mentioned that, some one-off elements, and notably in Russia, also in Brazil, which have been impacting the performance on this first half.

I will come back on this solution impact on the next page to detail what we are doing to correct this trend.

Then you have 40 bps negative coming from a lot of innovation which has been launched at the beginning of the year.

You will note in our accounts a significant increase on the R&D amortization and depreciation. So this is at the gross margin level. And we cannot say that today we have at the topline level the benefit of this innovation. So that's certainly an objective for us in the coming months to see increased topline momentum because of this innovation.

And then you have the other impact, more traditional, the inflation on the cost of goods and the FX and scope. FX and scope, you have 10 bps negative on each of these items.

Now, of course, based on this 1 point of loss, we are extremely unhappy with this evolution and we want to react strongly and we want to react on four fronts.

The first one is on the way we want to be more selective on the projects that we choose to do. So it's certainly to go for projects with the right size, the right profile in terms of our capacity to deliver it. It's better skills at the level of the management of the tendering of the project. All these elements that can drive positively the margin evolution, based on selection of the projects we want to play on and tendering phase management.

Second element, of course, everything around execution. We need to improve the governance on the execution of the project to avoid the kind of one-offs that we have been mentioning. We need to make improvement on the way we manage our contracts or that to use all opportunities to increase margins on our solution, both project and equipment.

Third element is to go more specialized and get even closer to our customers for more efficiency on our solution. That starts with the tailored supply chain for our projects, which mean that, with a better understanding and more proximity with our customer, we're going to be, notably on equipment, able to produce at a lower cost and globally improve margin. So a big stream on that one.

Also, certainly, the capacity to develop specific expertise for certain end markets, which is going to come with a differentiated value proposal; you are able to price for it. And, as you develop this capacity, you are able to replicate several times the same kind of capacity that you have developed. And here, again, that's an opportunity to increase margin.

Fourth front, of course, globally work on more skills, on more knowledge in the Company on solution. Learning curve. We have been working a lot, so that we have been making a number of acquisitions where we need to also put these skills. I think that Russia is a good example. And we want to continue to build this capacity. And we want also to focus our skills with centers where we will concentrate all our knowledge and knowhow on managing solution and generating margin.

We're not saying that all that is going to happen within a few months, but we believe that we have a base for improvement and it's going to take a lot of our attention and time in the coming months to improve the situation on margin on solution.

Now if I go more deeply in our P&L. So the gross profit has reached EUR4.752 billion. It's up almost 7%.

When I look at the SFC, they are also up 7%. Jean-Pascal said it. Organically we are down 2.1 point (sic - results page 5, "2.1%").

So you should take as a very reasonable assumption that structural costs are evolving to a minimum base of plus 2%, notably because of inflation and natural evolution of cost. That mean that we have generated a saving which is above 4% versus the trend of our cost.

So already significant impact but, of course, it's just the beginning of the journey and more is to come in terms of SFC efficiency.

That gives us an adjusted EBITA of EUR1.6 billion. It's up plus 6.4% versus the adjusted EBITA of the first half of 2014.

Now looking at the margin of adjusted EBITA, it has reached 12.5%. It's down 40 bps but if you look at the performance outside Invensys, and Jean-Pascal has been elaborating on the driver for this Invensys performance, we are stable; 12.6% versus 12.7%, despite all the headwinds that we have described, which means that we managed to find way of growth. And we had the area of performance in the first half to offset the negative.

And that translates, in fact, in the margin by business because, when you look at the [evolution] of the margin by business, I think there is really one point of difficulty, which is industry. Because for the rest -- let's look at buildings & partner, growing by 30 bps. In this environment of China going down double digit that's quite an achievement. And certainly controlling the SFC has been a driver.

When you look at infrastructure, it's good to see infrastructure up 60 bps. It's control of SFC, some ForEx has been helping as well but it's, of course, only the beginning of the journey. As you know, our ambition is to be back on infrastructure to double-digit margin.

And on IT we're down 80 basis points (sic - results page 6 "0.8 point"). It's largely coming from the ForEx. And we have been impacted by some of these projects taken at a low margin, really with the view that they should generate (inaudible) in the short term. And we keep a very high margin versus the competition. And, again, when you look at the decrease of volume in Russia, to stay at that level has been a performance.

And then, of course, the disappointment during this first half has been the industry business, where we are down 2.7 points. And here we mention that it's, of course, the impact of Invensys. Some negative ForEx, the mix, some impact on solution and higher R&D investment, because of Invensys, because of all the innovations that we have been launching, and that has been impacting the margin.

The rest of the P&L is coming as, I would say, no surprise.

First of all, on other income and expenses, here the main part of the negative amount is a capital loss coming from the disposal of the Telvent Global Services. This is the IT service business in Spain. We said it back in February during our Investor Day. We said, we are going to sell non-core business. It will come with some capital losses or some goodwill impairment. You have some of that. I think you should expect that to continue.

So we are working on this, focusing on our core businesses and exiting our non-core businesses.

And regarding restructuring, the EUR158 million of cost, once again in February we were very clear, saying, we have a strong project for more efficiency on our cost. We're going to have a significant part of this project in Western Europe. It's going to come at a cost.

We said EUR700 million to EUR900 million of global costs for restructuring over a three-year period. And we expect for this year the restructuring cost to be between EUR300 million and EUR350 million. And you have, therefore, a doubling of this amount year on year; very much as expected.

On amortization and impairment, it's just the ForEx impact.

So that gives us an EBIT of EUR1.230 billion. It's down 2% for these one-off reasons that we have mention.

Below the EBIT you have the net financial expenses; EUR226 million negative. The cost of the debt is stable. You have here the ForEx impact, which is playing positively, of course, for our results and more negatively on the cost of our debt, which is in dollars.

Income tax. We stay at an assessment or an expectation of around 23% for the year, thanks to the Invensys contribution.

Last year we had the discontinued operations, the CST numbers, which, of course, have left the Company.

And that gives us a net income Group share of EUR719 million; 12% decline, once again driven by a discontinued operation which has left and this restructuring amount, which is [insignificant] increase.

Now we think that to really assess the performance and, therefore, on the key financial criteria that we'll be considering for a dividend fixing, we need to exclude the non-recurring element, of course, Invensys integration costs, which are continuing, this is the last year but we have still a little bit of that in the P&L.

Capital gain, because we could have capital gain on disposal or capital losses for what we have on the first half of the year.

And, of course, this specific effort on restructuring in the life of the Company that we have in 2015 and that we have highlighted during the three years, the Company program.

And retreated for that you have an adjusted net income growing by 4%. And, once again, we think it's a key element to look at dividend for the full year.

Now the free cash flow growing 21%. As you know, our free cash flow generation is traditionally, that has always been the case, largely back loaded, so toward the second part of the year.

Now it's good to see that we have a nice operating cash flow, growing by 5% year on year.

CapEx are under control.

Very good evolution of trade working capital, despite inventory growing by roughly EUR200 million. We've been expecting more sales than what has happened in the second quarter, because of weaker markets than expected, and that means that elsewhere, and notably at the level of the receivables and the level of the payables, we have had some very good management of the situation and it's a significant improvement versus H1 of 2014.

And in the non-trade working capital, here you have also some non-recurring elements coming from the payment of salaries and bonuses, which had been accrued at the end of 2014 and paid in the first half of 2015.

Below this EUR216 million free cash flow, you have the dividend.

You have a few acquisitions that we have made, notably buying back minority stake of our company in Saudi Arabia, some investment in low-voltage business in Africa.

And then a net capital increase, which is the net between some share buybacks for EUR90 million that we have made and some other elements coming from (inaudible) exercise, notably during the first half.

And then FX and other, EUR400 million. The vast majority of this amount is the negative ForEx impact on our debt. You know that approximately one-half of our debt is in dollars. So when the dollar is growing significantly versus euro you have a ForEx impact. The rest of the amount being some pension payments that we have made, where we had some deficit during this first half.

And the net debt at the end of June is a bit below last year at the end of June, with an improvement of EUR100 million.

Jean-Pascal, I hand over back to you for the full-year target.

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

So as we look to the second part of the year, we see some positives, like we see a continuous momentum in the US construction. We see a continuous recovery of West Europe.

We have those three business [hubs], which are developing well, despite China, which has impacted them all. It's good to be big in China. This year it's a little bit less good, but we are compensating for that and addressing the situation.

We have services developing well, the recovery of infrastructure. All of this is positive.

Now we also integrate that we have uncertainty on negatives. We don't see much of a recovery in China happening soon. We don't see deterioration either, but we don't see a major recovery happening.

Same thing in Russia. Russia economic situation is tough. And we see other countries, like Brazil, for instance, who are also raising some problems.

And what we do there is that one, we address our cost base or we adapt our cost base to this new reality and we reposition the Company on the most positive segments in those countries. It's taking some time, but I would say the situation is under control, but certainly weighing on the results of the Company.

Second point, we are facing again headwinds for oil and gas. Most of the shock, a large part of the shock, is behind us but we are going to benefit from a better base of comparison for Invensys, but Invensys will still be impacted by oil and gas.

We are going to work on recovery of the core and the historical part of industry and that's already in process. And I would say the place where we are going to spend, as a management team also for a time, is make sure that we square with projects on solution situation where we have explanations, we know what we have to do. We just have to make sure that we accelerate the squaring of the situation.

At the same time we keep working on our costs within the simplified part of Schneider is on and keep working on the integration of Invensys, which, as I said, is well on track.

Anyway, due to those negatives and the elements of uncertainties, we are adjusting our guidance at the end of the year where we forecast a flat organic growth in terms of revenue, a significant growth in adjusted EBITA at current FX, in current terms, but a stable to moderate decline in adjusted EBITA in respect to 2014 for the reasons we explained.

Also to be mentioned that, in conformity with what we announced in Schneider is on, we are going to keep going with the buyback program: EUR1 billion to EUR1.5 billion by 2016. And in H1 we already used EUR90 million to buy 1.4 million of shares and we are going to accelerate in H2.

So that's about what we had to say as an explanation of H1 or description of H1. We are ready to take your questions.

QUESTION AND ANSWER

Anthony Song - ***Schneider Electric SE - Head of IR***

Thank you, Jean-Pascal. Thank you, Emmanuel. So now we are open to questions. First we open the questions for people in the room.

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

Alfred Glaser, Oddo Securities. I wanted to ask you about the improvement potential in projects and solution. This has been an issue also in the previous Company plan and now it's weighing on profitability this year.

Could you be a bit more specific on what you're going to do more precisely now in the next few quarters in order to improve this situation that has been worse than expected? And what kind of profitability and what kind of return on capital employed can we expect going forward, in these solution businesses overall?

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

Emmanuel spoke about it and there was a slide dedicated to that, but fundamentally it's about better selecting the projects that we work on. There is a part of heritage, which is still an heritage of the past, but more so some projects that we have taken into new applications, new segments, new geographies that we certainly are not going to do any more.

In this specific H1 there are some geographies which are impacting also more specifically the performance. Russia is a typical example. I would suspect, or I would suppose that the situation in Russia is hopefully not business as usual at the moment but we are addressing this new product and this new situation.

Then there is the way our setup to take and deliver projects is organized that we are more globalizing, putting into a stricter and stronger control than what we had in the past. The difference from where -- the Invensys setup that we inherited is quite centralized and globalized and, by the way, they deliver pretty well on their projects.

The rest of the Company has a tradition of being more decentralized, which is okay when you take certain types of projects, which is not okay when you go to other types of projects.

So we are globalizing, actually more regionalizing our setup and professionalizing the skills there. And there are all modes of execution that we are working on.

There were a number of other factors that happened in H1. One was what I mentioned. Certain geographies with problems, plus oil and gas where you had delays and it was not the only place. So when projects are delayed it costs. You have a part of the equipment, a part of the engineering cost which remains with you and that has not been very positive on this part.

Now what is our mission here is to be more targeted; priorities more to profitability rather than volume.

We want to develop more services also, where there is a big potential. It's been showing an accelerated momentum and traction over the past years. We can do better there and there the results are outstanding when we invest properly and do it properly, which is the case. We have a model there which is working.

So developing faster the services, being more targeted and more professional in developing projects is a recipe.

On there I think the objective -- it's not that I think, I really am committed that the objective of having a ROCE on projects, well executed, well targeted and well complimented by services, should be at the same level as the one of products, because the assets engaged are lower than what you have in products.

Well to be clear also in the meantime, our product business is doing better and better. So it's just a kind of moving target but we can be really at a better level.

And, as Emmanuel was mentioning, the large part of the projects there is a part of the project in process, a part of the project in data centers but a large part of projects is within energy, medium-voltage and low-voltage packages, which are very important for our customers. And there we have to be back in energy business at a level of profitability which is double digit, which is the objective which we confirm and that we are sticking to and attached to.

Gael De Bray *- Societe Generale - Analyst*

Gael De Bray, Soc Gen. Could you update us on the changes you're seeing and the pricing environment? One of your competitors recently mentioned that they had seen a number of their competitors in the low-voltage area becoming even more aggressive on pricing, particularly on China.

So if you could maybe say something about it, perhaps on China and also more generally.

And getting back maybe on the solution question, how do you reconcile the intention to be more selective and, at the same time, the stated strategy of taking projects at lower margin to benefit from future service activities? Surely it's not an easy task for the employees there to exactly decide on what they have to do.

And maybe in relation to the solution margin issue, looking at the portfolio rationalization, should we be looking forward to more divestment in solution? Or is it not really something you're planning to do?

Jean-Pascal Tricoire *- Schneider Electric SE - Chairman & CEO*

There's actually three different questions, right? On pricing, well, I would say the margin that we have in products are testifying that we are managing whatever the conditions to maintain a healthy balance between our costs, on redefined costs, which is coming from RMI, for instance, and productivity and pricing. And, from that point of view, I would say our margin on products is really second to none.

So I heard some of the comments, and I don't know who that was referring to, but margins are proving that we are certainly the last in that fight of pricing. I said in the past that we could be selectively more aggressive, but that's from a very high point of pricing on our side.

Certainly, we've seen more pressure. Certainly, we've seen more pressure, especially in China. Now you know that in China there are several levels and several segments of markets which are different and the dynamics of pricing can be different between those lineups, between those offers, and between those segments. But we've seen more pressure.

I would say we've seen probably more pressure everywhere. We've seen more pressure on projects. That drives me or that leads me to your second question.

On the second question, what Emmanuel was explaining is the present situation, is that we have taken some projects at lower margins to generate either an entry at some customers or generate a flow of services that would complement those projects.

When we are saying we are going to be more selective and more picky, I'm speaking about the future. I want us to make sure that we address more selectively the number of projects in segmentation, in application, in segments, in applications, in [typology] that we want to address.

And I know it's a tactical -- I wouldn't say it's sophisticated, but it needs to be very accurate in the targeting. And this is why we want to regionalize, globalize more our setup so that it's not many people who have the right to choose but selected people with a high level of experience.

And I believe that we are building that set of people at Schneider, would it be through acquisition or would it be by recruitment or would it be by internal development of people. So that's what we want to be doing more in the future.

At the same time, really [I see] that services remain a huge potential that we still have to develop. In that margin decrease, there is also the investment that we put in people in services who are not operational immediately. So that's affecting the margin of solution.

Concerning divestments, we're going to be keeping pruning the portfolio. And places where we would be structurally either non-competitive on the midterm or where we don't see the right level of return are places that we would consider and that we are considering for divestment.

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

And that certainly includes some solution business.

Cedrick Cassin - ***Raymond James Euro Equities - Analyst***

Cedrick Cassin, Raymond James. Two questions. The first one on China. Can we have a word about the business environment across the businesses? You mentioned double-digit decline. Is it across the operations? And do you think we've reached a bottom, especially in the light of the equity markets volatility?

And the second question on Germany. Could you also say a few words about the environment, please?

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

Well, on China, it's pretty much across the business that we've seen that. So there are a few caveats to that.

First, we are comparing to H1, which was really high last year. We had a pretty strong H1 last year. And we are entering into H2, which is less demanding in terms of basis of comparison. So that you have also to see where we are coming from in terms of comparison.

Now when you look at China, it's also quite segmented. Of course, construction is rather down. Some customers, like we were doing quite a lot with OEMs, doing machines for construction, they are also down. So we are suffering with that.

On the other hand, you've got sectors like take wastewater or take transportation. We don't do coaches and trains, but we do infrastructure for that. Or renewables, where the market remains dynamic.

So it's a question of repositioning ourselves and following the investment. Actually, there are spectacular investments of the Government into those sectors. So we have to make sure that we reposition ourselves.

We're expecting also -- at the moment, China is still trying to define its policy. When I say trying, doing it actively with the manufacturing in China 2025. But there will be also quite a lot of possibilities in automation in China in the future.

So it's across the board. The base of comparison will be less demanding. And we are repositioning ourselves into segments which are more favorable.

Now you alluded to stock market. I can't comment on the China stock market. It seems to be really disconnected from the indicators. So I don't think it's a fair reflection of what is happening really in the economy.

On Germany. Germany, we are still suffering of what is happening with the utilities. We are a pretty strong player with the utilities, so the energy vendor has taken a toll with us.

We've seen also we had business with OEMs, which were big exporters to China and to Russia. We are suffering with them at the moment. When you sell to a machine manufacturer, your volumes are directly linear with the number of machines which are sold.

And we had a weak first half, relatively weaker, not something dramatic, but a few points in construction, which I'm not sure is a fair reflection of the market.

So that's where we are in Germany. But nothing radical, nothing huge. It's just that, by contrast, south of Europe and UK have been doing seriously better.

Operator

We have one question via the telephone.

Gael De Bray - ***Societe Generale - Analyst***

Concerning industry margins and, maybe, more specifically, Invensys. I think the Invensys margin was probably down 400 bps, 450 bps in the first half. So maybe how much of that was -- can be seen as a one-off?

And maybe if you could elaborate a bit more on how exactly we intend to drive the recovery in the margin for Invensys in the second half, especially given the later cycle profile of a large part of Invensys business and exposure to oil and gas.

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

You're absolutely right. It's around 400 basis points decrease. One-half of that, or close to one-half of that, can be explained by the increase in the R&D spending. The other one, I would say, is largely lower absorption of fixed costs from the decrease of the top line that we described.

It is clearly our intention in H2 to be back to a more normal margin for Invensys. And this is our objective. So I'm not saying that we're going to replicate the margin of last year. I'm not saying that we cannot. I'm just saying we will be certainly, and it's our objective, much better in H2 than in H1 on the margin.

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

The reinvestment of R&D has to be integrated. It was public from the beginning and it would be part of the expenses for the next quarters.

Anthony Song - ***Schneider Electric SE - Head of IR***

So now, let's open to the questions on the line. First, please.

Operator

Andreas Willi, JPMorgan.

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

Two questions, please. The first one on mix, which has already been asked before here. Within that, is the country mix still negative or shouldn't that start to improve now? It seems like the country mix has been negative for a long period of time, almost independent of the relative growth rates.

And on the margin -- on the pressure within the mix, it seems to be a lot just relating to pricing. Why is that not just called out as price pressure and put into that bucket, in terms of your earnings bridge?

In terms of the guidance for the full year on the flat to moderately down margin, how do you define moderately? And, given that you haven't given a range for the top line, what's the range implying in terms of your assumptions for the second half? Thank you.

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

On the country mix first, it's not necessarily the biggest impact of the minus 12.6% but it's still negative, yes. I don't think we want to enter into a lot of detail on how the margins are playing but bad news on Russia and China in terms of evolution of the business are not good news for the margin. So I won't go beyond that but that's certainly what I can share with you.

I'm not sure I fully capture your second question on price pressure.

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

I think the question was where is it classified? Is it the mix? Or is (inaudible) --?

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

So, to be very clear, on price, as we reported, we just report on products. So all the pressure on price I was describing on solution, which is difficult to quantify because each solution, as you know, is unique. So it's difficult to say, I've been decreasing my price by x. That is reported in the (inaudible) of the margin on solution globally.

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

Which is consistent with what we did in the past. We always did that, to put in pricing only the part of products.

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

Now on whether we can be more specific on what we means by moderately, I think that we have to acknowledge that the first half was down 40 bps. So we have a number of action plans to work on margin improvement. We believe that there is positive scenario where we can catch up in the second half and have a flat margin for the year.

Know there is a lot of uncertainty. We don't know at which speed the number of mitigation scenarios and actions that we want to implement will kick in. And, therefore, we want to also highlight the fact that there is a possibility of a decrease in the margin globally for the year. I don't think that we can be more specific than that at that stage.

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

But it shouldn't decrease more than in the first half. Is that the message?

Anthony Song - ***Schneider Electric SE - Head of IR***

Pardon, Andreas? We can't hear you very clearly. Can you repeat your question?

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

I assume from that that you wouldn't expect the margin to decrease by more than 40 bps for the full year?

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

Well, I think that certainly not the idea that we are -- I think we are clear on the fact that we have a negative situation in first half. We going to work on several fronts to correct it in the second half. And that is really the spirit behind the guidance that we have been giving this morning.

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

Thank you.

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

I just can assure you that we are not very pleased, so we are working on it.

Operator

Fredric Stahl, UBS.

Fredric Stahl - ***UBS - Analyst***

Could I ask you on the restructuring charges? I think they went up a little bit from the last time you communicated to us. And is this the -- just looking further out, is this a normal level of restructuring that we should expect in a no- or low-growth environment? Thank you.

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

Fredric, you may have missed my comment that I made on the restructuring. No, actually, it's fully in line with what we said since February, because we announced EUR700 million to EUR900 million of restructuring over a three-year period. And I had a discussion with some of you on why was the amount so important?

And the answer is, well, first, because the ambition of saving is important. You will remember that we want to generate EUR400 million to EUR500 million in SFC savings. That is also, of course, covering the productivity that we are generating. So important ambition and we are well on track to deliver, if you look at what we have already started to do in H1.

And second, a large part of the restructuring is done in Europe and, as we all know, restructuring in Europe is costly. That's why, when we want to generate this kind of hundreds of millions of savings, it's coming at a cost. But, really, I think we're just implementing what we announced back in February.

Fredric Stahl - ***UBS - Analyst***

That's very clear. Thank you.

Operator

Mark Troman, Bank of America.

Mark Troman - ***BofA Merrill Lynch - Analyst***

Quick question again related to the guidance, Jean-Pascal and Emmanuel. The 160 basis points of negative mix in the first half with the 1pt drag from solution, if we can call it that. Do we expect that to continue through the year? Is that a similar out-turn we'd expect of the year? Or is a lot of that Invensys, with Invensys a big component of that?

And I think, Emmanuel, you said earlier that you expect to do better in Invensys in H2 on margins. That's question number one is the mix outlook for H2, given Invensys.

And the second question. In terms of market trends, they seem to be -- obviously we've got weak China, a weak Russia. What trends -- are there different trends between Q2 and Q1? Are there noticeable things ramping up or ramping down? So, for example, was China a lot worse in Q2 than Q1? Was Russia worse? Was Europe better? Just a little bit of color on the sequential trends, how we're exiting the second quarter. Thank you.

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

On the 60 basis points, it's -- you can complement, but it's not only geographies. You have also business there. And it's clear that when you have an industry, which is a high-margin business, going down in revenue and going down in margin itself because of revenue, let's be quite simple on that one, it's one of the examples where it doesn't help. So it's a combination of geographies that Emmanuel already mentioned and business.

So to answer your question, I think on geographies I'm not expecting a huge recovery of China and Russia. Again, we are going to be better or we're going to be helped by easier comps in H2, but I'm not expecting a rebound, a great rebound, in H2. I am expecting rebounds afterwards but not in H2.

But what I mean here is that those 60 basis points are a mix of a certain number of things, of which there is a mix of our business inside the portfolio.

In terms of end-market trends, Russia, not expecting that much changes, or at least it's difficult to read, let's say. And we have ourselves quite a lot to do to readjust our operations to the new normal of Russia.

In China, again benefiting from better comps. And, clearly, the Government is taking care of re-stimulating the economy. People speak at the moment of the stimulation of the capital market, of the stock exchange.

But there are more things but I already spoke about that on certain segments of infrastructure, of re-stimulation of the economy because, clearly, nobody wants this economy to go too down, I'm speaking under the control of Anthony, too down in the next coming months.

So I would expect some stabilization in China, helped, on the top of that, by our repositioning on the right segments.

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

Just to complement Jean-Pascal. On your question on the 100 basis points. When we talk about all the action plans to work on improving our margin, as you can imagine we have a big one on solution.

As I said, things can happen in some dimension on the relatively short term, but we know that fixing solution and especially when we talk about solution project equipment, which have been taken at a low margin, it takes some time before you see the action taken at the order intake level to flow within your P&L.

But yes, certainly to improve the negative impact coming from solution in the second half is one objective that we have.

Mark Troman - ***BofA Merrill Lynch - Analyst***

Okay. Thanks, Emmanuel. And just quickly just a follow up. The Invensys drag, that's mainly in that mix part of the bridge. Is that fair?

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

Actually, you have some impacts at the gross margin level, which are pretty limited for Invensys. So it's more the fact that top line and gross margin is about the same. Costs have not decreased at the same speed, because, as we said, we continue to invest and we have one-offs element on the top line.

So the biggest driver for negative margin is actually coming from poor absorption of SFC versus the top line. So that's where you have the biggest impact.

Mark Troman - ***BofA Merrill Lynch - Analyst***

Thank you.

Operator

James Moore, Redburn.

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

I wondered if you could help us with the solution adjusted EBITA margin in the first half? I guess you're down from the last 12 months of 11% at the end of last year to something like 7%, but it's something you've sized over the years. Could you quantify where we're at at the moment?

And then back to Invensys. I calculate from your inc/ex-Invensys numbers that Invensys sank about 12% organically. I'm just trying to think within that could you say how much the nuclear impact was and what the margin impact of nuclear was and how that looks as we go into the second half?

There's a lot of moving parts in Invensys and I'm finding it [basically] difficult to think about what the second half [properly] looks like. And you say you want to be back more to a second-half normal margin, but could you give us a better idea as to what that is?

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

It's difficult to get what you say. The line is really breaking. Can you speak slowly, please, and probably a bit more remote from your (inaudible)?

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

I think I got your question on the nuclear. But I'm not very clear on the rest, so --

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

The first question is on solution. What was the margin in the first half?

The second is can you size nuclear sales margin impact in Invensys in the first half and how that moves into the second? And, in simple terms, what is a normal margin in Invensys in the second half, given all the moving parts? Thanks.

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

On the solution margin in the first half, we'll give it for the full year. Given the way costs are being absorbed and so on, I don't think that at the end of H1 it has sense. It is clear that if we say that we have been losing 1 point on the gross margin, if for the full year we had the same kind of impact and taking the assumption that SFC are following top line, that would be a 1 point decrease in the margin quite mathematically.

I don't think, as I said, I can go beyond that, but I'm certainly happy to recognize that we have lost 1 point on this first half. Now let's see at the end of the day where we finish.

On the Invensys nuclear, the rampdown of the project means a decrease of a bit more than EUR40 million. EUR43 million, if you want to have exactly the number. And that means something like probably 5% decrease year on year for the first half in terms of sales.

It's coming at a margin which is very weak, but which is not negative. So I would not say that nuclear has been the issue of the margin evolution in H1.

Now on the normal margin on Invensys, I think that this is certainly the margin that we have seen last year. We have no reason for us to renounce to what was the margin last year. And, even by progressing on software, have synergies, we think we can further increase.

So beyond the one-offs, absolutely nothing is changed on Invensys and I would say that we are happier than ever on the strategic intent, on the quality of the asset and certainly on the underlying profitability that we see for Invensys.

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

Except for investment in R&D for some time.

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

Which was planned.

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

Which was planned, but which was not started last year.

Operator

James Stettler, Barclays.

James Stettler - ***Barclays - Analyst***

Three quick questions. If we look at the earnings bridge in the second half, you're guiding for a raw material tailwind, which is much lower in H2 versus H1. Why is that?

Question two, how big is Russia now in terms of revenues? It has remained a drag for quite some time.

And then, finally, could you quantify, roughly speaking, the level of non-core assets? Are we talking about 5% of the portfolio? Or is it less than that? Thank you.

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

On the earnings bridge, the question was --

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

Lower tailwind on RMI.

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

On the RMI. Well, again, I'm not pretending that the around EUR100 million that we are giving is absolutely scientific. So please don't blame me if we are above the EUR100 million at the end of the year. I think there is a likelihood that we could be above the EUR100 million. There is always some cautiousness that we put in the guidance on this kind of element, given the volatility.

Now it is true that you always compare year on year and we started to see some decrease in RMI last year in the second half. You have also the hedging policy, which is difficult to read from the outside. So that's why we are saying we expect a nice amount coming from RMI in the second half. Now we're not quite sure that it's going to be as big as the EUR77 million of the first half. So I hope this answers your question.

Now regarding Russia, we are today around 3%. We'll see exactly at the end of the year with the final ForEx. We could be a bit below that but I would say today around 3% of sales of the Group are Russia.

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

On non-core assets we'll keep you informed. It's not a large part of the portfolio. It's very selective and it's [lean-to] strategic positioning to level of growth, level of profit. So, of course, we'll speak about that when we are making those divestments but it's really -- the construction of Schneider has been very centered to the service of a very integrated strategy so the number of assets which are not core is limited.

James Stettler - ***Barclays - Analyst***

Great. Thank you.

Operator

Ben Uglow, Morgan Stanley.

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

I have three and sorry to labor the point on Invensys, but I wanted to make sure I understand the second-half outlook.

First of all, I don't think you said this, but I wanted to know if you believe that the top line at Invensys will actually be stabilizing in the second half. So are you basing your forecast on margin on a relatively flat outlook at the top line for Invensys? And that was question number one.

Question number two is, and I want to make sure I understood it precisely. There's been roughly a 4 percentage point drop in the margin at Invensys; 2 percentage points down to R&D. The other 2 percentage points, were you saying that that was related to China nuclear, i.e., that the underlying excluding one-offs was stable? Can you just bridge that 4 point gap?

And then the final question is, and I guess it's for Jean-Pascal, can you talk just a little bit more about the temporary integration issues? What are those? Can you give us a little bit more granularity? And is this something that we expect to go away during 2015?

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

So on Invensys, on the top line, on the stabilization, nuclear will keep on shrinking. It's not the end of phasing out some of the nuclear. We knew that we are resolving it, I would say, in very correct terms. That was one of the big challenges we had in from the integration.

Second part also, we still have an activity which is significant in oil and gas and it depends how oil and gas is going, but we are expecting still a pressure of oil and gas as we keep going.

Now, one of the things which is really working are the synergies of revenue and we are gaining new projects. We are gaining market share. We are not number 1 in this sector, so there is a space to recreate.

So we are compensating the dynamics, the sluggish dynamics, of the oil and gas market typically, and complemented by mining market, by the way, by taking market shares at our customers, at our historical customers and in geographies where we operate.

So I remain cautious but I think H2 would be a less demanding, a more favorable base of comparison. We don't have this famous Q1 repeating, but nuclear will still take a toll on H2.

On the margin, you said it right. 2% is due to R&D, R&D investment, and the rest is due to the mix of projects and the pressures that we had on oil and gas. Particular the valve business is a good margin business and it was impacted, as we wrote, by 20% in terms of volume. But, I would say, in the hundreds of projects that we are managing, it's also a question of execution into a context of low volume.

Now on the integration issues, look the only that I am saying -- I think that parts of Invensys have reacted quite well, actually, beginning of 2015, would it be software or would it be the projects it has been quite good. But while we are doing the integration the whole of last year, it took a lot of attention of the rest of the industry team.

And this is something, I think, I'd shared with you, Ben, during the conference in June. But saying that this kind of integration takes a toll of attention on while the teams who are doing that, on re-affecting the customers, on creating the synergies, there was not enough attention paid to the historical core of Schneider, which is a great business, world leader in terms of market share, well positioned in terms of technology and in terms of marketing.

So now, I would say, integration done, teams put into place. Actually, in most of the markets there has been no disruption. There has been a few cases, a few countries, I'm not saying all of the countries, it's really isolated and targeted, where there has been some distraction of the teams. And this distraction is behind us so now it's back to us to regenerate the momentum that we should have not lost.

But I would say it's difficult to make an integration of that size. To the size of Schneider it was limited. To the size of the Industry business it's consequent. It's significant and there has been some unavoidable distraction.

Operator

Daniela Costa, Goldman Sachs.

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

I just had one thing left, which is regarding, I guess, and it's two points to the same question, regarding how shall we think about capital deployment and M&A after AVEVA?

And also, I think, AVEVA elaborated a bit on it on the call they did last week, but also can you talk about why this was not an outright deal? And how do you plan to leverage on this going forward, on this structure, basically? Thank you.

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

The line is bad, I could say to the minimum. So I understood you were speaking about AVEVA, on the capital deployment.

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

Exactly, yes.

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

AVEVA would perfectly fit in the kind of bolt-on acquisition that we mentioned, given the amount and, of course, no doubt on the strategic rationale of the project. And I think that we're just absolutely in line with what we announced in February and I will stay on this line. We could be considering a bolt-on acquisition.

We've talked about what we wanted to do in terms of strength of the balance sheet. For the rest, nothing is changed on the dividend policy, on the share buyback. We are absolutely delivering the Schneider recent program and we are not changing anything in that respect.

Operator

William Mackie, Kepler Cheuvreux.

William Mackie - ***Kepler Cheuvreux - Analyst***

I come back to the infrastructure division for the first question. Can you specify the split now between service and the normal project-related business, the growth related to that service also? And in what timeframe can you now see yourself reaching the target double-digit margin that you have set out? That's the first question.

Secondly, coming back to growth on China and oil and gas, you specified in the presentation China was 2 percentage points of decline to the growth this period, which implies about a 16% or 17% year-on-year decline. Can you specify where you see, or what you're building into expectations for H2 across the Chinese business?

And then, within oil and gas, could you specify the level of growth impact that you've incurred in the first half related to the exposure in that vertical and then perhaps a view on the second half? Thank you.

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

I'm not sure I captured your point about the, whatever, 16% on the -- yes?

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

Can I have a go at it?

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

Yes, please.

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

I'll try. China is around 15% of our sales. We said double-digit decline, so you are quickly getting to the 2 points I was mentioning. So we haven't been declining by 16%, to clarify, but that's the way you should be looking at the math on China.

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

And, again, we are entering an H2 where the comparison should be less demanding. So let's not overdo it on China.

On infra, we are working on bringing that business to the level of double digit.

On the service part we are still very remote from our entitlement in terms of servicing the installed base of energy. The part of the installed base that we serve today is minimal in respect to the potential. And this is one of the best businesses that we can and we should and we must and we are developing at Schneider for many reasons that I could develop.

So I see -- and disciplining. Well, first, we sell a lot of products in medium voltage through, by the way, a network which is common or put together with our low-voltage network and it's a great network. So that's one.

Second one, we are disciplined in our projects.

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Third one, we have to develop faster our services. It seems like we have been speaking about services for some time but it's only two or three years that we have been really putting an acceleration there. It takes time but I'm very confident on that one.

Then on oil and gas, the exposures, we said at the beginning of the year it's roughly directly 7% of our revenues, directly. But there are some collaterals to that. There have been buildings which are constructed around oil and gas installations, countries where the oil and gas revenue is impacting, but directly, 7%.

And when I look at the dynamics today, we spoke about the valves, which are minus 20%. In the projects, by having a very active approach to gaining market share, we've certainly reduced the decline to a much lower level. Actually, I would say single-digit negative for what regards Invensys.

So it's a mixed bag of a sluggish market but, at the same time, taking some good projects. So, therefore, we've not been impacted to the magnitude of the decrease of oil and gas.

With that, I think we have overblown our time. Thank you for your time. Thank you for your attention. We'll keep you posted and we certainly have already started the second half. Thank you. Speak to you soon.

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

Thank you.

Anthony Song - ***Schneider Electric SE - Head of IR***

All right. Thank you. Speak to you soon. Bye.