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EDITED TRANSCRIPT

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

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OVERVIEW:

Co. reported 2015 sales of EUR26.640b and net income Group share of EUR1.4b. Expects 2016 revenues to be flat to down low-single digit.

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PRESENTATION

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

All right, let's get started. Good morning, ladies and gentlemen. Welcome to attend the Schneider Electric 2015 full-year results release conference.

Today with us, we have our CEO, Mr. Jean-Pascal Tricoire; and our CFO, Mr. Emmanuel Babeau with us. And with that, now I'm handing to Mr. Jean-Pascal Tricoire to start with our results.

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

Yes well, thank you, Anthony. Well good morning to all of you. Thank you for being here in a cold and sunny Hive. Or to be on the phone or through our webcast connected to us.

I'm going to go straight into the presentation, giving the headlines of the year, and also focus a bit more on H2. And then hand over to Emmanuel for more financial details.

So let's go straight to the beginning of the presentation, a snapshot of the Company at the end of 2015; EUR26.6 billion. Last time we presented our yearly, this figure was EUR25 billion.

5% of revenues invested in R&D, with an intensity of launch of products, and that's going to be even more the case in 2016.

43% of our revenues in new economies, and 43% in solutions. And when you look at our geographical balance, Asia Pacific number one zone, with 29% of the sales. North America number two, 27%. 26% in Western Europe. 18% in the rest of the world. And you see that the marker of Schneider is this geographical balance.

As well as this geographical balance, another characteristic of Schneider is the balance between our business. Here, we are not speaking about end market exposure, we are speaking about the business that we describe to you in every review.

So Buildings & Partner, which is fundamentally low-voltage and building control represents 45% of our turnover in 2015. Industry with the adding of Invensys, 21%; infrastructure 20%; and IT 14%.

And the results of H2 prove once again the value on the robustness of that diversified exposure, which enables us, when there are issues somewhere in the world, or in one business structurally, to compensate by the exposure to the other business, and the other geographies, using the same set of technology.

I want to spend two minutes on this page, which is our commitment to a sustainable responsibility, and you see that we were in the first year of a new barometer planet and society. We are over target. Lots of recognition of the strong and differentiated engagement of Schneider in this, and you see a list here; it's been quite an impressive and converging set of awards that we received over last year, and in the beginning of this year.

So now, if we move into the headlines of the year. I would say 2015 has been a challenging year, due to macro elements. Take China, which is an important market for us; Russia, certainly smaller for us, but still a significant market. Emerging countries as a whole, who still represent for the midterm, the highest potential for electrification, urbanization, industrialization and digitization, were weaker, and went through transitions in 2015.

Oil and gas, though it is a limited exposure for our Company, but a rupture breakthrough in the changes of energy price for an energy company, represents a disturbance.

ForEx in the second part of the year; this year has been quite uncertain, unpredictable, and for us it has been also a very intense year of adaptation. The first adaptation we've done has been to refocus and re-base Invensys and you're going to see through this whole series of results that we always introduce two elements concerning Invensys.

The shrinking of the China nuclear business, which is a conscious decision. You know that it was one of the issues when we acquired Invensys. That issue is now resolved. And also the higher base of comparison established in 2014, by the double fiscal end of the year 2014, which has impacted the growth of our industry division. But also the growth of the whole Company. That makes the results a bit more difficult to read.

2015, and especially in H2, has been a year where we have accelerated the cost cutting, and the adaptation to the external environment. The restructuring to adapt to the weakness of the markets, I mentioned before, to which I would add also some deception from the market point of view, in the US, or in the industry, on datacenter market in H2.

So an intense year of adaptation, in adapting our cost base to the new reality of the market.

Now satisfaction is at -- it has paid and it has shown why it took us a bit of time to adapt, but this has paid in H2, enabling us to deliver a strong second part of the year with an organic increase of the adjusted EBITA of 50% (sic - see slide 7, "5%"), which enabled us also to face a negative impact of the ForEx in the second part of the year.

So looking at the year, main headlines is record revenue of EUR26.6 billion; in current terms, an increase of roughly 7%. In organic terms, if you correct it from the Invensys repositioning that I was mentioning before, it's a flat underlying, which all considered to our exposure in China and Russia is quite -- is very robust.

The second thing is a record adjusted EBITA, up 5%; a margin of 13.7%; and if you exclude the impact of ForEx, which hit us especially in H2, it's stable. So very good resilience in the margin.

When you focus on business, IT, Partner deliver a very solid performance. Industry, which had been distracted by the integration of Invensys, shows in H2 that it's on the right track to recover its initial margin.

On infrastructure, which is still integrating Areva-- I'm going to speak about that facing quite a lot of headwinds in an accumulated way, is turning the corner on its road to a double-digit margin for 2016.

In terms of geographies, I'm very happy to say for the first time maybe in six years, that Western Europe resumed growth. New economies outside China are up, so all new economies, China is not the sum of all new economies. And US construction markets are very strong, which is good for us.

From the inside point of view, you know that we've pointed on specific action plans for growth. Services are up, in line with our investment and our expectation. And industrial software is also up.

I spoke about the adjusted EBITA, up 5%; record level, stable margin. Now, if we look at our commitment to shareholders, the adjusted earning per share is up 6%.

Very proud of a free cash flow generation, up 20%, which at the end of the day is the acid test of the health of 2015.

On strong of those results, we are going to be proposing to the shareholders' meeting a dividend up of 4%. And you know that we have a program of share buyback, which was targeted to be between EUR1 billion and EUR1.5 billion. We're going to push that share buyback program in 2015 to 2016 up to the upper level of the bracket, at EUR1.5 billion.

Other point which is very important for us; two programs, the integration of Invensys. So Invensys margin, even in an adverse environment due to its exposure to oil and gas, margin is up, slightly up over the year.

As I said before, we have realized significant cost productivity and cuts in 2015; EUR700 million roughly accumulated between industrial productivity and base cost, and we are going to push the initial program that we explained last year to a new level. We had said EUR400 million to EUR500 million; we're going to push it to EUR600 million.

And finally, very important, what happened in H2 is that the project margin, which has been dragging our margin down, is improving over the past two quarters.

So a set of strong improvements which happen in H2; and again, it took us a bit of time to adapt to the new reality of market that we didn't see as clearly at the beginning of the year. But at the end of the day, we show clearly in H2 the strong capability of execution and adaptation in front of this environment.

So a bit more details, business by business.

Buildings & Partner growing 40 basis points. Industry minus 5%; but if you correct it from the impact of Invensys, nuclear and the double end of year from the fiscal point of view, it's more on the minus 3%, which is quite remarkable, seeing the end market.

Infrastructure; 30 basis points on the full year. And IT in slight decrease.

And as you see, H1 and H2 are quite similar, except in infrastructure, where we have chosen consciously to be more selective on projects; and in IT, where we've been impacted by a high base of comparison from the preceding year.

Now let's dive a bit more in detail into each business.

So Buildings & Partner; low voltage, building control. This is a place where we are a very strong world leader; where we strike a double improvement, improvement on the growth; on the improvement in the margin percentage. So we grow across all regions except Asia-Pac, and that's mostly due to China. We are up 2% worldwide outside of China.

The part that we call retail, which is our sales of smaller products to more diffused and scattered customers, is showing a robust growth, including in China. While the project business, for reasons of selectivity that I was explaining before, and due to the weakness of some markets, is impacted and shows a softer activity.

Margin expansion, as a result of new product launches and efficiency gains, due principally to -- also due to digitization, and the digital relationship with -- a more digital relationship with our customers.

What are our priorities here? Continue to drive product sales and retail in all the regions; maximize the sales of our partners, bringing along with our low-voltage offers the offers of medium voltage, industry and IT, which complement the full basket of products for our customers; continue to grow through very numerous product launches that are going to happen in 2016; continue the digital transformation. And because we are forecasting some ForEx impact in 2016, keep costing on pricing. Keep the good work on cost productivity on pricing up, to compensate for those ForEx changes.

IT. Well, this is another place where we have very strong leadership. A slight decrease in growth. Very good EBITA margin, respect to the rest of the offerers of the market. Well, we grow in West Europe in IT, due to datacenters investment, China and Russia are really pulling us down, especially Russia, which is a place where traditionally we had a strong market position.

And US is softer in H2 than H1. A very good performance in services. Margin remains high, and it's mainly due to our own work on costs, on SFC control. What we want to keep doing here, drive the product business, and we are coming out in 2016 with a lot of new offers in this sector.

Leverage a Group portfolio, develop integrated offer for datacenters. When we go into a datacenter now, it's a lot of IT offer that we report here but it's a lot of low Voltage and medium voltage, on building control offers that complement the full system. Keep pushing services and continue the cost discipline.

Infrastructure. It's been a good year, somewhere still at too low margin, but we really have turned the corner in infrastructure. And I'd like to mention, I like to emphasize that because that has been done in a time, in a bad time of the cycle for this business.

If you sum up everything which has happened in the past years in the infrastructure business, utilities in West Europe, which have been destructured, and that market has fallen apart quite a lot; we spoke openly about that over the past years. Mining, oil and gas, Russia, China, it's been a lot of adverse headwinds in front of us.

Whatever those headwinds, this year we grew by 30 basis points. And the adjusted EBITA margin is growing by 50 basis points. So that's really a change of an inflection of profitability in our business. And we do that by touching the mix and repositioning this business on the key channels of Schneider. So we grow on products; we grow our services, on the install base. And the potential of services here is quite big in front of us.

All the regions are up, except Asia-Pac, and that's largely due to China. Very good control of costs, project margin improved in H2 I already mentioned that. We target double-digit EBITA margin in 2016.

Again priorities; product business model; service business model; improving our project execution capability and realization; and keep controlling our SFCs.

Then I will go to industry. So industry was, in 2015 as well as in 2014, the epicenter of the integration of Invensys. Impacted, as I said, by the repositioning of Invensys.

We had a H1 which was difficult in terms of margin; difficult at high level of margin, but which was where the margin decreased. The margin is slightly up in H2, which shows a recovery on the right trajectory, in terms of margin.

We reacted to the headwinds in oil and gas in China, repositioning ourselves on better segments. We grow in West Europe; we grow in the rest of the world. We grow our OEM solution business, which is a base on conversion of customers to our systems.

So the priorities here is make sure that we boost or reach; accelerate our product business, and we are there again launching new offers; accelerate the OEM business; reposition our end user exposure. Balance what we do in oil and gas, in mining, into other segments like food and beverage, pharm, discrete manufacturing, which we do today. That we keep growing on strategic accounts; and, of course, we keep the control on SFC.

A bit more focus on the second year of integration of Invensys. So you know why we bought Invensys; reinforce our industrial automation capability; reinforce our software capability; and boost our position in electro-intensive segments.

This being said, we faced headwinds in H2 or in the whole of 2015, coming from our exposure to oil and gas. But what is positive is that we deliver on cost synergies. We have, in two years, delivered almost a totality of the cost synergies we had committed to deliver in three years. Almost all the cost synergies have been delivered.

Revenue synergies, going into the sense of more energy on low-voltage packages, going into more discrete automation, are on target in 2015. So revenue and cost synergies on target.

We, at the end of 2015, have achieved EUR300 million of tax synergies, which are visible in our tax rate. And we have incurred with that EUR70 million integration costs in 2015, which means EUR150 million in the two years, as it was announced initially.

Now let's look at the geography. As I was saying, good news of 2015 is Europe back to growth; Q4 at plus 3%, which is good. All of Europe is growing, including France, where we do, with the teams, an excellent job of developing new business on the market.

New economies outside China are growing also; 2% last year, 4% this year, with growth in India, in Mexico, in Africa. Middle East is benefiting from a big backlog of projects and we delivered solid execution of those projects. And we've adapted vigorously to the weakness in Russia and China.

Let's look also at our growth initiatives. Well, development of services, it's been some years that we speak about the development of services, which are getting bigger and bigger in our portfolio. Another year of 7% growth of services, which is a great success for us; 8% above the average of the Group.

And I'd like also to mention the order intake of software which, even if we were taking care of M&A in 2015, we've delivered 6% of growth during 2015.

So it shows the relevance of our portfolio of software, especially at a time where industrialists are looking to reduce their costs and optimize their process, optimize their efficiency. Actually, we see that the major engine, or the major fundamental for purchasing that software, is productivity and cost efficiency.

Now, as we speak about costs, we adapted our cost to the new reality of the market we are facing in 2015. Cut a long story short, roughly EUR700 million of cost cutting in 2015; EUR350 million/EUR360 million from the supply chain, which is a very good performance in the low volume. And reducing our base costs of EUR300 million, which pushes the base costs down by 50 basis points of the turnover.

Without dwelling too much on it, we invest in R&D and we are coming out in 2015, this is 2015, with lots of new products. For more safety, reliability, efficiency, connectivity and sustainability of our customers' installations. I would say 2015 was a lot of new products; 2016 will be even more new products. And we're going to have several launching events that will take place around the world in 2016.

And finally, as you know, at the beginning of 2015, we launched our program Schneider is On. I won't go into the detail of this slide, because everything we are doing at Schneider are the priorities of this program. Well you see services, software, better execution of projects, simplification with cost gains, that I just described.

One thing I didn't mention is digitization and connecting our products to our cloud. Giving the ability for our customers to monitor their installation 24/7, using that connectivity and applying analytics and algorithms to the installation. This digitization, the number of connected points, has increased by 45% in 2015. And finally, launching of new products and performance in CSR.

That concludes the head titles of 2015. Now, I'd like to hand over to Emmanuel for the details.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CFO, Finance & Legal Affairs*

Thank you, Jean-Pascal.

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

Important details.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CFO, Finance & Legal Affairs*

Definitely very important. Good morning, everyone. So we are going to dig into some details on our numbers for this full year 2015.

Starting obviously, with our sales, which reached EUR26,640 million, it's up almost 7%. And, of course, one of the powerful drivers that we have benefited from in 2015, has been the positive ForEx impact, contributing around EUR2 billion of extra sales for the year.

We all know that has been mainly driven by the dollar, all the currency related to the dollar, Chinese yuan notably. The British pound has been also evolving positively. And in front of that, as the year was developing, we've seen a growing negative impact coming from currency such as the ruble or many currency from country exposed to commodities.

Now on this positive ForEx impact, you will see later that this has been slightly negative at the level of the adjusted EBITA margin first. And now, when we look at 2016, we expect some of this positive impact to reverse. And we are going to move into negative territory, at least based on the current ForEx rate. And today, based on the current rate, we expect a negative EUR1 billion impact coming from the ForEx on our sales.

Scope impact was about zero, so negligible. And when you look at the organic growth, as Jean-Pascal described, it's minus 1%, but without the one-off in Invensys, it's flat. And when you look at the Q4, we were very much in that trend. The Q4 organic growth was minus 0.6%.

By region; two regions have been growing. Western Europe, Jean-Pascal did mention the satisfaction of moving back to positive territory for Western Europe, and especially with a good Q4. And rest of the world, plus 5%. We also seen that Asia-Pac outside China has been growing.

Good to see that in an environment where everybody's saying that new economies are facing tremendous difficulties, we did manage to generate actually quite a nice growth in most of these new economies which I think is an illustration of our strength in this country and how relevant we are in all these emerging economies.

So two negative parts of course. First, North America; minus 2% which is about the trend that we have seen in the US as well. US and Canada have been negative. In the US, we have faced very mixed trends, between things which did develop extremely well during the year. And everything which is linked with consumption and construction did behave extremely well.

And in front of that, as we all know, everything linked to CapEx, notably coming from shale gas and shale oil and things linked with industry with the impact of the strong dollar, has been taking its toll and impacting negatively the growth in the US.

Very good performance in Mexico that I want to highlight as well.

Asia Pacific; minus 5%. Double-digit decline in China. And we have been growing outside China and, of course, if I want to highlight a few markets where we've been positive; the first one is clearly India where we did enjoy a pretty good year.

Now moving to the gross margin, which is obviously today a point of particular attention in a world with lower growth globally, it's a big point of attention for improvement. The first element is, of course, in this decrease that we have experienced in the gross margin rate from 37.7% to 37% is the ForEx. So this has been representing a negative of minus 0.4%. Some of that is compensated at the level of a positive ForEx on SFC, but clearly impacting negatively the gross margin.

For the rest, we've been negative by 30 bps in 2015 on our gross margin.

With a lot of positives that we did achieve in 2015, and the first one of course is the net pricing that we did manage to impact with a nice plus 50 bps contribution on the gross margin. As you know, it's a very important goal that we have and target to permanently deliver positive net pricing.

And we define net pricing as a difference between evolution and raw material on one side and what we do implement in terms of pricing in our market. And of course, there is a big correlation between the two, as you would expect.

So good performance on raw material, EUR180 million, that's a significant acceleration; we're around EUR80 million on the first half. So copper price, silver price, other commodity prices still going down, so that has clearly been impacting positively the full year.

And in front of that, we have a negative price impact of EUR93 million. But you should not read this EUR93 million as a kind of -- well price is difficult everywhere. In fact, the negative price impact is focused on one market which is China and I'm going to come back on China in one second.

But elsewhere, we have been growing our prices in 2015. So we continue in other markets; that has been the case in the US, that has been the case in Western Europe, that has been the case in the vast majority of the new economies. So we've been able to keep increasing our price, modestly indeed, because we are in a low inflationary environment, but we did manage to increase our price elsewhere. So the business model of Schneider of this capacity to increase price on our product continued to be fully valid.

Now a word on China, of course, which has been the big negative, and it's a big hit as you can see for the year. I would say really two things.

The first one is that we've been enjoying a significant premium in China for a long period of time, and we have come to the conclusion today, given the market, this premium was too high. And in order to ensure protection of our market share, we needed to make an adjustment on the premium. All price lists are available if you really want to dig so you will see that we are still playing in China with a significant premium versus the competition. Very significant. But it's true that this premium has been reducing to some extent during 2015.

So that was the first element. Second element, in our medium offering, and notably with our Delixi company, we are playing in the world with more local competitors. And here, there is a kind of automatic pass through of any decrease in the input cost. And of course, when you are in a deflationary world with copper price going down, there is kind of a decrease which is automatically passed on to the customer, and we have just been accompanying the move I would say.

So these are the two events that did cumulate to give this significant impact. And, because I am sure I will get the question later on, looking at 2016, I think I still expect the challenging environment on price in 2016 in China, although not probably to the same extent on what we've seen in 2015.

Now a second good element; productivity. Jean-Pascal mentioned the number, it's EUR360 million positive. Well it's quite an achievement because, in a world where you are not growing in volume, of course general productivity is more of a challenge because you don't have the natural mechanical productivity coming from increase in volume. And it shows the strength of our supply chain model, this stellar supply chain model, through our capacity on the long term to show performance on productivity.

In front of these two positive drivers, which we certainly expect to continue to play in future, we have faced a number of difficulty and for some of them, clearly they're going to be point of attention and work in 2016 and beyond to improve them. And the first one of course is the extent of the negative mix impact which has been fully compensating the productivity in 2015.

And here, I want to make a difference between two natures of mix. The first one is what I call the normal and natural mix which is coming from geographies, business and product mix. You have mix coming from evolution between solution, between product, and even within product evolution of the various families.

This one is something that you have seen in the history of our Group and I would expect that to continue. I don't know whether it's going to stay exactly as minus 0.6 points, but we may have some negative mix in the future.

The other one, which is clearly something we don't accept on the long term, is the minus 0.7 points which is coming from a decrease on the project margin. In H1, it was a 1 point full impact, in H2 we have started to improve the situation. When I say improve the situation, it's not that we are turning into positive territory. It takes a lot of time to correct what you've been taking in backlog, and correct backlog that are going to be flushed over quarters and quarters. But you see that already we are less negative to minus 0.6 points.

This is driving us to this very important concept of selectivity which is going to drive a lot of things we're going to do in the coming quarters, and notably for all the business strongly exposed to project. And this is clearly a place where, not only do we want to come to zero impact, but we want to be back at a certain point in time. It may take a little bit of time to be implemented to a positive evolution on our margin.

Then R&D, and a lot of launch, as Jean-Pascal described in 2015. As we start to amortize all this R&D investment, it's having an impact on the gross margin. And then I would say the traditional and quite normative inflation on labor and some other element. It's more or less a kind of impact we have every year.

So moving to the adjusted EBITA, of course, below the gross profit which was EUR9.8 billion in 2015, and growing by 5%. The other place where clearly we've been in a kind of very robust and strict execution mode is the evolution of our SFC.

So because of ForEx, SFC are growing by 4%. But organically, we've been decreasing our SFC by 2.7% in 2015, with a significant acceleration between H1 and H2; H1 was at minus 2.1%, and H2 was at minus 3.4%. So clearly, we've been in this challenging environment accelerating all efficiency measures on our costs. And it has been delivering. It has been helping to deliver the solid performance we're coming up here with today.

That is giving us an adjusted EBITA of EUR3,641 million. And the margin is down 20 bps. It's in fact almost stable without the ForEx impact. And when we look at H2, we are now stable in the published number at 14.8%. And we are very much delivering on this objective of organic improvement of the margin, as the margin has been improving without ForEx of 50 bps in the second part of the year. It's clearly illustrating the robustness, the strength of what we've been doing in terms of execution.

As we've been very good in SFC in H2, it has been raising our ambition for the full program. So we are moving from a EUR400 million to EUR500 million objective, to a EUR600 million objective for the three-year period. And what we've been doing in 2015 more or less represents one-half of this EUR600 million objective.

Looking at the margin by business, here again, it's important to look both at the full year and H2 to understand the dynamics which are happening. First of all, let's look at the full year. So businesses that have been improving their margin, you have Buildings & Partner; a good job on SFC control to be very clear.

You have infrastructure; 50 bps. We are turning the corner. We are targeting double digit for 2016. We want to be back to double-digit margin on this business. And on that business, selectivity is going to be very important on projects. That is going to be a powerful driver for this margin improvement, together with the priority that we are giving to product and service development for infrastructure.

IT business; going down. So it's a mix of volume being negative, but also that has been the business with the biggest negative impact coming from the ForEx. Still extremely profitable if you look at what the competitors are doing on this business. We are still significantly ahead in terms of profitability.

And then last business, industry. Significant decrease of profitability, 1.3 points, no surprise given the decrease in sales organically of almost 5 points. But with a lot of ForEx impact negative as well playing beyond the volume. And the fact that that has been a place of very high investment in terms of R&D, which are long-term investments, but which is also taking its toll on the margin for 2015.

Looking at H2 now, very interesting; three out of four businesses have been growing their margin. Buildings & partner continued to be positive. Infrastructure was still positive. And industry turned positive after the difficult H1. So we are clearly on track on industry to recover and to rebound after what was a difficult H1. And on IT, that was a decrease but I think I mentioned the different players on the IT profitability.

Now moving to the rest of the P&L, with a number of one-offs on which I want to spend a little bit of time with you to explain what they are. For most of them, they are clearly not coming as unexpected. I would say they have been flagged. They were anticipated. And the first, of course, anticipated thing is the loss on business disposals. So out of the EUR522 million negative other income and expenses, the majority is coming from loss of business disposals.

We said it last year in February. We're going to prune the portfolio. We're going to make disposals to focus on our core businesses. Some of the disposals could come with capital losses or impairments. We had mentioned a number of a few hundred million, that is exactly what has been happening during the year. With Juno, the Telvent Global Services, the IT service of Telvent, & Transportation generating EUR324 million of losses.

Integration costs and acquisition costs, that is mainly Invensys, again in line with what we have been announcing. And now this is behind us regarding the Invensys acquisition. All costs are taken in our P&L.

Second element, of course, restructuring; a big one once again that we have been discussing previously. We said all this work on productivity and SFC is coming, of course, at a cost. But of course, it's important to do it for the future. We had said EUR300 million to EUR350 million for the year; EUR700 million to EUR900 million for the three-year period. We are in the bracket that we had been announcing.

Now given that we are raising the bar for the SFC saving, we believe now that we probably are going to be in the high end of the EUR700 million to EUR900 million bracket that we have been giving for the global restructuring effort.

Below the EBITA, the other line which is impacted by a big one-off which is amortization and impairment of intangibles. You have the recurring element, amortization of our goodwill, which is around EUR260 million/EUR270 million.

And then in addition to that, this year we have to consider decision to book an impairment on the Pelco intangible asset, which reflects the difficulties which we've been sharing with you on the Pelco business, which are not dating back to 2015. In fact, it has started several years ago. Still a business transitioning from analog to digital, pressure on volume and on profitability. And, therefore, we have just taken the conclusion of the difficulty in our P&L in 2015.

For the rest, a number of good news; cost of net debt decreasing. We keep decreasing the cost of our debt. You've seen that we have been launching a number of cheap refinancing in 2015, so we've taken the benefit of the favorable market.

Income tax; we have a normalized tax rate of 21%, still decreasing versus the 23% of last year. This is a contribution that we are expecting from Invensys but it is coming. Now, of course, as we have been exhausting a big part of the synergy on Invensys, we're going to be back to the normal tax rate of the Group, which I expect to be between 24% and 26% for 2016.

Share of profit on associates and discontinued operations; that's a good follow-up of the CST disposal. As you know, we are still an owner of CST and some of the business has been sold to Sensata, the traditional minority interest.

And because of this free bucket of around EUR300 million one-off element that I described, so capital losses, restructuring cost and Pelco, we have a net income Group share of EUR1.4 billion, so a decrease of minus 28%. But to really understand the underlying performance, you need to exclude this one-off element and that gives us an adjusted net income of a bit more than EUR2.1 billion, up plus 6%, and this is the same for the adjusted EPS.

Another good element of the year has been, of course, the very strong cash flow generation. Here, it's largely about a trade working capital that we did manage well; control on inventory; control on receivable and on payable. And that means the free cash flow, it's not the record of the Group, because we did manage to generate EUR2.1 billion, I think it was in 2012. But we are really close to the all-time high of the Group on free cash flow generation, which gives, I think, a confirmation of the quality of the result and of the execution that we have been implementing in 2015.

The dividend, quite normal.

Acquisition net; that is, of course, all the disposals that we have been making net of a few acquisitions.

The net capital increase, which is the share buyback less equity increase for shareholder -- employee shareholders, sorry.

And then FX and other; it's for the majority of that, the ForEx impact on our debt. And that means that we've been able to decrease the debt by EUR400 million through the year, despite the EUR600 million share buyback. And we have a net debt at the end of the year of EUR4.6 billion versus EUR5 billion at the beginning of the year.

We are doing a lot of very good progress on everything we mentioned about portfolio optimization, increasing the shareholder return. You've seen already all the disposals that we have announced through 2015. You should expect us to continue to work on pruning the portfolio, focusing on what is core, what is coming with the best margin, what is coming with the strongest potential for the Group in the future.

We are increasing our ambition for the share buyback program, moving into the high end of the bracket.

We have, of course, still our progressive dividend policy and we are moving the dividend to EUR2 per share. That's what we are going to propose to our shareholders. It's up plus 4% and that gives a pretty nice yield actually, given our share price today, around 4%.

And on bolt-on M&A in 2015, as you have seen, we've been not announcing major things but we've been working on projects which are fully in line with our bolt-on M&A approach.

Strengthening the balance sheet, of course, a strong cash flow conversion, which is beyond the 100% average target that we have through a long period of time; it had been the case, of course, over the last three years.

Nice reduction of the net debt to adjusted EBITDA ratio, so we have a very strong balance sheet and getting stronger.

And just here to summarize, a nice evolution of the dividend over the long time with a nice reward of our shareholders with this 4% increase.

And that's it, actually, for the financial presentation. Jean-Pascal, I hand over to you.

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

Yes. So, as we go into 2016, we recognize that the environment remains uncertain, full of diverse realities around the world. So we see continued growth in Western Europe and in the construction market in the US.

At the same time, headwinds from oil and gas, overall weakness in the US industry markets, still a difficult China market but we expect it to be less difficult than in 2015. Where, by the way, we did very good work of adjusting our costs and our resources to the new conditions of the market, so we showed a great capacity of adaptation. And we see mixed trends in the new economies, and you read the same newspapers as I do. We live in those countries and we see exactly what is described here, with pluses and minuses.

There is the decline of foreign currencies in some of those new economies against, the euro. We should face a material foreign exchange impact or headwind in 2016.

So what do we do in this environment? We keep working on our basics; base costs; productivity; adjusting our cost to this market; making sure that we keep increasing our advantage with our partners on our product business model, which we have been always doing, but keeping on pushing the advantage on this model; developing services on the install base where we are just at the beginning of the journey, and that's a great story, keeping on developing positively; developing our differentiation which express to a customer very often on the format of our software portfolio.

We connect products; data is aggregated and goes back to the customer on those analytics; and increasing selectively on projects by focusing on the sectors where we deliver well. Where we know where we can replicate solutions we have already implemented and replicate them and bring them to other customers.

Therefore, in front of such an environment, we target revenues which would be flat to down low-single digit and impacted by this selectivity on projects, particularly. And because of the ForEx, we target to have an organic improvement of adjusted EBITA from 20 basis points to 60 basis points. And today's best estimation that we do of the foreign exchange impact would be negative 40 bps to 50 bps.

So that's about the guidance. That closes the presentation and we are happy to take the questions.

QUESTIONS AND ANSWERS

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

Thank you, Jean-Pascal. Thank you, Emmanuel. So before we start Q&A, just one housekeeping item. For the journalists, we will have a dedicated Q&A session for you, so please hold down your questions. We will do the Q&A session first with the analysts and investors.

So first we start with the people in the room for the Q&A. All right. Gael De Bray.

Gael De Bray - *Deutsche Bank - Analyst*

Gael De Bray, Deutsche Bank. Three questions, please. The first one is on the guidance where you expect continued positive growth in Western Europe in 2016. But for how long would you expect Europe to actually remain immune to the ongoing industrial recession in the US and China?

Second question on the connected product strategy. You said that you increased the number of connected assets by 45% in 2015. But I can't really see the positive impact on the mix in the bridge, so do you see some reluctance from customers to pay a premium for these connected products?

And the third question is on Invensys which apparently delivered a very, very strong performance in the second half on the margin side. If I do the math correctly, Invensys probably improved its margin by 400 bps in H2 on a year-on-year basis to between probably between 18% and 19%, I would say. So, what's really driving this performance and maybe shall we expect part of this outperformance to reverse out in 2016? Thank you.

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

So, on the eurozone, there are several positive factors today in Europe. There is, of course, the low level of the euro. Remember that you are speaking about industry. Europe is a place of OEM machine manufacturers. The export on the euro level is a benefit to them. Then we've got the low interest rate for investment in some countries. So all of this is rather positive at the moment.

So we see, not in every country, but a renewed sense of confidence on positive elements which are driving the economy. Plus the fact that many of our segments have reached the bottom in the past years.

Take utilities; there has been a lot of restructuring and re-basing in that sector. [Also], some investment has to take place, which is the same phenomenon applying to some of our industrial customers, and the same thing applying also in markets in construction.

To be mentioned that we've seen recently a quite important wave of construction of datacenters. You've seen the political movement which is, according to me, justified for the residency of data on the territory. We know that a large part of the European data are in the US. So today, companies, not only the big ones but IT companies are building datacenters in Europe and this is a place where we are exceptionally positioned to welcome them on a Company's aim.

So if you take all of this, I'm not -- this is Europe, so it's not exactly flexible. I'm not expecting a huge rebound but what we see is much more positive on the market. That's all the more true in countries which have reformed and countries which have been hit.

The best example is Spain which -- of course, it has gone on tremendously, and we've shared that with you over the past few years. And today it's rebounding because the society has restructured, the companies have regained in competitiveness and that's benefiting to the companies in those territories and we are rebounding with them. So, that's one.

On the connected products, well, it's just the beginning of the journey. It's still small in our portfolio. Is there a reluctance of our customers? It depends highly on the application, and there are many ways -- it would need a specific session. There are many ways to connect your installation.

You can do it directly with a product to our cloud that is accessible to the customers, but in most of the cases, it can be also connectivities for a local monitoring system. Part of it is remaining on premise and is immune to possible attacks. And a part of it is data which will be exported unused by analytics and algorithms.

We see a whole variety of connection capabilities that we are putting into place with our customers. When it's not mission-critical, it's direct connection, it's secured by us. When people are more nervous, it can be a progressive connectivity that we are putting into place.

What I'm saying, only just the beginning of the journey. We brought the first offer a few years ago. We've been growing that connectivity. I consider it's a bit too early to speak about it but we are going to be more public about what we are doing into that in the next coming quarters.

Now, do you see a premium? When we sell connected products, it comes with a premium and it enabled us to compensate for some of the weaknesses of the markets. It comes with a premium which, by the way, is paid for very quickly by the benefits.

So we've spoken many times about the fact that the connected building, if it's driven to energy efficiency, is in the return of investment now trending from five years to three years and sometimes below three years, and that's true in almost every application. So what you overpay at the beginning is paid by the TCO of the installation.

It takes time for people to realize it, but we see more and more people going on that journey and it's becoming a part of the value proposition of the price. Now, not many companies are able to propose a full system.

So, we are not isolating connectivity because more and more of our systems are connected today and it's part of the pricing and the functionality that we propose on the market.

Performance of Invensys --

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CFO, Finance & Legal Affairs*

Shall I take this one?

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

Yes, sure.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CFO, Finance & Legal Affairs*

Because I think that the question is largely behind what are the drivers for the margin improvements and of course jump in, Jean-Pascal, whenever you want. Several things, of course.

First of all, you will remember that at the end of H1 we are extremely clear on the fact that the performance of Invensys on H1 was not a normative one, that you had a number of one-offs and that maybe you should probably wait for the full year to see the global performance on Invensys and that probably some elements in H2 would come to compensate. And in any case, we said H2 is going to be much better than H1. And that's exactly what has been happening.

So first of all, the mix has been positive, so very good growth on software coming at very high margin, so that is helping the margin globally. Margin improvement on some projects as well in H2 which has been contributing as well.

Now, in front of the situation of the market, we have been accelerating the synergies. As we have seen, we have almost delivered in two years almost 100% of the synergies with a strong acceleration in H2. So clearly this is also contributing to the margin. And I would say that beyond the synergies, we've been implementing a number of cost actions in order to cope with the evolution of some of the markets of Invensys.

And last element; there was a big R&D investment in H1 on lower volume, which was impacting significantly H1. In H2, we are not necessarily at the same level of investment with higher volumes, also a mechanical significant improvement of the margin.

So these are the various elements which explain the very strong H2 performance on Invensys. Let's be clear; we want Invensys to be a high margin business, notably thanks to the software, by the quality of the business and the stickiness that we have.

We said it; we are very happy with the quality of the asset, best in class, so this has to be a high margin asset and we want to drive in the future the margin of Invensys still up, obviously.

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

My instinct is that the combination of Invensys and Schneider has been a great thing, because when you choose a safety system or [this year's] system, it's a big commitment. It's like choosing an IT system.

And, of course, the fact that Invensys was relatively smaller than its competitors on the market, it was creating a doubt about its relevance long-term on the market. The fact that it's now part of Schneider, that we reinvest in R&D, that we combine our capabilities, has completely cancelled this question mark. And we are reopening doors of discussion which are the cycles of all those industries.

They can be downstream, chemical, petrochemical, they can be on other flow industries. It takes time to go through the order, but clearly the doors are clearly open and the full portfolio creates a lot of credibility, both for Invensys and for Schneider, because we can really combine power and automation and software systems into one package and with one responsibility.

On the -- [I see that] today we are reinvesting in R&D to rejuvenate the platforms, which is according to plan. And that should benefit in the next coming years. So there are plusses coming from the integration but there are also minuses on the profitability coming from that reinvestment.

Delphine Brault - *Oddo Securities - Analyst*

Delphine Brault, Oddo Securities. Two questions. The first one is how do you see growth and net pricing evolving in 2016?

Second question; a few words maybe on China. What is your analysis of the situation? When can we expect some improvement? You say you expect China to be less negative in 2016, but is it because of some underlying improvement, or is it because of the less unfavorable base effect. Thank you.

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

On pricing, I remind you what Emmanuel said; our pricing is positive outside of China. On China, it was a conscious decision, and I don't repeat what Emmanuel already said, lowering the umbrella of price on the premium market. On the local market, adapting to the local use of pricing according to cost, which conscious decisions that we made.

We intend to keep working on the net pricing. There is a kind of logic in our market that with some delay, pricing will follow a bit the raw material cost with some delay and with variations and it depend on the points, but you have an impact of the raw material cost on the pricing.

And we really work on it and it has fallen positive last year and we don't expect it to turn negative this year. There is the solid fundamentals of our business. The level of new products that we are putting on the market enable us to price very correctly our products.

In China, I would expect taming of that readjustment of pricing. We've done what we should be doing, and now I think we have -- but it depends also a bit on the raw material cost.

Now speaking about China, well the first point to say is that of course 2015 has been an adjustment on the China market. But after so many years of very strong growth, I'm not complaining particularly. I think China has been a big contributor.

When you look at the future, we all know that China is going to the new normal, which is an economic transition; it's going to take some time. But it's still the biggest place for urbanization, for industrialization, for digitization.

There are things today -- not things, there are major policies of China which are going straight into our direction. The research for less polluted cities is going straight to energy efficiency, because one the major sources of particles is electricity generation. So if you consume less, you emit less.

Manufacturing in China in 2025, which is looking for automated production to cater for the increase of cost, and also look for more quality, is straight in our area of expertise, and area of excellence. Everything we do in digitization is supported by the Internet, plus a direction. So we are really in the major direction of the government. And, again midterm, this is still the biggest place on earth.

Now I'm still expecting a difficult 2016 because we are still in that transition of sectors. So what do we do? One, we adapt our cost base and our resources to this new reality. It's about geographical coverage of the country. It's about the supply chain that we have quite significantly displaced ahead of the curve in the past four years, to regain cost competitiveness.

And on the other side, it's to reposition ourselves in segments which are more positive, and there are plenty of them. At the moment, we suffer from our success in construction because construction is less positive. But you have good segments in China, waste water, environmental protection, transportation, everything which is linked to the consumer, where we are reallocating resources to displace our positioning.

This is what we do. And I would expect that 2015 was the highest adjustment and that 2016 should be more stable.

It's not bad, by the way, after so many years of fast growth, to have years where we trim ourselves, trim our organization and question because, well growth forgives a lot of sins. It's good that at the moment, we are repositioning our China organization to make it more efficient. And the teams are fully on it, I can tell you. They are motivated to show, once again, they are the best in the world. They are slightly competitive, our Chinese teams.

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

Any questions in the room? If not, we'll switch to the people over the phone. All right, the first question from the phone.

Operator

Andreas Willi, JPMorgan.

Andreas Willi - *JPMorgan - Analyst*

My first question is on the emerging market trends where, outside China, maybe Russia, you have seen some good trends. Maybe give us some more commentary how the year ended in markets where maybe we have some increased concerns now, like the Middle East or Brazil, or markets like that.

The second question on China; a follow up on your earlier comments. There are some markets that are quite good in China; food, beverage, environment, rail and the like. What do you see in terms of competitive pressure in these markets? Because I assume a lot of players want to reposition out of these heavy industries, which are structurally impaired. What do you see in pricing in some of these good markets in China?

And the last question. When you talk about the revenue guidance for 2016 and the impact of selectivity on projects, could you potentially size that a bit in terms of what the impacts from that is relative to what you expect your underlying markets to grow in 2016? Thank you.

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

I will try to share that. On emerging markets, we didn't say that Russia was going great at the moment. We still see Russia being weak. I think we are just doing a great job of adapting to the new reality. We are quite local in Russia, so on one side we are submitted to pressure and volumes. On the other side, we are getting very competitive on costs, on everything which is our local presence.

And that's a benefit of us everywhere. We tend to be more local than our competitors, so in that movement of currencies, on [surfing] that unstability, we naturally hedge what's happening on the market and on the currencies by our local presence. But, again, I'm not -- we are certainly not a macro economy; you are better equipped with those guys into your companies.

One, yes, we see weakness in Russia. We see weakness in Brazil. It's not the case of all the countries in South America. For instance, we see of course a deteriorating situation in Middle East. But we have a big backlog in Middle East, and we are not extremely exposed, except with what we do in automation, to the oil industry.

In energy, we do a lot of the urbanization cities, which tangentially the governments tend to push to preserve social order in their countries. But we are preparing for the adjustment but we benefit from a strong backlog.

On the other side, Emmanuel was mentioning India as a positive place. East Asia also is showing better trends than before.

So once again, what we are playing here is a balance of our exposure. And the fact that in some markets which are impacted by a lower CapEx, the characteristics of Schneider is to be positioned with partners on smaller projects which benefit when there is less CapEx and people have to retrofit their installations wherever they are. It can be in buildings or it can be industry. So a very resilient system and a very resilient balance of countries.

In China, well first remind you that we are not very positioned in heavy industry. That's not our sweet spot as Schneider. We are more positioned in smaller projects, smaller installations, lighter industries.

We see competitive pressure, but China has always been competitive. There is nothing new under the sun. We just have a very local [dispositive], very competitive incompetency, or incompetence, and very competitive in costs. So nothing really new. We spoke about pricing. But we did a great job to adapt our cost base and to resist, or to protect, our level of profitability, and our capacity to invest in the country.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CFO, Finance & Legal Affairs*

On the impact of selectivity, we cannot be totally precise, but it could be a few hundred million. So we are not able to give what would be the definitive number because that will depend on many things that can happen during the year. But if we're mentioning it, it's that it's because we think it can be sizeable and meaningful for the Group. And today, we think it could be a few hundred million impact through the year.

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

And it's not -- on your question of financial, it's more so a question of our relevance on the market. We want to deliver packages and solutions in places where we are not competing at all with partners. If we can do it with a partner we'd privilege the option of doing it with a partner. And we want to do those solutions and packages and integrated automation in the places where we bring a true value to the customer.

So we've learnt as we are developing. We've acquired companies. Sometimes those companies we are not completely focused where they should be. By learning, we want to make sure that we position in the places where we can make a true difference.

Andreas Willi - *JPMorgan - Analyst*

Thank you very much.

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

No more questions?

(technical difficulty)

Unidentified Audience Member

(inaudible) energy storage or electric vehicle charging, well these two at least, please.

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

We have a number of, I would say, we call them our own startups. We incubate them in specific entities inside the Company; they are relatively small to the size of the Company. So we keep developing them. But they are very, very, small in the context of our Company.

So electric vehicles is keeping going. And actually, I would think that we are leading in this sector in Europe, at least in terms of volume. And we are partnering more and more with other companies to make sure that we explore all the capabilities of those new technologies.

In the field of storage, we do storage traditionally as a major part of our IT industry, IT business. From that point of view, we are probably one of the biggest companies in the world charging, discharging batteries to secure the installations.

Now we see storage not as a business in itself, but as a part of a movement to a more decentralized generation mixing renewable generation together with storage. And what we see today is that the decrease, the massive decrease of costs on both sides, is making that solution more and more convincing, especially when we operate into new economies, that's really a non-disputable kind of solution.

So take a country like India; we are the Indian leader of storage. It's not storage for the rich, like has been debated a lot, but it's very recognized, very solid, very safe, and high performing kind of storage.

So when you live in a country where you've got four power outages a day, the first thing you need in electricity is a system that will secure your power. Add to that the culture of Schneider, going to the bottom of pyramid to help people secure their energy, it has become a pretty sizeable business.

So we do that in emerging countries. We complete it with EcoBlade that was introduced in COP21, combined with what we do in solar which actually has been growing fast last year. We really believe in that energy. And these are our internal startups that we keep developing.

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

Are we back to the Q&A?

Operator

Martin Wilkie, Citi.

Martin Wilkie - *Citi - Analyst*

Apologies if this question's been asked already but I think there's been some technical problems with the line.

Just on the software strategy, you mentioned that was a big benefit to the margin with Invensys. But if you could just talk about what your views are on the strategy of software after the Aveva deal didn't go ahead as expected last year. Just if you can talk about -- is that software business suitable scale and suitably resourced and so forth on a standalone basis? Are you still looking for a partner? Just if you can give me some sense on that.

And then just a broader question on M&A, you have talked about some pruning of the portfolio further, some bolt-on M&A. Just if you could give some clarity on size for both of those items that would be very helpful. Thanks.

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

Well on software, the reason why we called off the discussion with Aveva is discipline. At the point of due diligence and at the point of considering the retail investment, and I don't want to comment on that. But we are committed to software as far as it makes sense for our systems and for our key markets.

So we are specialized in that portfolio of software which today is making visualization of systems, which is making the manufacturing execution system, asset management, scheduling, planning of installations. And more and more going into the design of installations.

So this is a place where we're open for acquisitions, and we did a few in the past two years of small companies. And a place where we are also very open to partnerships and we keep developing partnerships. We are not always vocal about that. So that combining our software with other portfolios, of other companies, we offer better functionalities to our customers.

What I saw in the recent past is in the research of more efficiency, facing pressure on cost. While our customers coming back to us and saying well can you work with us with software to help us reduce our costs and improve our performance.

On acquisitions, well we can answer together but nothing has changed.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CFO, Finance & Legal Affairs*

That's exactly right, Martin. I think that on acquisitions, nothing new in the message that we conveyed in 2015. Pruning the portfolio is about identifying non-core assets where we don't see the natural, I would say, synergy with the rest of the business, where we don't see our capacity to put the necessary resources behind the business to grow it further. So that's going to drive a decision on pruning the portfolio.

And on the bolt-on, I think that rather than to give an amount, we defined them as something which would fit on an existing platform, that we could hook to an existing platform with, of course, willingness to focus on what is absolutely core to us, what is coming with good margin, what is coming where we already enjoy very strong market share and leadership to make sure that we do good M&A generating like we are doing with Invensys; strong synergy and strong returns that's going to drive the nature of possible bolt-on acquisitions.

Martin Wilkie - *Citi - Analyst*

And just on the pruning, when we think about size, what you did in 2015 in terms of revenue size, is that kind of a scale we should be thinking of; nothing more drastic than that, but that sort of level?

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

First, you will understand that we never communicate on that before the announcement, of course. But, no, we have the portfolio that we want, so that means there is nothing drastic here.

Martin Wilkie - *Citi - Analyst*

Very good. Thank you very much.

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

Next question?

Operator

Ben Uglow, Morgan Stanley.

Ben Uglow - *Morgan Stanley - Analyst*

I had a few. First of all, coming back on the projects, the selectivity around projects; my understanding, Emmanuel, of the explanation on the last question, that few hundred million, is that what would be coming out of revenue this year?

And I guess, what I'm really interested in is how big is the overall opportunity within Schneider, i.e., if you go through all of the divisions and you identify how big that project business is, is this a EUR1 billion sales item in Schneider, is it EUR2 billion? Can you give us just a way of thinking about how big that overall opportunity on projects is within the Company? So that was issue number one.

Issue number two is, in previous conference calls you've kindly given us some data points around your China business, and I think that it's fair to say that in 2Q and 3Q you were running down broadly in the mid-teens, something like that. What I wanted to know was in 4Q, what type of growth rate have you seen, and has there been any evidence at all, in your opinion, on sequential stabilization?

So year over year, are the comps actually getting any easier now?

And then finally, and this is going to seem like a really dumb question, I wanted to understand properly your FX guidance. Because in 2015, obviously, we had a very positive translation effect on the top line and then we've had this negative FX impact on EBITA.

This year, clearly, we're going to have the negative translation impact on the top line, but actually a pretty big, 40 to 50 basis points, negative FX effect on EBITA. And really what I wanted to understand is what is different in the composition of the negative FX impacts?

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

That's a great question for Emmanuel. Playing with the currencies -- playing, well dealing with the currencies.

So look, Emmanuel has already formulated an answer on the projects, a few hundred millions.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CFO, Finance & Legal Affairs*

But, Ben, to clarify that, the impact that we expect on the organic growth of the year, of 2016. I don't know whether this was your question, but that's what I understood.

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

Or now, if you want to size the opportunity at Schneider, you know that we do more than 40% of our business in solutions. Among that 40%, 25% of that [43%], 10% of our total turnover roughly is services. So make a difference, not everything is project in the rest, but you've got an idea of the size of the opportunity to be performing better.

And you know that in the past years, it was an area of development of business, but it dragged our mix down almost consistently, and we are resolved now, it's not the first time we speak about that, to change that dynamic. But I think now we've got the right way to do it. So anything between 10% to that 40% is a size of the opportunity.

On China, I'm a bit lost in your mid-teens actually.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CFO, Finance & Legal Affairs*

Yes, I think your question was on Q4, Ben, and we were close to minus [10%]

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

Same dynamic.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CFO, Finance & Legal Affairs*

So, slightly better than Q3, because comps were easier, but actually nothing pointing to an improvement in the situation in the underlying trend.

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

And, again, no surprise with respect to the dynamics, the global dynamics of the China market, on the readjustment it's going through. ForEx?

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CFO, Finance & Legal Affairs*

On the ForEx, bear with me. So first of all, regarding the top line impact; quite clear. The big positive, as I said, was the dollar, the Chinese yuan and all the currency pegged to the dollar in 2015. Well, what we expect for the time being is whether for the dollar or the Chinese yuan, we should have here a little bit of negative, rather than the big positive that we have had in 2015, in 2016. So first element.

And then, of course, you have a full basket of currency which has been depreciating, quite significantly, versus euro, and that's what is explaining the EUR1 billion.

By the way, it's not only emerging countries, but if you take the British pounds, we seem to be set for some depreciation of the British pound versus the euro. So a number of currencies now turning down, in terms of trends versus the euro. So that is the impact on the top line.

And then on the margin; we are facing, and by the way that's what we've seen in H2, a big squeeze notably coming from all the countries exposed to commodities where the currency has been going down, and you have a double squeeze, I would say.

First of all, in any of these countries, some of that cost is in out-currency anyway because whatever it comes to copper, price of energy, the price of silver, steel, nickel, whatever, it's priced in out-currency. So if the currency has been going down versus, I would say both euro and dollar, it has an impact.

And the other reason is that in some of these countries, they are not fully autonomous in terms of local production; they keep importing from area of out-currency and that can be creating a squeeze on the margins. So these are the two dimensions explaining, starting in H2 by the way -- Ben, you have it already in H2, the acceleration of the negative ForEx impact on the margin that we anticipate for 2016.

I hope I've been clear on this.

Ben Uglow - *Morgan Stanley - Analyst*

Yes, that's very clear. Thank you very much, both.

Operator

Andre Kukhnin, Credit Suisse.

Andre Kukhnin - *Credit Suisse - Analyst*

Firstly, just on SFC savings and the dynamics there. I think the message before was the EUR400 million to EUR500 million and the EUR200 million reinvestment against that. So how should we think about that reinvestment part in the context of the new EUR600 million target?

And more specifically, for 2016, do you expect more of a catch-up of the reinvestment versus the savings? Because my understanding is that in 2015 there was push for savings, but not much for reinvestment.

And then secondly, just a follow up on this large project mix effect, the large projects pricing effect within the mix part. In 2016, should we expect that to still be there as a negative for the year overall?

And third question is just on industry margins, that margin has held up very well in the second half of the year compared to some of your peers. Was there anything in there that may be operational, but of a one-off nature that helped that performance?

And maybe more specifically, were your production levels in line with what you were selling at in that period? Or did you build any stock? Thanks very much.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CFO, Finance & Legal Affairs*

I think I can take most of that, Andre.

First thing on the reinvestment, it's true that in 2015 we've been lower than one-third of the EUR200 million, and I don't know what -- I am not able to say whether ultimately we'll do the full EUR200 million. It is clear that in a world which is probably more challenging, that's what would have been anticipated a few quarters ago. We're going to keep reinvesting, let's be clear, and we've done that.

It has been probably close to EUR50 million in 2015, but of course we'll monitor due to the situation; we'll see whether we land on the EUR200 million.

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

Just to complement on that, we've reinvested; I mean services don't come for free.

To take an example, what we do in digitization which takes a cycle time to be executed, digitizing our commercial expense, digitizing also the connection to the customer, is something which is costing before it yields return. The investment of what you are mentioning before, in what we call our start-ups is not profitable day one. It's just investment.

So yes, we've been reinvesting pretty much a bit below what we had said, but not so far. So it's about saving on reallocating, and preparing the future.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CFO, Finance & Legal Affairs*

On the mix impact, the kind of recurring mix impact that I have described on geographies and mixing between product, within product, product solution, yes I would expect that to continue. I don't know what will be the magnitude, but if you look at the past, around 60 basis points, a bit above, a bit below, but at the kind of trend that we have seen in the past.

Where we clearly want to make a difference, but it's not going to happen in a few months, is at the level of margin on project, we've said it. It's about selectivity, it's about focusing on where we make a real difference for our customers and we can price for that. So we hope and we target to deliver a better performance in that respect in 2016 than in 2015, but all the improvements that we are targeting are not going to happen in one year.

So again, looking for improvements; we have a path for that, but it's going to come progressively.

And on your last question on industry, yes you have one element that I think you should take as not one of, but a pure explanation for the margin to be better in H2, is everything we have been doing on synergies, cost on Invensys, plus very positive mix. I'm not saying this is going to reproduce itself each half-year, so this has been clearly helping margin evolution. And maybe, and I let you make the diagnosis, make a difference versus some of our competition.

Andre Kukhnin - *Credit Suisse - Analyst*

That's very clear. Thank you very much. Can I just -- a very quick follow up on China. I'm sorry to labor it, but that message on being negative, but less negative in 2015. Is this linked primarily to expectation of destock subsiding during 2016, or is there an expectation of underlying to improve as well?

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

The marginal part of it is just a new base of comparison and our own action to review our positioning in the market.

Andre Kukhnin - *Credit Suisse - Analyst*

Got it. Thank you very much.

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

Right, we'll take the last question please.

Operator

James Stettler, Barclays.

James Stettler - *Barclays - Analyst*

First question on industry where you're looking for a nice improvement in margin this year. Can you talk a bit about what end market support you're seeing, smart grid renewables and really whether you have all that it takes in that division. First question.

And then second question just longer term. If you look back at 10 years of M&A, can you talk a bit about what has worked and what has not worked, and what lessons have been learned looking forward in terms of future M&A? Thank you.

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

James, just to understand, you say industry business, and then you speak about grid and renewable. Are you --

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James Stettler - *Barclays - Analyst*

Sorry, I meant infrastructure.

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

Infrastructure, okay.

James Stettler - *Barclays - Analyst*

Yes, sorry.

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

Okay I'll do this. We see those markets developing further, still small to our scale. And we are developing selectively, but here, clearly, we've got the whole set of capabilities to develop. We've got the full system.

We don't have the solar panels, but we've got the whole balance of system for solar and wind. We've got all the intelligence that we've built over the past five years, going from the distribution management system, advanced distribution management system, combined with substation automation, combined with power automation.

We are always -- we are also able, and we do that in some countries, review the utilities to go beyond the meter to organize services of energy efficiency.

So those are businesses that are developing. Today they cost to our margin; they are not as profitable as the rest because we have to pay for the [growth], setting up the competences. But this is a place where we remain very focused, and we want to keep pushing the advantage. So that's one.

On the acquisitions, what has worked and what has not worked. That would probably need more than the two last minutes of our presentation today.

But if I want to summarize, we spoke about Pelco which has been a disappointment, and that was a decision that I made at that time. If I summarize, the more those acquisitions were in the core, they were plugging in naturally in what we do, the more they have been successful.

And we have been vastly successful with our acquisitions because we have a very clear strategy which is to have a very integrated portfolio that are plugging in together, mixing power solutions, automation solutions and software on the top of it.

But the two big components are that convergence of power and automation will build the portfolio bottom up, and when we have had issues, and there are not many at the end of the game, it's been in the case where it was a bit more lateral, and where those markets were going into very strong transitions which was the case of [video] when we did the acquisition.

So I think we've learnt a lot, we've learnt a lot of those experiences. The good news is that we've been very disciplined in targeting those acquisitions, building strong and focused leaderships across the lines. It takes more or less time to integrate that and to rebuild the value of those acquisitions.

I take the example of infrastructure, which is very logical for us, very synergetic with everything we do in low voltage. In the past five years, we've faced all the crisis as mentioned like utilities in Europe, mining, oil and gas, Russia. We are still now going positive on turning around our margin.

That shows that when you are in the (inaudible) business, when you can build a lot of synergies with low voltage, with automation system, of all sorts, it's anyway going to create value at the end. Most of the acquisitions we didn't face those headwinds, and they created value very, very fast.

Take APC, has been probably the most glamorous example of what we are able to do when we are very synergetic, and the market is a normal market.

So that's what we've learnt. I think I have a very clear idea of your strategy. Don't be too exotic in the way to build the portfolio, and everything that plugs it in multiple dimension is something that's going to be very successful.

James Stettler - *Barclays - Analyst*

Great, thank you.

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

It's what we intend to do when we say bolt-on; it's exactly the definition of a bolt-on for us.

Sorry, Anthony.

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

No it's all right.

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

You are going to free me and I cut you. That's very bad.

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

All right. With that, we conclude our conference today and thank you, ladies and gentlemen, to be with us today, and see you soon.