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## SU.PA - Half Year 2016 Schneider Electric SE Earnings Call

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**OVERVIEW:**

Co. reported 1H16 sales of EUR11.846b.

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**Jean-Pascal Tricoire** *Schneider Electric SA - Chairman and CEO*

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## PRESENTATION

**Operator**

Ladies and gentlemen, welcome to the Schneider Electric 2016 first-quarter results. I would now like to turn over to Mr. Anthony Song, Head of Investor Relations. Please go ahead, sir.

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

Good morning, ladies and gentlemen. Welcome to attend our 2016 first-half results conference call.

Today, we have our Chairman and CEO, Mr. Jean-Pascal Tricoire; and our Deputy CEO, Mr. Emmanuel Babeau with us. We also have a gentleman called Amita Bhalla with us as well. Amit is going to replace me as Head of Investor relations, since August 1.

With that, first, I hand over to Mr. Jean-Pascal Tricoire.

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**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

Thank you, Anthony. And I'm happy to make the transition from you to Amit on solid results; it's a good way to salute your contribution to investor relation.

I will go straight in to the presentation; a presentation of, as I said, solid and strong results in H1 2016. I'm going to move straight to slide 5, a picture of the Company at the end of H1: EUR11.8 billion of revenue, 40% of revenues in new economies, 43% revenues in solution.

Very, very balanced distribution of turnover across geographies. On the balance 50-50 between what I call our tertiary end segments, meaning on building and IT; on our industry and infrastructure segments representing 50% of the Group.

One of the strengths of Schneider, illustrated, once again, in this H1, is the resilience and this balance of geographies, on balance of end markets, is providing us.

Moving on to next slide, which is slide 6, well, again, strong results in this H1, in an environment which remains challenging and uncertain, but where we saw some signs of stabilization.

The first one is China, where we are down a low single-digit over H1; actually, minus [3%] in Q2. On where there are signs which are really interesting, like house sales, on the construction market are slightly positive, due to stabilization of the market, and a reorientation of our sales and marketing forces.

Oil and gas, which, I remind, is today 6% of our direct sales exposure, so being at a lower level, remains now more stabilized. And we feel that the stakeholders and our customers are getting more rational in front of that new environment, so decisions are now being made, with the consequence that some of the countries where we operate, like Russia, are doing better and is actually back to positive in H1.

Actually, the only element of disruption is Brexit, that we have talked about already, but where we see today an impact which is limited to the UK, which is less than 4% of our sales. Actually, we delivered a stable H1 in the UK.

The fundamentals of the performance of H1 is really the execution on all cylinders of Schneider is On. We had explained, 1.5 year's ago, the priorities of Schneider is On. It starts by a strategy repositioning of our business: do more in products, and do more in services. We delivered 0.3% organic growth in products in the first half, and 7% organic growth in services in the pure continuation of what we did in 2015.

The second part is better selection and execution of our solution business, which is in its dimension of projects and equipment. We are very happy to report that our systems margin, systems being the sum of projects and equipment, is up 1 point, thanks to better selectivity, thanks to better execution.

What I'd like to say also is that we are quite happy that in the first half Europe, North America, new economies outside of China are all up. On China, it's stabilizing. It's really all geographies which are going positive.

The second cylinder of Schneider is On is an intense work on simplification that we describe. We don't make much noise about it, but we work in-depth on this subject. We have a target cost reduction of EUR1.6 billion by 2017. We delivered, in H1, EUR300 million; one-third on base cost, two-thirds at the cost level, by productivity.

We have been realizing in the past 18 months EUR900 million of cost reduction for a cost of [restructuration] which is half of it. We're also attentive to the productivity on the return of [restructurations]. But there is a lot of work happening in our global supply chain, I'll come back on that, on the delaying, on the simplification of the way to work at the white collar level. This has been very visibly bearing fruits in H2 last year, but more so in H1 this year.

Second point, which is not mentioned here, is work on the supply chain really is having effects on the inventory, on the cash flow generation; and I'll come back on that in a minute.

The next two cylinders are about innovation on product launches, where we keep developing our connected offers, EcoStruxure,io, I'll come back on that later, plus 20% more products connected in H1.

On growth by innovation, a number of new product launches happening in H1.

At the end of the day, challenging uncertain environment; deployment, systematic and disciplined deployment, of Schneider is On; repositioning strategically the Company in the places in the business where we do best; learning and correcting the places of projects and equipments where we have to do better, and we start to show now for 18 months positive trends; on intense work in a time of low investment in the world economy on our structural costs, on our cash conversion.

Moving on to the next slide, which is page 7, well, good on all financial parameters; an adjusted operating margin up 80 bps, including a negative effect of ForEx of 80 bps, which means an increase at constant ForEx of 160 bps. This means that the adjusted EBITA is up 12%, organically. That translates straight in to a net profit, up 13%.

I'd like to mention here good performance in net pricing where, actually, we have a positive price outside of China. On China, benefits from high productivity, so we maintain the margin, whilst we have a negative price.

Last 12 months cash conversion at 123%.

We more than doubled the free cash flow generation in H1. So that's another proof of the good performance.

We keep pruning the portfolio and we achieved in H1, Emmanuel and the team achieved, the sale of Telvent Transportation.

One of the changes that we have in H1 is the deconsolidation of Delixi, where the operations are going the same, profitability going the same. Emmanuel will detail why we operate this change, which is actually a conformity to a -- compliance to rules of consolidation.

Then, next point is we are executing the program of share buyback. In the first half we bought back EUR320 million of shares, around an average level of EUR52, on the top of EUR600 million we realized last year.

Seeing the strength of this H1, and what we see coming in H2, we upgrade our targets for the full year. And I'll come back on that, later.

I move on to the next slide, which is the growth by business. I would say, well, very happy to see all of our businesses performing. All of them have different priorities.

So building and partners, up in a mixed market, but up by 1.3%. And you know that this is the big ship at Schneider; a very world-leader business at Schneider.

Industry, at minus 1.9%. Remember that we have a part of our business which is exposed to oil and gas. But this, and I'll speak in detail about that, is improving through the quarters.

Infrastructure, at minus 1.3%, which is the by-product of selectivity on projects. Actually, it would be plus 1% without the selectivity.

And overall today, as we show roughly flat sales on H1, the impact of project selectivity on the total portfolio is EUR70 million to EUR80 million, which means the underlying is plus 1%.

IT is delivering solid sales, flat sales, at a solid margin

When you look at the dynamics of those sales, well, you see continuous improvement in products and services. That's the strategic repositioning we have explained to you at the beginning of Schneider is On, on more selectivity on projects and equipment. And services, like in the whole of 2017, delivers a plus 7% of organic growth.

Moving on to page 9, and having a look at geographies, West Europe confirmed its rebound; and, actually, Q2 is at plus 3% (sic - see slide 9, "2%"). So we benefit from everything we know: a low euro, low interest rates, and low prices of [forceful] energy, which are helping as investment of the zone.

US and North America are back to positive in an environment where construction is doing well, technology is doing well. But we know that industry is impacted particularly by oil and gas and the high level of dollar.

On new economies, while China is down low single-digit actually, which shows a strong repositioning of our teams on the right segments, and the rest of new economies is growing actually plus 1% on the total of the first half, which I want to mention the rest of Asia, which actually is growing above 4%.

So, as we go to the next slide, this is a very important thing, part of what we do at the moment at Schneider.

In a time where markets are more mixed, we are really working on our internal performance, our internal whole organization, balancing costs and growth capabilities, therefore, reducing in the segments which are not growing; and, at the same time, reinvesting in the places that bring potential.

What I want to mention is that we do an excellent productivity in H1 with less volume, and, don't forget, inventory reduction translating in cash, which is adding to the volume reduction.

Big work on sales and operation planning maturity, reducing the inventory; big work on the consolidation of our supplier network and the quality value engineering on our products; big and continuous work on the footprint, rebalancing, and restructuring, while being very, very, targeted on restructuring that makes sense economically.

And I'm quite proud also that during the first half our supply chain has been recognized by Gartner as belonging to the top 20 best run supply chain, all industries included, in the world: a big recognition for the bold move that we took a few years ago to globalize the supply chain under one roof and operate our supply chain as one.

Second, a part of the work that we do in cost is on support function costs, where we generate in H1 EUR120 million gross SFC savings, on the top of the EUR300 million last year. Remind you that we have a commitment to deliver EUR300 million on the total of 2016 and 2017.

A lot of work on the simplification of our business organization and regional organization; a lot of work on putting together some business which were separate before; a lot of work on R&D efficiency; mutualization of the back office, which is something we have started a long time ago. So all of this, again, is carrying results in our environment.

Next point, which is part of our strategic repositioning, is delivering better on projects and equipment, which goes with, and I'm on slide 11, increasing the selectivity on projects; on improving the tendering procedure; reinforce the governance on the risk assessment; enhance the project management skills. And that goes with the significant consolidation of our [tendering] on project centers, on the rightsizing of the teams as we mutualize those teams.

The reasons we see today that the hit rate is improving significantly as we focus on the segments where we bring very differentiated added value, while the gross margin is improving during H1 by 1 point. And you'll see the effect on the industry and infrastructure divisions, which are the biggest carriers of those projects. And cash generation is better than what we used to do.

I want to mention briefly, it's probably not the main topic of the presentation of today, what we are doing in the next three slides, which start with slide 12, in terms of product on innovation.

The big event of H1 was the officialization of evolution of our EcoStruxure architecture.

You knew EcoStruxure as the integration of connected products on edge control, automation platforms. We have been working and we've kept you informed about each step of this evolution. We've been enriching or augmenting the capacities of this architecture with apps, with analytics, with services, with the setup of a cloud that we can put together on the customer's premise or on our premise, if the customer wants it. And we've built and end-to-end cyber securities department at Schneider that helps our customers to integrate those four components in to a fully cyber-secure environment.

On the next slide, 13, some examples of some products that were launched in H1 around this architecture. There are some very foundational products in this slide. I want to mention Masterpact MTZ, which is a world-leading product, which is the core of the low-voltage distribution.

While MTZ is bringing an unparalleled capacity of precision-one metering, which means that customers don't have to equip their systems of supplementary accessories to measure the characteristics of power, so that's incredible savings for people who have to control their process on their energy.

New launch of speed drives, which are saving 30% to 70% on energy, on motors, on preserving the mechanical assets, and complete renewal of our range of [relays] of protection.

Plus, the launch of Galaxy VX, which is our new range of UPS for large-scale data center, and for industrial applications.

More launches in the field of automation platforms; our BMS building management system platform; PES, which combines together the control of process on energy; micro grid controls. We are doing more and more micro grids, not only in emerging countries, but also in mature countries.

And our totally new system for Data Center Operation that is plugged on at the next level, which is the level of the analytics, to our cloud-based StruxureOn software, which helps customers to manage their assets.

And at the level of analytics, there again you see a number of new applications on analytics, which help our customers to manage their installations.

I want to mention also, very specifically, the number of new products we are launching on the home and small buildings space, which is a very significant space for us, and, actually, which is growing worldwide mid single-digit. It has been the case now for some years, where we enrich the system, going deep in to wiring accessories, in to home automation, and in to power automation in the field of home and small buildings.

This has been certainly the most success part -- one of the most success parts of Schneider in the past period.

So, this is about innovation and launches.

Now, I want to go in to the detail of each business, starting by the major business of Schneider, 45% of the Group H1 revenues, which is buildings and partners. That goes from home buildings, that is all of low voltage, that goes also -- that pervades in to our industry infrastructure. Well, very good organic growth at plus 1.3%.

In this business, we have been also selective with projects of building controls. So if you focus on the low-voltage product part, we have been actually growing quite well; I would say, around 3% for the total of the Company on a worldwide scale, which is a great performance in a place which is our areas of excellence on a global scale.

What are our priorities? Is really to prioritize every business we do with partners.

When we moved in to solutions, we learned about solutions and we realized we could channel part of our solution business though our partners; and this is something we are keeping on pushing.

Keeping pushing our strong expansion in to wiring devices and final distribution, which is growing mid single-digit; really a powerful and successful development.

Launch of new connected offers, which is MTZ, our connected breakers that I spoke about, this is Smart Panels; and smartly connecting the rest of the distribution to a full set of analytics.

Where we grow? In the US. We grow in West Europe. We are stabilizing in China because of the construction market, particularly in Tier 1 and 2 cities. We are having great results in India, South East Asia. Russia is back to up. And, again, a good success in final distribution.

What is really good, too, is that sales growth goes together with profitability growth; almost 2 points. This part of the business has been benefiting from what we do in productivity the most, raw material tailwind, which is important in H1.

Net pricing, I spoke about it, plus 1% outside of China. China has been protecting its margin on the base of very strong productivity.

Cost cutting, with a lot of simplification, especially putting a larger base of business together.

On some scope effects, particularly the effect of Juno deconsolidation, [that has been], in this case, quite neutral.

IT, as I to the next slide, which is slide 16, reaches 15% of the Group results; slightly negative, well, flat sales; actually, decreasing profitability [fractionally]. But actually, it's up 10 bps if you exclude the ForEx impact.

Why is it -- why is the ForEx impacting us here? Because it's a lot of electronics, and electronics currency, which is the dollar, is impacting more the margin that in other places.

What are our priorities here? Privileged product sales for the IT channel, on the electrical channel; keep on pushing the advantage of supplying in a full data solution; leverage our new cloud-based software offering structure on; keep the service growth momentum, we have a lot of services around those very critical applications; and very strong cost control on this business to make sure that we stay lean, mean, and extremely competitive.

Growth in the US; growth in Asia; Europe market, soft.

Services, solid.

We keep working, as I said, in protecting the margin in this business, and keeping growing this business, linked to digitization.

Moving on to slide 17, going in to infrastructure, what I would say is that the priority is keeping on improving the margin. So 70 bps of improvement in H1, that goes after a 50 bps continued improvement in 2015.

This is a business which has been impacted a lot by ForEx. Actually, without ForEx it would have gone up by 2 points, so that would have been -- well, that has been a spectacular improvement before the ForEx.

The other priority is more and more services, more and more products. We want to execute better the systems that we select more precisely. And we keep cutting cost on rationalizing the industrial footprint.

So, if you exclude selectivity, this business was growing 1 point organically in H1. Again, services going up.

Actually, we did better mature markets on this H1 than in new economies.

And I spoke about the root causes of the margin improvement.

Moving on to slide, next slide, 18, on industry, well, there again, progress on continuous progress, industry has been impacted by weaker markets, and especially the collaterals of the oil and gas evolution. Q1 was at minus 2.3%; Q2, minus 1.2%, resulting minus 1.9%.

Work on profitability, plus 40 bps in terms of adjusted EBITA. It would have been 1.2 points before ForEx there, again.

So what we want to do here is grow more business through partners and integrators. The business that we do with machine manufacturers, particularly in Europe, is doing very well, so we keep pushing that; grow software and key segments; rebalance our exposure outside of more depressed markets at the moment, and we really see dynamics which are very different market by market; and continue to control the costs.

We had good dynamic in Europe, boosted by OEM markets. We are impacted in the US by oil and gas and strong dollar, which impacts OEM. We had a decline in China, which remains a difficult market.

Process automation, actually, which is the legacy of Invensys, was slightly up in a weak market because it's impacted by oil and gas particularly. But we kept benefitting from the revenue synergies on the cost synergies of the integration of Invensys.

A quick look at a continuous focus on sustainable development, with a lot of recognition of the commitment of Schneider in this. Lots of progress. We are above the targets of our barometer, which measures us against the main [change], with particularly good performance in energy savings, and development of circular economy within Schneider.

So, a pretty busy first half, but very focused. Again, nothing very sophisticated, just the deployment of Schneider is On, proven, and its great, by the result of good figures.

Now, I would like to hand over to Emmanuel.

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**Emmanuel Babeau** - *Schneider Electric SA - Deputy CEO, Finance & Legal Affairs*

Thank you, Jean-Pascal. Good morning, everyone. Good to be with you to comment this good set of results. Jean-Pascal has already highlighted many drivers for our performance, so I am going to enter in to more detail on various dimensions that he has already been commenting.

Starting of with our sales, and I'm on page 21 of the presentation, our sales amounted to EUR11,846 million. It's flat organically. And I will comment, in a minute, by region, the performance. But in total, it's down minus 7.8%. Two reasons for that: the ForEx impact, and the scope impact.

Let's start with the scope impact, which is significant, minus 4.1%. You have the disposal of Juno, of Telvent Transportation, and these are two significant impacts. And you have also the change of consolidation treatment for Delixi.

So far, Delixi was integrated globally in our accounts. I'm sure you will remember that this is a joint venture in which we own 50%. And nothing has changed in this ownership and in Delixi during this first half.

But the rules governing the consolidation for this type of joint venture are quite complex; this is the IFRS 10. And during this first half, looking at the way the governance is organized, we came to the conclusion that, looking at the various criteria that IFRS 10 is detailing, it was more appropriate to change the method of consolidation and go for [equity] method.

Let's be clear, it doesn't change at all the net profit, so it has no impact on the net profit of the Company.

And we are, of course, absolutely preparing to give a full follow up on the Delixi numbers. You have, in appendix, already the full set of numbers for last year.

And what I want to share with you regarding this H1, first of all, regarding the organic performance of Delixi, it would have been a bit better actually than the whole China performance. China has been decreasing a bit more than 3% globally when the Delixi organic performance was a bit more than 1% decrease, so a bit better than the average.

In term of margin, there was a big difference between H1 and H2 last year with a strong H1 and a weaker H2; an average for the year of high single-digit, 9.7%. We expect for the full year this profitability to stay about the same, and stay in line. And this is exactly what has been happening in H1. The profitability in H1 is absolutely in line with the profitability for the full-year 2015.

And if we haven't -- if we had not changed the consolidation method for Delixi, the adjusted EBITA margin would have been 13.2%. So the improvement is not coming from Delixi; it's coming from the good work that we have been doing elsewhere. And that, I will further comment in a second.

So, that was for the scope impact.

Regarding now the ForEx, many currencies impacting us. No surprise, of course. Chinese yuan; British pound; Canadian dollar; Australian dollar; Indian rupee; Russian ruble; Brazilian real, they all have been depreciating versus the euro, creating a significant impact in each one.

Now, looking at the full year, we would now expect, as we mentioned at the end of Q1, a close to EUR1 billion negative impact for the top line. So, we are not changing our view on that one.

And we are slightly upgrading by 10 bps the impact on the margin. We are at 40 bps to 50 bps negative. We believe now that given the volatility that we've seen in Q2, the evolution of the British pound, we could be negative by 50 bps to 60 bps.

Looking now at the performance by region, Jean-Pascal has already highlighted a few elements, Western Europe positive, plus 2%. We've been growing in Germany, in Italy. We have been growing in the Nordics. We are flat in France and in the UK. And we've been negative also, on high comps, on Spain.

North America is up 1%. US is up 1%, with construction still going well and growing nicely, and more than offsetting more difficult performance in industry and infrastructure.

Canada was negative, with a difficult situation in the country, driven by commodity prices. And Mexico was nicely oriented.

Asia Pacific, minus 2%. So, I've highlighted the Chinese performance. Jean-Pascal talked about our success in India. Globally, in South East Asia, I can mention that Singapore, Vietnam, Philippines were all positively oriented for more than 4% growth altogether for South East Asia.

Two other markets were negative in Asia Pacific: Australia and Japan. Australia clearly being impacted, I would say, like Canada, by the low price on commodities.

Then, rest of the world, minus 2%, really a mixed bag. Central and Eastern Europe still positive. CIS positive. And, clearly, we think we have troughed in Russia. We are even growing in Russia in the building business, and in the industry business.

South America, outside Brazil, also growing.

And in terms of negative, we have Middle East impacted, maybe more than what we thought at the beginning of the year, by the low price on energy. Africa, negative as well. And Brazil, which, as expected, has been tough.

I am now moving to what certainly is the most striking element of our financial performance in this H1, which is the significant improvement of our gross margin rate moving from 37% last year to 38.2%.

And when we enter in to the detail of the performance, we can see that we managed to play positively with all the levers that can help driving up our margin.

First, starting, of course, with net price, a nice plus 0.8%. Net price was, of course, already positive last year. You remember that it's a clear objective that we have.

We keep adding the good contribution coming from raw materials, a nice EUR100 million positive in H1, which is -- by the way, most of the positive impact for raw mat, we expect very little, if any, contribution or positive contribution coming from raw mat in H2.

And besides this good news coming from raw materials, the good news is that we are improving the situation on gross price. We were negative last year because of China.

We are still negative in China, but during this first half we did manage to compensate the Chinese impact by growth outside China. And Jean-Pascal highlighted it; we are close to 1% growth on our price on products outside China, which shows our capacity, which is intact, of increasing price, even in a very low inflationary environment.

Next driver playing, once again, positively, even more than in H1 last year, productivity, plus 1.4%.

We have already mentioned all the drivers between procurement, between the optimization of the [manifit] platform, the re-engineering of our products; all that is driving the productivity up, and will continue to do so.

Next element, which is a very significant improvement versus H1 last year, and the full year, by the way, of 2015, which is obviously the mix, and show the result of all the work that we are doing.

The mix, which is almost neutral, when it was very negative last year at minus 1.6 points for the first half. And here, you have really the impact of the good job we have started to do, it's the beginning of the journey, it's certainly not over, on the improvement on margin, on system. And that is reflected here on the fact that the mix is no longer weighing down the growth of our gross margin.

Then, you have the traditional inflation on our labor costs for production, minus 0.3%.

The FX is negative by minus 0.7%. I'm not going to repeat the list of currencies, maybe highlighting the fact that the Chinese yuan, the pound, Canadian and Australian dollar, and Russian ruble are having the highest impact here on the gross margin rate decrease.

And then, scope and others, it's a positive 0.1%. The scope is positive by 0.6%. And Delixi is helping here, but it found its compensation at the level of the SFC. And the Juno and the Telvent transportation disposals are also helping.

And in front of that you have the traditional others, close to minus 0.5%, which is a number of technical provision, or impairments on inventories.

38.2% of gross margin; that is, therefore, delivering a gross profit of EUR4,528 million. And this is up, organically, plus 3.1%.

Next driver for our profitability on which we continue to progress successfully, this is our support function costs; a bit less at EUR3 billion for the H1. Minus 6% in reported change; and organic, minus 1%, which, of course, compares well with flat organic sales.

We keep managing to curb our SFC, and decrease our SFC, and create a leverage between the revenue evolution and the SFC. Jean-Pascal has already largely detailed all the action that we are implementing on our SFC to deliver this performance; and, of course, we'll continue to do so in the coming quarters.

All that drives an adjusted EBITA of EUR1,570 million, marginally down, of course, because of ForEx and the scope impact; but organically, we are up 12%.

The margin rate, which is showing the quality of the profit, the fact that we keep now on good track to grow our profitability, the margin rate is reaching 13.3%, plus 80 bps. And at constant ForEx, it would have been plus 160 bps. So without the ForEx, we would have been at 14.1%, so I think it highlight the quality of the improvement of the profitability during this H1.

I'm now going to go deeper in the P&L. Other income and expenses, it's negative minus 8%. Here, you have compensation between positive and negative. The positive here is, notably, the positive end to a few claims and litigation that we had, and which has a lot for release on provision for risk. In front of that you have the consequence of disposal and M&A; and you have some impairment of assets.

On restructuring, you have a negative EUR132 million. It's a bit less than last year. We anticipate, for the full year, to have a restructuring around EUR300 million.

We are absolutely in line with our three-year vision that we have shared with you already, which is to go for something like EUR900 million of restructuring costs over a three-year period.

Then, the following line, amortization of purchase accounting intangibles, here, you see a significant improvement by EUR50 million; it's only negative by EUR83 million. And it's a structural improvement because, in fact, we are coming to the end of some amortization linked with the acquisition of APC and TAC in the past. And, therefore, we have fully amortized a number of intangible assets, and that's why it's no longer here impacting negatively our profit.

That gives an EBIT of EUR1,347 million; it's up 10%.

If I now look at the finance costs, minus EUR246 million, the cost of debt actually keep decreasing by EUR18 million. And the average interest rate on our debt after [H] keeps going down. We were at 3.8% in H2, 3.6% in H1 2016. And we certainly expect the cost of our debt to continue to go down, so it's more good news to come. And, therefore, here, the increase is really coming from one-off, coming from the big volatility on the currency during this first half.

Income tax, EUR275 million, as expected, we flagged it. We are expecting an income tax rate to go up as we are ramping down the benefit of the Invensys acquisition. And today, we expect to be around 25% for the year.

And then, in share of profit from associates and minority interests, you have, of course, all the variations linked to the various element [considered] on that line; and you have here the Delixi number impacting. Once again, I repeat, the change is -- the [miss-synergy] of consolidation for Delixi is not impacting the net income Group share.

Precisely, our net income Group share is EUR809 million; and it's up plus 13%. So, a very strong progression of our net income Group share during this first half.

Another good news for this first half, which is the free cash flow generation at EUR446 million. It's more than twice the free cash flow of the first half of 2015, which was already showing some progress versus the first half of 2014. So we keep improving the cash flow generation.

Good growth of the operating cash flow, growing at double-digit at EUR1.3 billion.

CapEx, growing a little bit at EUR402 million.

Change in trade working capital, it's good news because it's a lower negative impact than last year. And it is a good job that we are doing on the receivable; and, even more important, on the level of inventories. Another tribute to the quality of our supply chain, that Jean-Pascal was mentioning previously.

And then, the change in non-trade working capital, the impact is also improving; and that's a favorable evolution on the amount of cash tax that we have been paying.

Below the free cash flow, you have the traditional dividend; EUR1.1 billion.

Acquisitions net, very little impact during this first half, very little seen to report.

The net capital increase is largely the impact of the share buyback. We continue to implement our share buyback program. We've been buying EUR320 million so far in the year at a value a little bit below EUR52 per share. And, of course, when we've seen our share price going down after the Brexit, we have taken this opportunity to buy on what we think where a very interesting level of our share price for a buyback.

And then, you have FX and other. Here, it's mainly the ForEx impact, once, again on our various treasury and debt exposure. And you have some consolidation and scope impact on that line, as well.

All that is driving a net debt level at the end of June of EUR5.7 billion. And we keep, therefore, having a very efficient generation of free cash flow.

That ends my presentation on numbers, and detail on our financial performance. Jean-Pascal, I hand over back to you.

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**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

Yes, I'm going to speak about the 2016 targets, where we have written everything on that slide. But we have delivered a solid performance and a solid growth around products and services; strong improvement in adjusted EBITA margin during H1.

Of course, we saw headwinds in oil and gas, in resource based markets, which are remaining.

We see growth continued in the US construction market, and in Western Europe. The China construction market, as said, showed improvement. New economies outside of China were up.

So, additionally, as we said several times, the organic growth was negatively impacted by project selectivity, which we anticipated at the beginning of the year. So, the impact of the said activity is EUR70 million to EUR80 million negative in H1, but it's expected to accelerate in H2, up to 2% of the turnover.

In the second half, the priority remains the same: it's to accelerate growth in products, software, services, select and execute better systems, and really keep focusing on costs, on cash efficiency.

We also realize that we're going to face conditions which are slightly different; a higher base of comparison in margin, we had a remarkable H2 in 2015. We are going to see an accelerated negative impact from project selectivity. We are going to have less favorable raw material tailwinds, and, actually, almost none; and a slowdown, possibly, in the UK, which today we estimate limited to the UK, due to Brexit.

So, based on this, and given the strong performance in H1, what we target is a flat underlying organic growth before project selectivity impact that should impact our sales by minus 2% in H2; and an improvement of the adjusted EBITA margin before FX of 60 basis points to 90 basis points, the negative ForEx impact on margin being estimated at 50 basis points to 60 basis points, at current rates.

That's what we see for the full-year 2016.

This being said, we are open now and ready for -- to take your questions.

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## QUESTIONS AND ANSWERS

**Operator**

Ben Uglow, Morgan Stanley.

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

First up, could you talk a little bit about the infrastructure division, in particular, and how you see the margin progression in to the second half? I think before you've been hopeful that, that could potentially be a double-digit margin business this year. You've had a 70 basis point improvement in the first half. Do we see that growth continuing, and potentially increasing? I guess, I'm curious to know if you are able to confirm the previous 10% target there.

And then secondly, can you just give us a sense of the industry environment in China? We've heard mixed reports from some of your competitors. You called out, in industry, some form of acceleration, can you elaborate on that a little bit, please?

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**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

Yes, Ben, thanks for these questions. In infrastructure, we confirm the objective of reaching an adjusted EBITA of double-digit at the end of the year.

Unfortunately, we've been really impacted by ForEx in the first half, probably more than we thought initially. But we are working on it, and what we do at [infra] is really encouraging. So, confirm.

In industry, in China we've seen a high single-digit negative in H1, due to weak markets. I was probably not clear enough: I don't see much of an acceleration there. But what we do is that we had a presence on OEM linked to construction, which is impacting us negatively. We are repositioning our presence on the market on segments which are doing better; and on that, I think will bear fruits in the months to come.

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

That's great. Thank you very much. I'll pass it on.

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**Operator**

Andreas Willi, JPMorgan.

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

First question is on your software business, if you could give an update there, how that's performing on growth and profitability; and what the strategy is there now, also regarding the two failed attempts to come to an agreement with Aveva. Is that chapter now closed?

And the second question, on your earnings bridge. The support function cost savings were quite a bit lower what's implied by your run rate to get to the target in 2018, but this is offset by much lower labor inflation. Maybe, you could just explain a little bit what's going on there, and whether you still have the 2018 support function cost savings numbers that still confirms. Thank you.

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**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

On software, Andreas, we have a contrast dynamics. We keep growing in software in H1, actually, sales by 2%, but it's really contrasted between the part of the portfolio which is on oil and gas, which is under pressure for what is upstream; but on very good dynamics, actually, double-digit on things which are linked to discrete automation. So there is really a repositioning on end markets which is happening.

On Aveva, we already commented, or, actually, -- it's nice to have, strategically, a making sense on both sides. And I think both sides said that. We didn't find the right conditions to make the deal happen.

On inflation?

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**Emmanuel Babeau** - *Schneider Electric SA - Deputy CEO, Finance & Legal Affairs*

On your question, Andreas, on the cost evolution, the labor inflation, I can confirm that have experience a lower labor inflation, which is just in line with the lower level inflation globally, at the world level. So that's something that is probably going to stay for a period of time.

And regarding the SFC evolution, yes, it's true that we are not exactly at the run rate of last year.

Remember that we have the EUR600 million target for a three-year SFC saving. We have done something like EUR300 million last year; we have done EUR120 million this first half, so we are more than EUR400 million. We still have 18 months to go, so we believe that we are, clearly, going to deliver on this EUR600 million. And, of course, we know we make sure that we continue to work on savings and efficiency together. But I think we are in line with our plans.

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

Thank you very much.

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**Operator**

Gael De Bray, Deutsche Bank.

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**Gael De Bray** - *Deutsche Bank - Analyst*

I have a few questions, please. The first one is about the guidance. If I take the midpoint of the new guidance before currencies, it seems to imply relatively flattish margins in the second half, after the 160 bps improvement in H1. So what's really driving the cautious expectation here? I guess, lower raw material cost of deflation probably explains half of it, but why the other half? That's question number one.

The second question is on the inventory level. Inventories has dropped significantly in the first half as a percentage of sales, and I was wondering if there was any negative impact on the margins due to a lower absorption of fixed cost.

And then, the last question would be on the pricing side. Clearly, flattish prices in H1, which seems to be a significant improvement on a sequential basis. So that would be great, if you could elaborate on this, in particular, in terms of what you see sequentially in the infrastructure division pricing. Thank you.

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**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

Thank you, Gael. I'm going to take the one on the question on the guidance, which is always an interesting one. You take the middle point of the guidance, which I let you do, the only thing I can comment is that, certainly, the EUR100 million on the raw mat was an important booster for our H1. And I explained that we are not going to see it again in H2, and we think it could be actually close to zero. So that's one element.

Remember that there was some significant improvement last year, year on year, notably, due to Invensys. But there was more than 2 points, which was certainly much above the average, between H1 margin and H2 margin last year. So you have this dimension, as well.

And you have also what we've been describing in terms of selectivity impact, which is going to, on the long term, of course, be favorable for the margin. But that will mean that the top line will be impacted more than in H1 by this selectivity. And, of course, that can have an impact in terms of absorption of fixed costs.

So, again, I am not saying that the middle of the bracket is the one you should be looking at. I think we've been giving you full bracket, on purpose. I hope I've been able to put a few reasons why we have this [vision] on our margin on H2.

**Emmanuel Babeau** - *Schneider Electric SA - Deputy CEO, Finance & Legal Affairs*

On the inventories, that's actually a very good question. Of course, the reduction of inventory impacts directly the volumes and, therefore, it impacts the potential of productivity. I think we are benefiting really of globalizing, on simplifying our supply chain, getting a better articulation of our supply chain, together with the sales, on who we are developing quite precise processes in that field.

Therefore, what I'm particularly satisfied about is that during the first half not only were we reducing inventory, but we also adjusted the cost, so that we could also deliver productivity, which is better than what we used to do. So it's double progress on that one.

But I really confirm that, effectively, it's more difficult to deliver that level of productivity when you are reducing the inventories. There is no miracle here; it's just hard work, on the foot of organizational choices we've done some years ago.

On pricing, well, we had told you at the beginning of 2015 that there were some places where we needed to reposition our price, which we did.

I want to mention also that 2015 was a more deflationary environment, because there was release of raw material gains, which were above what we had envisioned. We know that in our industry, even if it's absolutely not indexed, there is a correlation somewhere. So, what we are monitoring is net pricing.

One thing which is sure is that we have worked a lot on it. And it was a decision, and we have been more selective in a certain number of cases, because we wanted to maintain the right balance between pricing and volumes. And we are there, again, a bit like we did on the inventory on what we call the SIOP, which is the adjustment between sales and inventory operation management, we have been progressing on the way we manage our prices.

**Gael De Bray** - *Deutsche Bank - Analyst*

Thank you. Can I just have a follow up on the selectivity measures in H2? Do you expect the impact on margins to be relatively neutral, or slightly positive, or even slightly negative in the short term?

**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

I will work on it to make it positive. Just, it has to be very clear, we said it from the beginning, we are learning, to a certain extent.

I think when we developed in to industry and infrastructure, which is asking, in a number of cases, a direct engagement of us in delivering projects on equipment, we have been learning what we would have to keep doing directly, what we could do with our partner. We always privilege our partners.

And we now are learning also by developing stand-out solutions, [keep basing] them in to more customers. We have been improving how to do better things. And we know where we bring really value that we can value in our margin, on places where we don't bring enough value.

So what we want to do is to be more precise there, and do less, but do it better.

**Gael De Bray** - *Deutsche Bank - Analyst*

Okay. Thank you very much.

**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

Only where it makes sense. I believe that from the beginning we said it was not a game of market share for us in projects and equipment; it was the capacity to serve applications that we didn't get any access to in the more remote past. We have gained this access, but we realize that we can be innovative in serving those markets, very often using the strengths of our partner network.

So, it's a reposition. I can't find a better way of -- than saying it's a continuous repositioning.

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**Gael De Bray** - *Deutsche Bank - Analyst*

Okay, very clear.

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**Operator**

Guillermo Peigneux, UBS.

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**Guillermo Peigneux** - *UBS - Analyst*

Thank you for taking my question. I, actually, want to go to the guidance and maybe try to understand a little bit more about the implications of the divestments you announced on your margins.

If I do back-of-the-envelope numbers on your [region], there is a small accretion from the divestments to your margin, and I wonder how much of that is also reflected in your new guidance for margin improvement. Thank you.

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**Emmanuel Babeau** - *Schneider Electric SA - Deputy CEO, Finance & Legal Affairs*

Thank you, Guillermo. Of course, there is an impact, which we are absolutely flagging, which is 10 bps on the adjusted EBITA margin. So it's relatively marginal. And, basically, Delixi has no impact on the analysis of change in this H1.

We're not surprised by the disposal of Juno and transportation, so that was expected at the beginning of the year. And, of course, the guidance that we are giving here is taking that in to account.

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**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

It's really a maximum of 10 bps. For having followed since the inception, actually, the operation of Delixi, we are facing criterias of consolidation which are extremely complex, that we reviewed, and we want always to be on the appropriate, whatever, I don't know what I want to call it, but super-safe side of the equation.

So, we are deconsolidating it. But we are having good results in terms of growth, in terms of profit, and we are going to keep growing that operation and developing that operation.

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**Guillermo Peigneux** - *UBS - Analyst*

Thank you. And maybe a follow up, regarding china; and I think I want to follow up on Ben Uglow's question. But we saw some of the indicators, leading indicators, that were basically very positive during the first half this year maybe slowing down in the latest data points, and they're actually slowing down dramatically, and some tightening measures announced in top-tier cities around China. I wonder how much visibility you have on how sustainable this recovery you are seeing at the moment is?

**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

Look, there are two elements: there is the market, and there is our exposure to the market. What we have been addressing, and, I guess, we discuss that with many of you more in detail during roadshows in the past years, is repositioning ourselves on the faster growing part of the market, which are corresponding to the priorities of the [2013] five-years plan. No mystery, no big discovery.

Now, the time that KPIs are translating in to the dynamics of the market, they need a few months. What we see today, again, there has been an adjustment last year, which at the end was around 10%; and, after many years of strong growth, it was pretty positive.

What we've seen in H1 is really a continuous improvement of dynamics. So we are not -- we are expecting that continuous recovery coming from a market which is kind of stabilizing through transition to the new-normal of China. People are re-evaluating their priorities, but we see more direction now, especially with the publication of the new plan.

But a large part of what we do here is due to ourselves. There are places where we have diminished our allocation resources; there are places where we have increased our application of resources.

So when you look at what China does today, things like the push to a more green society, is all in our direction. And it's not about new construction; very often, it's going back in to a previous construction, or previous industry, or previous infrastructure and instrumenting or putting together the equipment in those infrastructures to make them more energy efficient and more sustainable.

When we speak about more innovation, it preaches for more automation, which we are in a very good position to serve. And that goes in to, particularly, the industrial sector, where we are working a lot by putting together our software on our automation platform.

When we speak about [Internet Plus], that's serving the need for data centers, which were positive in H1.

On when China does one way [one doubt], we have a lot of projects that we drive with our Chinese partners outside of China.

So they are the indicators, but they are the priorities. And you will notice that the priorities of China in the 2013 five-years plan are very consistent with what we can supply as a technology provider.

**Guillermo Peigneux** - *UBS - Analyst*

Very clear. Thank you very much.

**Operator**

James Stettler, Barclays.

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

Just on China, I think you said pricing was down in Q2. As you look in to the second half of the year, do you start to see a stabilization with the market now flat?

Secondly, if you look at your portfolio and under-performing assets, in terms of your divestment plans, could you maybe give us a bit more color here? Thank you.

**Emmanuel Babeau** - *Schneider Electric SA - Deputy CEO, Finance & Legal Affairs*

Thank you, James. On pricing in China, I think we would expect things to continue to stay under pressure. So we would certainly hope for some improvement as things started to be difficult last year during the summer in terms of price, and we took a number of decisions last year during the summer in terms of price reduction.

But, let's stay clear, as long as we are in an environment with some deflationary pressure that will be reflected in the price performance in China.

So to hope for some improvement, yes; but I would certainly expect China still to be negative in H2 in terms of price impact.

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**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

The line of [covert] is the protection of margin there (inaudible).

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**Emmanuel Babeau** - *Schneider Electric SA - Deputy CEO, Finance & Legal Affairs*

And regarding the under-performing asset, as you call them, that we would probably call less core asset, and not priority, I think that we traditionally never comment about them before we actually take the decision -- not only that we take the decision to sell them, but we actually get to a solution to find a buyer, in order not to weaken them, not to destabilize them.

I guess, you have a pretty good idea of what it could be, and you have a few assets in mind.

We certainly confirm our intention to keep pruning our portfolio, to concentrate on the core, on the asset with the right level of performance, of profitability, generating synergy with the rest of the business. But we won't be more specific than that at that point, once again, until we come with an agreed disposal.

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

Thank you.

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**Operator**

Jonathan Mounsey, Exane.

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**Jonathan Mounsey** - *Exane BNP Paribas - Analyst*

Just to follow up on that last point around pruning the portfolio, and also in the context of the excellent free cash flow generation in H1, how do you see yourselves deploying that capital? Obviously, you've accelerated the buyback program. Could you see yourselves extending that buyback program, using some of that extra cash, giving it back to shareholders?

And then secondly, on mix, obviously, we're back to pretty much flat now on mix and I wonder what is the progression of mix as we go in to the second half? Can it turn positive? Or should we expect mix to become positive as you continue to focus on products over solutions in to 2017?

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**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

Thank you, Jonathan. Very clear. Well, first, on capital allocation, on the buyback, you know we have this significant program of EUR1.5 billion buyback. We are a bit above EUR900 million, so there is still quite a journey on buying back; and we're going to do that in the second part of the year, very clearly.

It's too early to say, beyond 2016, what we could be doing in buyback. Again, you know we don't have any kind of religion on that matter. I think it's sort of strategic to do buybacks, so it's a matter of pragmatism and shaping the balance sheet we want to shape it.

If you allow me, we'll be back on that topic at the beginning of 2017, depending on where we are in terms of balance sheet structure.

On the mix, it is clearly part of the objective, as we improve the performance on the system, to have a better performance on the mix.

I am not able to comment exactly what will be the impact at the end of the year, and what's going to be the performance on H2, because you have many elements playing in the mix. What certainly I can say is that to globally improve the performance on the mix impact versus what we have been doing in the recent years is an objective; and I think H1 is illustrating some first success on that objective.

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**Jonathan Mounsey** - *Exane BNP Paribas - Analyst*

Maybe one follow up, please. Just on the cost savings, the SFC program, I think you're about, what, two-thirds through the savings generation now? And, obviously, the end-market outlook, or how end markets have traveled since you originally announced the program, probably, I think we'd all say a bit softer than you would have hoped at the time.

As we look out to 2017 and 2018, and with the program maturing, can we maybe expect a further additional program, perhaps, at the Capital Markets Day, in October?

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**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

I would not put any kind of a final period to the program. Once again, we'll be flexible, we'll be agile, and adjust to the situation. If we think we have to do more, we'll do more. And we think that will, as you said, mean that the market are not where we think they should be and that we have identified more pocket of savings, or efficiency.

At this stage, I stick to my EUR600 million that we already have been reviewing upward, compared to the initial bracket. Now, to go beyond the EUR600 million, it's premature; and again, we'll see how things develop in the coming months, before making any conclusion on that.

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**Emmanuel Babeau** - *Schneider Electric SA - Deputy CEO, Finance & Legal Affairs*

But, Jonathan, it's a very good question. And we are completely [adaptive] from that point of view. We've put the bottom line that we described. It's all to be adjusted by business, because when you can develop your business, a very profitable business, our job is to invest and to develop the business. When we have to turn around or to improve the profitability of the business, we have to get harder, harsher, and deeper, which I think we show we are doing.

The good news at China is that we have a very solid portfolio. I would say infrastructure is seeing recovery of margin, but the rest is navigating at high level of margins. And we can still do better on what we did this first half, for instance, in building, which is a leading franchise; is really one example that shows that we are not resting on our laurels, even when the profitability is good.

We increased the adjusted EBITDA by close to 2% in the first half of the business, which is a margin leader in its industry.

So I -- your question is just right to the point. We're going to keep questioning, grinding, what we do. We have started a long time ago to neutralize some costs. We have taken the bold step of globalizing our supply chain, probably, the only Company in our industry. (inaudible) majority, it's not (inaudible), but it is bearing fruit: we saw that on the inventory, we saw that from productivity. So be sure of one thing, is that we are really working on that.

But we have one advantage, that really our portfolio is really sound and very integrated. There is a lot of cross-selling happening every day between the business we describe here to make full systems every day, and there is a lot of cost-sharing which is happening in the country organization.

One of the characteristics of Schneider is that when you come to a country there is one Schneider; one country organization facing the customer, and being one in front of the customer.

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**Jonathan Mounsey** - *Exane BNP Paribas - Analyst*

But it feels like as you are more selective on projects the implication is to falling sales, and we already see it, and you're going to see another impact in the second half. That kind of necessitates, I think, a greater amount of restructuring now, otherwise you won't have the effect on the margin that the lack of emphasis on --

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**Emmanuel Babeau** - *Schneider Electric SA - Deputy CEO, Finance & Legal Affairs*

I don't disagree, but not everything is fixed costs there in the first place. And, well, fall in sales is not exactly the word I would use. What we are doing is controlling the trajectory of the landing. What you saw in H1 is a controlled trajectory of said activity.

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**Jonathan Mounsey** - *Exane BNP Paribas - Analyst*

Understood. Thank you.

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**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

(inaudible) is not to be surprised, right? And this is why we pre-announced it, which is a clear logical consequence of the strategy at the beginning of the year, and we keep you informed closely of the profitings of the execution of this strategy.

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**Jonathan Mounsey** - *Exane BNP Paribas - Analyst*

Thank you.

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**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

All right, in the conscious of time, we will take two more questions. So, first.

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**Operator**

James Moore, Redburn.

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

I have three questions, if I may. Firstly, thank you for giving us the systems margin increase of [1%]. Could you perhaps say how the service margin changed year on year, so we can think about the overall solution change?

Secondly, on project selectivity, you've been helpful about this year, the EUR350 million-ish; but beyond 2016, I think in the past you've mentioned a couple of billion. How should we think about 2017, 2018, 2019; EUR500 million a year-type thing?

Finally, can you help us a little more on the Invensys seasonality? I know you want to stop the full disclosure that you were doing, but I get the sense last year you were 10% in the first half then 19% in the second half. It was a very big swing. And you've already told us about less seasonality this year.

I just wondered if you could give us a sense in how the first half Invensys margin developed year on year, and what the full -year year on year looks like, just to understand that swing, please. Thanks.

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**Emmanuel Babeau** - *Schneider Electric SA - Deputy CEO, Finance & Legal Affairs*

James, I'm not sure I fully captured your second question. Could you kindly repeat it, please?

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

Sorry, if it was rushed. The project selectivity, where you said 1% in the first half, EUR70 million, EUR80 million, 2% in the second half, I calculate that's about EUR350 million, so you've been clear about that.

What I'm asking about is beyond 2016, where you have in the past mentioned that there might be a couple of billion of difficult projects that we can maybe see further project selectivity in the outer years. I'm thinking should we all model EUR300 million, EUR400 million, EUR500 million a year down in 2017, in 2018, 2019?

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**Emmanuel Babeau** - *Schneider Electric SA - Deputy CEO, Finance & Legal Affairs*

Okay, first, on system margin and the impact on -- or on service. On service, any growth is great because the margin on service is great. It is not exactly at the level of product, but it's not that far away. And, of course, it's pure cash, or almost pure cash, so it's great. So any growth in service is actually, on average, contributing to the mix.

During the H1, the gross margin is slightly down, because within the service evolution the service that has been growing, and has been in businesses where, on average, the margin is a bit lower, but it's there at super-high level compared to system. Therefore, that remains, of course, on the long term, a doubtful driver for top-line growth, and for profitability improvement as well.

On project selectivity, I'm certainly not telling you, James, that the minus 2 is the end of the story. No, you are referring to EUR2 billion. I'm not either telling you that we're going to have a EUR2 billion impact due to selectivity, but, certainly, there will be some more impact in 2017. Please allow me some time to calibrate what it could be.

And, of course, on the order intake in H2, I will be able to base a more reasonable view about what could happen in 2017.

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**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

If I can just, James, complement on that one. I think on selectivity, on (inaudible), I can only confirm what Emmanuel is saying, that the judge of this is also the margin, and it will be the evolution of the markets.

Again, when we speak about selectivity, it's making sure that we position our project and equipment, value proposition in the places where we can bring value and where we can monetize. And on this, it's linked to the evolution of markets.

And make an example: on some data centers we bring value, because we integrate things that other people cannot integrate. And this selectivity is linked also to the opportunities we have on the data center market.

So I'm not doing a maybe yes, maybe no kind of answer; it's that the target here is to balance the volume on the level of margin, but the level of margin being the acid test of our added value.

In terms of projects that we have in reserve that could deteriorate that, I think we are more and more cleaning the backlog of projects and now these are projects that we are -- that are under control, that we have in front of us.

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**Emmanuel Babeau** - *Schneider Electric SA - Deputy CEO, Finance & Legal Affairs*

On your third and last question, James, on the Invensys' profitability, so very difficult for me to report something on Invensys.

I can give you a broad view: yes, indeed, the margin on the former Invensys parameter, and for as much as we can reveal it now, was up, and up significantly, in H1. Doesn't mean that we most certainly have been recovering the margin of 2014, but I certainly expect a much more reduced gap between H1 and H2 in the profitability of Invensys. That has been, I think, certainly, our margin on this H1.

And, by the way, if you just look at the industry margin it's up 40 bps, so it's a pretty unperfect proxy, I would say, for the margin on Invensys, but it's a first indication.

And I've highlighted the fact that last year we had a very, very high margin on Invensys in H2, and I don't expect the same super-high margin, or a more normalized profile, I would say, this year on the Invensys margin.

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**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

On more is the ForEx, which we know industries like IT is impacted by the cost of goods sold, which is really [prank] on this case.

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

That's very helpful. If I can just quickly follow up. Do you think the Invensys margin this year will be roughly flat?

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**Emmanuel Babeau** - *Schneider Electric SA - Deputy CEO, Finance & Legal Affairs*

I think that we will be depending again -- we highlighted the fact that we were growing on [positive measures], that software were growing. So I don't discount the possibility that we could further improve this year, depending on H2. We'll see.

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

Okay, very helpful. Thanks.

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**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

All right, the last one, please.

**Operator**

Alasdair Leslie, Societe Generale.

**Alasdair Leslie** - *Societe Generale - Analyst*

First question on service, 7% growth in H1. Just with greater selectivity, is that service growth compromised at all? Are there other levers you can pull to maintain that kind of pace of growth in the medium term?

And then, a follow up on the selectivity. Against those four initiatives that I think you set yourself a year ago to improve project margins, do you feel you're delivering and seeing the benefits from all four, thinking about the tailored supply chain, moving to a regional set up?

And does the momentum you seem to be highlighting and having on the broader Schneider is On supply chain initiatives make that easier? Thank you.

**Emmanuel Babeau** - *Schneider Electric SA - Deputy CEO, Finance & Legal Affairs*

On services, on your first question, the impact is -- of selectivity would be quite marginal, I would say, for reasons that we have explained several times, that the installed base that we have outside that can be serviced is very large; on the part of the installed base that we cover with services is still limited.

It's really a discipline that we have been developing a long time, because our customers are asking for that. Like we do inside Schneider, it makes more sense for a Company to outsource part of the services to a company like ours. And I tell you, we do that for our Company in IT; we do that for part of the services that we buy. It's more and more we globalize them, we aggregate them, and we give them to specialists to focus on places that make the difference.

So there may be some ups/downs in the growth rate and that's more linked to the market, on the time we sell those services. Some of those services can be multi-year contracts, they can happen at different parts of the cycle. But, at the end of the day, it's a very solid trend, which is supported by the fact that we are working in a market that was not existing for us before, and that was very often not even covered at the customer place.

I have to say, I did not understand your second point, but maybe --

**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

Can you rephrase it, please?

**Alasdair Leslie** - *Societe Generale - Analyst*

Yes. I suppose, it's just I think you highlighted a year ago, when you talked about the different initiatives you were going to drive to improve project margins. Obviously, we talked about high selectivity and project governance, but there was a focus also on perhaps areas that maybe carried more execution risks.

So, you talked about the tailored supply chain and the scope to improve consistency, moving to regional structure. I was just wondering how those initiatives are developing, because you seem quite positive on a broader Group level just in terms of supply chain initiatives. Just whether you can get some leverage off that, whether that helps you improve (multiple speakers).

**Emmanuel Babeau** - *Schneider Electric SA - Deputy CEO, Finance & Legal Affairs*

If you speak about tailored supply chain, we spoke about the productivity, which is above last year in volumes, which are not as good, and reducing the inventory, which is even reducing the volumes. So, I believe the figures speak by themselves.

We are not publicizing the figures of customer satisfaction that we have been measuring for 12 years every quarter, and we have been improving, once again, significantly in the first part of the year. And delivery is an important part of the simplification.

What we can say, that by types of customer, is there is one space where our customers are expecting to see one Schneider; it's really the supply chain. Because when you want to commission a new project or new machine you need all the parts of Schneider to arrive at -- to land at the same moment at your door. By the way, not always at the same moment, according to the type of customer you are.

So I just confirm that customer -- the tailored supply chain is not only helping the cash rotation, the inventory, the simplicity of our Company; it's helping the customer satisfaction by a lot, by improving the quality, which is not only produced at Schneider, but also in the extended ecosystem of Schneider, including the suppliers, and by delivering a very specific level of customer services, a much better level on adaptive customer service. So, I just can confirm that this has been very material in our development.

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**Alasdair Leslie** - *Societe Generale - Analyst*

Great. Thank you.

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**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

I think we are coming to an end to this presentation. But before totally closing the call, I would like, Anthony, once again, to thank you very much for you've been doing, the great job you have been doing over the last three years. Thank you. And all the best in your new responsibilities in the Group.

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

I would like to add to that. Thank you very much for your continued support over those years. And you are going to take an important role in the next coming years in China.

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**Emmanuel Babeau** - *Schneider Electric SA - Deputy CEO, Finance & Legal Affairs*

And I wish all the best to Amit Bhalla, who is going to replace Anthony. Amit was the former tax SVP for Asia Pacific; and we are very happy to see him joining us. So, all the best, Amit.

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**Jean-Pascal Tricoire** - *Schneider Electric SA - Chairman and CEO*

And thank you, all, for being with us this morning, and spending the time to understand our results of this first half. I'm looking forward to see you very soon, doing more individualized meetings, and to report again in the next quarters of our progress. Thank you.

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**Operator**

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen and you may now disconnect.

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