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# EDITED TRANSCRIPT

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

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## PRESENTATION

**Operator**

Good day, and welcome to the Schneider Electric 2016 full-year's results presentation conference call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Jean-Pascal Tricoire, Chairman and Chief Executive Officer of Schneider Electric. Please go ahead, sir.

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

Hi, to all of you, and welcome to this conference. I'm here with Amit Bhalla, our Head of IR; and Emmanuel Babeau. And I will share the presentation with Emmanuel, going through the highlights of the year; and then, more detailed financials, together with Emmanuel.

I'd like to go straight on our presentation, on page 5. And really, 2016, for us, has been a year of very strong execution of our strategy, and of our Company plan, Schneider is On, with several striking facts.

First, is a gradual return to underlying growth, actually, with Q4 coming to a growth of 1.6%; a growth that we confirm in our guidance to 2017 for our gross business.

And then, an improvement in adjusted EBITA, which has reached 90 base points before FX, before ForEx, exceeding the initial target of course of the year, on the top end of the revised target at the middle of the year.

And finally, thanks to particularly a great work done on the supply chain, an all-time high free cash flow of EUR2.2 billion, which really is a result particularly of the work done on the inventory.

One to mention also, as a highlight of this year, is the net income jumping up 24%, which is also a significant result for 2016.

So we have kept focusing on creating shareholder value with a TSR at 48% in the last 12 months. And we're going to propose this year dividend up 2%, respecting our commitment of having a progressive dividend, on representing more than 50% of the net profit of the Company.

We are starting 2017 with Schneider well positioned for profitable growth. Our major geographies are set to improve. Europe is still benefiting from external factors, among which the euro; low interest rate on still a low price of energy.

The new orientations of the new administration in the US are pushing in directions which are favorable to what we do, especially in the field of infrastructure.

And in the field of energy on China is -- has stabilized, and has been now positive for us in the past two quarters; a stark contrast from where it was one year ago. A strong contrast from where it was one year ago.

Second is that we have sharpened the execution of our strategy to focus on products; on services; on keeping on delivering better systems, turning around our better systems, so things that we explained during our Investor Day in London last year, in November.

And, at the same time, 2016 has been a defining year in converging our architectures into EcoStruxure, which is our digital architecture for six segments, across major markets. And we are already striking a result in 2016 in the development of EcoStruxure.

And we keep executing Schneider is On, so expending -- going back to growth by repositioning the business on the better business of Schneider, by improving the margin with the numbers of action that I'm going to go detailing with Emmanuel; on keeping on working our costs through simplification on consistent execution.

On portfolio pruning, where we have done a few things in 2016, as you know, we've put some other parts of the portfolio under strategic review.

I'm moving on to slide 6, a quick look at Schneider Electric at the end of 2016. Again, the perfect balance between North America, Western Europe and AsiaPac; at the same time, a strong presence in the rest of the world, namely, South America, Africa Middle East, and Russia.

North America, back in the pole position with 28% of the turnover, due to the strong level of the dollar; but more so, due to the deconsolidation, for pure financial accounting reasons, of Delixi, which is one of our entities in China, while it doesn't change anything to the way we manage Delixi.

For integrated and synergetic business, reminding that we are today 60% building and 40% industry and infrastructure.

On [lead], 41% our revenues in new economies impacted a bit negative in terms of percentage by the deconsolidation of Delixi; and 44% of revenues as solutions impacted positively by the deconsolidation of Delixi.

Slide 7. 2016 has been another year where we overshot our objectives in terms of corporate social responsibility on sustainable development that we have strong commitment as a Company; that we measure and audit around our barometer. But it has been comforted, or confirmed, by an incredible number of recognitions of Schneider in this field, bringing us in the leading position in many of those indicators in our industry.

Moving on to slide 8, I'm going into Schneider is On. So on do more, which is the development of new business, or new value proposals to our customers, we grow in products, software, and services with 1% organic growth in, if you exclude systems and transformers, which is fundamentally the product business of Schneider. So, positive growth of 1% in products.

Services, up 5%, and I'll come back on that later.

Systems gross margin up 40 bps; would have been 70 bps without ForEx.

And the development of our [sales] with the global strategy accounts are growing strongly, in the mid-teens.

Cost reduction. We are in line with our plan of EUR1.7 billion to EUR1.8 billion reduction by 2017. So, that's a three-year plan. We've reduced by EUR620 million in 2016, bringing the accumulated reduction over the past two years, 2015 on 2016, to EUR1.3 billion. So fully in line with the plan, at this stage.

Digitization. The number of connected assets growing by 15%, number of connected customers growing by more than 40%. So we keep digitizing, on one side, the offers on the system; we provide, on the other side, the customer experience of Schneider.

And finally, pretty dense here in terms of launchings, on innovation, with a clarification on the launching of ecostruxure.io, which is EcoStruxure complemented of cloud and big data capabilities; more software and analytics, and I'll come back on that; and more connected products, actually, a flurry of connected products.

And you remember that the world of the Internet of Things for Schneider is already more than 45% of our total turnover.

Looking at the financials, we achieved all financial targets in 2016. We have a slightly positive organic growth, excluding selectivity, on the total turnover of Schneider.

Remind you that the selectivity is choosing better the systems which are projects on equipment that we want to take and supply to our customers. And if you focus on products, this growth is 1%.

Adjusted EBITA margin of 14.1%; at the top of the revised guidance that we supplied to you in July.

All-time high free cash of EUR2.2 billion, with a free cash flow conversion of 118%, due really to the work done on inventory on the supply chain.

We kept pruning the portfolio with the disposal of Telvent Transportation, and we launched strategic review of DTN.

And we finalized, or completed, the program of share buyback with EUR1.5 billion bought back in 2015/2016 at EUR57, in average, per share.

Looking and zooming more in detail, and I'm on slide 10, moving and zooming on the performance of on the top line, well, it's been contrasted by -- it's been quite consistent, I would say, by business; except in infrastructure, where most of the selectivity is playing. But if you exclude the selectivity infrastructure, would have been slightly positive at 0.3%. We're going to come back to detail of that. But industry and IT, slightly negative; building, slightly positive.

The very encouraging thing is that the underlying growth of the Company has been increasing, as we are going forward, with 1.6% growth as we go into Q4.

And I remind you that the selectivity was much higher in H2 than it was in H1: actually, EUR70 million to EUR80 million in H1, and EUR220 million to EUR230 million in the second part of the year.

Moving on, on page 11, and focusing on our strategic initiatives, we really focus on [privileging] and prioritizing on our partners, our product business with some remarkable success.

What we do in all products is low single-digit organic growth, as I already said. But we have some parts of the portfolio going much faster, like everything we do in to home and small building, which is a several billion business and growing mid single-digit. And that has been going for now the past few years.

More services and software with services growing, roughly, 6% more than the average of the Group. So the dynamic here of services is confirming in our portfolio, and we still have a lot of potential there.

Software is down low single-digit, but really impacted by the traditional exposure of our software to process industries, and the transition of some offers to the SaaS model.

But these segments outside of process industry are growing at by more than 5%; actually, mid single-digit.

Then, third party is about better systems, so improving the way we deliver systems. In places where we have a really proven value-creative business model we grow faster, and we grow well, and we grow profitably. And anyway, in the total of the systems we improve the margin by 70 bps before ForEx.

So now, I'd like to go into more details by business, starting by our largest business, which is building, where we delivered growth, on the striking 1.5 points organic margin improvement.

So good news, that the two largest countries, US, China, are both delivering growth.

Western Europe is about flat with different dynamics across countries.

New economies keep growing; at the top of it, India, and CIS, Russia rebounding quite strongly. Of course, we are impacted in Middle East, and in Brazil, no surprise.

Want to insist, again, that the business of final distribution and wiring devices is growing mid single-digit, so that's a place of growing our presence for Schneider, with a lot of success.

Project business is still impacted by soft activity in some markets. Remember that in buildings we also account for the low voltage. And the low voltage is going into some industrial parts, and those industrial parts have been affected by, typically, oil and gas, other weakness in some markets.

And we realize a strong expansion of the margin, driven by productivity and significant cost control, because we are leveraging more and more the size of the business to drive cost cuts across that business.

Our priorities, as we go into 2017, are very simple, maximize all business sales through partners; that means a huge network of partners that we benefit from to drive more products to go into that, including products from industry, on infrastructure business.

Continue to drive wiring device on final distribution as a major growth engine.

Really leverage new connected offers, EcoStruxure, for building and power, so it's EcoStruxure for power, EcoStruxure for building.

Keep growing the analytics on digital services; the software part of our digital services was growing double-digit in 2016.

And, of course, a big attention to pricing, as we are going to be facing in 2017 a return of the raw material cost, which actually has always been good news for our business. But it's a change of trend that we have to negotiate with a return on pricing.

Moving on to slide 13, and looking at the IT business, number one worldwide. Organic growth slightly negative. Still a very high level of margin, slightly decreasing in 2016, but being -- or starting from a very high point with respect to the rest of the industry.

Our two largest market, US and India, grew. Weaker sales than expected in Western Europe, Middle East, for obvious reasons, and Africa.

Services performed really well in this business. So we keep developing our services on the installed base, in an industry which needs to be 24/7 on, and where reliability is the most important thing.

Margin declining, slightly, impacted by mixed investment on digital and service capabilities. Particularly, we are launching a new digital offer in datacenters, called StruxureOn, for [supervision of] assets of the all datacenter.

As we go into 2017, our execution priorities is to leverage the Group complete portfolio for datacenters. We are the only player able to leverage everything from the gray space to the white space, including the security of the building.

Grow EcoStruxure for datacenter with the acceleration of the launch of our cloud-based software, StruxureOn.

Drive product business through channel expansion and new offers. It's mostly leveraging the IT offer, and putting it into the channel of building, the electrical channel, and the non-IT customers in buildings and in industry.

Then, keep the service growth momentum, and keep focusing on cost discipline.

Moving on to slide 14, infrastructure improve it margin by 1.3 points organic in difficult markets, but was really impacted by ForEx.

So we were aiming for -- here, the main target is really the adjusted EBITA. We were targeting 10 points as a milestone for this year. We miss it by 30 bps, mostly, really, due to the impact of ForEx. But the improvement is structural and is significant, so that makes me very optimist for the future.

So, margin improving by 1.3 points organic, thanks to higher system margin. And you see that if there had not been that negative impact of ForEx we would have been largely above 10 points.

Organic growth up slightly, if you accept selectivity on projects.

Services growing mid single-digit. And there's a strong part that we want to grow as an engine for profitability for that business.

And EcoStruxure Grid, which is smart grid and connected products for grid automation, grew double-digit, organically. So, very solid growth of that business, which is a significant business in this division.

Our priorities are very simple: it's more products, better projects, keep working on our cost by adjusting the cost base on the optimization of our footprint, and reach 10% to mid-teen in adjusted EBITA margin.

Moving on to slide 15, industry, which delivered a resilient performance in the mixed environment. Remember that our industry is quite exposed, with Invensys acquisition, to process industry. So, organic growth 1.2% negative; margin which is roughly stable at 16.7%, still a bench in this industry in terms of margin, at quite high level.

The organic growth has been impacted mostly by oil and gas, and, at the beginning of the year, by China and the US. The US still remains weak.

But the good news is that at the end of the year we see growth in Western Europe on new economies. We see also a positive performance in Q4 with improvement in OEM business, notably, in China, with a growth which is mid-single digit. And we see also a better order intake coming into process automation: that means in electro in process industry.

The margin, slight decrease organic, is driven by lower volumes.

And the OEM business is really -- growth is driven by the innovation, the new products that we bring, and in the way we present the value of our integrated system to our customers.

In terms of execution priorities, we want to grow the business through partners and integrators; we want to continue to develop OEM solutions; we want to really keep pushing EcoStruxure for plant and machines, discrete and continuous, developing software packages by segment; and continue the control of SFC, knowing that 2017 will remain, probably, demanding for the continuous process part of the equation.

Slide 16, want to come back on [systems], projects and equipment, and focus particularly on projects. And there, we keep doing what we have already explained in the past.

The better result that we have started to see happening are coming from the better focus on the right projects, focusing on the repetitive segments, where we could keep pace solutions; being more stringent on the selection of incoming projects; and a much improved execution by rationalization of our teams, and the better globalization of those teams.

With some achievements in 2016 with the better hit rate; with, as we said several times already, an improvement of gross margin, and an increased cash generation.

Moving on to slide 17, we keep working on trimming our costs.

Great work done at the level of supply chain. We had the distinction in 2016 to be recognized as one of the top-25 supply chain in the world by Gartner in terms of efficiency, and in terms of innovation capability on customer orientation, work on purchasing, work on QV.

We work on optimizing the logistics in a world that is, on one side, still very global, but becoming more local, so optimizing our models there, by region mostly.

SFC savings keep going through the Company. We generated EUR240 million, bringing the savings over the past two years to EUR540 million, which means that we have reduced the global income by 4%, outside of manufacturing. We work particularly in marketing and finance simplification and regional setup simplification.

Now, we have reinvested a part of that sum, especially in H2, in R&D to launch and adapt EcoStruxure to the various end-user segments; in digital, and especially for customer tool; and in services and marketing capabilities.

I move on to page 18. We have, in 2016, clarified and really pushed on the market EcoStruxure for six segments: building, power, datacenter, machine, plant, and grid. Putting together the three levels of connected products, edge controls on apps, analytics, and services, with the cloud that we have built with Microsoft.

If you move next page, page 19, these are examples of the multiple launches that we have effected or realized in 2016 to enrich the EcoStruxure system. That will really help 2017. And you know that this is doing, or representing, more than 45% of our business. That's about digitization of our systems.

Moving on to slide 20, not to forget that one of the great success stories that we have at the moment is our mid single-digit development in wiring accessories and final distribution, where we are progressing in most of the countries where we operate; and developing our presence with a lot of synergies with what we do in power distribution, in the channel, particularly.

And finishing my introduction on one of the key priorities of Schneider at the moment, we are not only digitizing the systems, we are also digitizing the customer experience. And we progress a lot in 2016.

And that has been quite a lot of work to refresh the web experience; to supply to our customers tools; to make winning launches or to structure launches so that they are more meaningful to our customers; and bringing more analytics to our teams so that they are more effective to serve our customers.

With that, I will like to pass the mic to Emmanuel, who will detail the financials.

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**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO and CFO*

Thank you, Jean-Pascal. Hi, everyone. Great to be with you. And I'm going to put now a bit more color on our numbers, after that Jean-Pascal has well described the driver that has enabled this good performance in 2016.

I'm on page 23 of the presentation, looking at our sales, which for the full year amounted to EUR24.693 billion. It's a decrease by 7.3% versus 2015. First driver, of course, no surprise, has been the ForEx. We were expecting that. It's around minus EUR700 million, altogether on the top line.

And the first driver for this negative impact on the top line have been the Chinese yuan and the British pound. And then, of course, together with these two currencies, we have a number of currency, notably, in new economy, that has been contributing to this decease.

Now, looking at 2017, we expect this impact on top line to turn positive, and we expect around EUR400 million.

I must confess that, given the volatility of the currency, we're giving a number here, but, of course, will need to refine, to precise the impact as we go through the year. But let's say that around EUR400 million is the first vision of what we expect today, to be a positive impact for 2017.

Now, looking at the impact on margin, we know that this has been negative, and I will come back to it, for the full-year 2016 by 50 basis points.

For the time being, and, again, based on the current parity, we expect an impact to be about neutral on margin. Here again, we need, of course, to come back to you as we progress through the year.

Second negative impact, of course, the scope impact, with the first impact coming from the deconsolidation of Delixi.

Deconsolidation of Delixi, which is not changing, in any kind of material respect, whether the organic top-line growth or the margin evolution, Delixi has been actually growing mid single-digits in 2016. The number would have been a bit better with Delixi, but it's not changing, again, meaningfully the overall shape of the P&L and the profitability.

Disposals, as well, as you know, Juno and Telvent transportation, which are having their impact at the scope level.

Now, looking at the organic growth for the Group, we are at minus 0.9%. We highlight a selectivity impact which is anywhere between EUR280 million and EUR300 million negative, which would mean that without this selectivity we would have been growing, if I make an estimate, probably, plus 0.2%, plus 0.3%. So, marginally positive.

And when we look now at this growth by region, we start with Western Europe, which has been marginally growing around 0%; and here you have a number of contributor which have been showing good progress: that's the case for Italy and the Nordics countries. You have a number of countries which have been around flat, like France, Germany, or the UK; and you have a few countries which have been a bit more negative, like Spain and Central Europe.

Moving to Asia Pacific, it's minus 1% altogether. Minus 1% is also the performance of China for the full year. But China moved into positive territory in H2 with a Q4 which was also a bit positive, thanks to stabilization, or around stability situation, confirmed in construction, and an improvement on industry.

There were a few negative drivers for Asia Pacific in 2016, starting with Australia, still impacted by a low level of investment in the commodity business. Japan and Korea were quite negative, as well.

And then, there were a number of positives, or even sometimes very positive, countries. India was one of them. And we have overcome the crisis of liquidity due to the monetary movement towards the end of the year. The Philippines, Vietnam, Singapore, Taiwan, they are all markets where we've been posting nice growth.

North America, minus 1%. Canada has been particularly negative, still impacted by a high basis of comparison, and of big projects, and a still difficult market here again on the commodity and invested related to the commodity market.

US was close to flat. In the US, we see continued momentum and strength in the residential business. We see probably low single-digit growth on the non-resi business. We've seen a good performing IT business for us.

And we've seen a very difficult situation, notably, on the infrastructure business, which has posted a strong double-digit decrease with still the impact of very major decrease in investment in the non-conventional oil and gas. And industry improving, but not yet back to a significant positive territory.

Rest of the world, minus 3%. Here, again, it's a mixed bag. The Middle East has been, of course, the poorest performer. We took about a double-digit decline for the full year. It was probably expected. Brazil has been another difficult country.

When we look at the rest of the region, we have very good performance on Russia, and Russia has accelerated its growth in the second part of the year. Africa has been performing well, as well.

When we look at the Q4, this rest of the world region, outside Middle East, has actually been growing by 2%, so showing that there is some dynamism today outside the difficult spot of Middle East.

All right, so let's move now to the page 24, and I'm going to provide some analysis on this very strong and important improvement of the gross margin rate, moving from 37% in 2015 to 38% in 2016.

As you can see on this analysis of change, you really have two big drivers for this 1 full point of gross margin improvement. The first one is productivity, of course, which continue, year after year, to deliver strong positive impact from the Group, and, of course, it's a strong pillar on which we can rely to keep improving the profitability of the Group in the coming years.

1.5 point improvement; it's EUR380 million contribution to the adjusted EBITDA, so it's, of course, very meaningful.

The other positive element is the net price. This is a combination between the raw material impact and the price evolution. Raw material, as expected, has been much less positive in the second part of the year. For the full year, it's a positive impact of around EUR130 million.

When it comes to price, we have globally for the year something which is slightly negative, but it's really the Chinese negative impact, because we've been almost totally compensating that with price increase outside China.

A word on China. Actually, H2 was a bit better than H1 in terms of negative impact on price. We are, here, making sure that we protect or we grow our market share by adjusting our prices; and we do that by protecting and maintaining the very good level of margin that we have in the country. We believe that, all together, this evolution is a controlled and a positive one in the country.

Outside China, as I said, we've been growing price. It's around 0.5 point on product for the full year. And we certainly intend to accelerate that dramatically in 2017 in order to face the negative impact that we today expect on the raw material for about minus EUR200 million in 2017.

And we are launching, of course, price action in many, many countries, with always a cautiousness not to destroy market share, or not to be putting ourselves outside, I would say, the market situation. But it's, of course, a top priority for us, and for the team, in order to compensate for this negative raw material impact that we foresee for 2017.

One word, maybe, on what are the drivers for this minus EUR200 million. I would mention copper, silver, lead, or carbon steel as probably the biggest contributor to this minus EUR200 million. With these four elements, you have the vast majority of this negative impact.

Now, moving to the negative or other elements, you have the mix impact, which here highlights the success of what we have been doing on improving the margin on system.

We are down to a marginal negative impact of minus 0.2%, which is driven here mainly by the geography impact and by impact within our product, or between product, and system. But that, of course, now a situation which has nothing to do with the strong deterioration that we have seen in the past, once again highlighting our success on improving the margin on system.

You have the traditional labor inflation on production, with an increase on R&D. Jean-Pascal alluded to the fact that we keep increasing our R&D effort, of course, with a special focus on everything around digitization; that has taken an 0.1 point negative impact for the full year.

You have the ForEx impact, negative, we mentioned that already.

And then, you have the scope and other impact positive by 0.1 point, which is, notably, coming from the Delixi deconsolidation.

Moving to page 25, and now we're going to go through the full P&L. First, looking at the gross profit for the year, almost EUR9.4 billion; it's up organically 1%, and, of course, driven by the improvement in the gross margin rate.

Support function costs for the full year, EUR5.9 billion; it's a significant decrease versus last year. For the full year, it's minus 0.5% with certainly an acceleration in H2 in terms of reinvestment in digitization, in IT, in marketing, explaining that the full-year performance is a bit below what we have been in H1. But we certainly totally stick to our total EUR700 million to EUR800 million target in terms of cost efficiency.

We expect, as well, in 2017 to see continued significant reinvestment on the priority that I've been mentioning. But discipline and efficiency in cost remain absolutely at the top of our agenda.

Adjusted EBITA, after that, gets to EUR3,480 million. It's an organic change of plus 4%. And it happens to be within the 4% to 7% organic growth bracket that we set for the year 2017 to 2019 as an objective for the Group, and that we shared with you back in October. So we have already achieved that in a no-growth environment in 2016, showing the capacity that we have to grow our profit without growing the top line.

Of course, this is coming from the margin improvement at 14.1%; it's an organic improvement by 70 bps. And if you just look at the improvement without ForEx, it's 90 bps improvement. And we finish at the high end of the revised bracket that we had set in July.

Moving to page 26, and the rest of the P&L, you have other income and expenses, which, of course, are dramatically improving. Last year, you had some one-off capital losses. So it's negative EUR63 million. And here, you have, of course, a net of many, many things; but I would summarize it as a few costs on M&A, and costs linked to disposal, as well as a few impairments on assets or capital losses on some disposals.

We have also a big improvement on the line of amortization and depreciation on intangibles. Last year, you had a big Pelco adjustment. And, in addition to that, we have finished to amortize some of the intangibles that we built, notably, at the time of the APC acquisition. So the EUR153 million is now the kind of normal cruise-speed that we expect for this line in the coming years.

That gives an EBIT of almost EUR3 billion; of course, growing nicely by 32%, because of the negative impact last year that I mention.

Looking at the financial costs now, it's negative by EUR462 million.

Actually, we keep decreasing the cost of debt. We see, of course, the cost of the debt in dollar growing a little bit. But we have raised very cheap long-term financing in euro, so we have a decrease of EUR23 million in the cost of the debt.

But in front of that, we have a lot of volatility on the currency, and that has meant a significant increase in the negative ForEx impact on this financial result.

The income tax line is a bit tricky to read this year, it's negative by EUR712 million. But that includes an exceptional EUR119 million, based on the revised view of deferred tax asset into France, and we communicated on that at the beginning of January.

Without that, we have an effective tax rate for the Group of 23.8%, which is, of course, not as good as the 21.8% of last year, but that was expected.

We start to see the very positive contribution brought by Invensys easing up. But after delivering the full value of the tax yield that we were expecting, so the Invensys tax contribution has really been great.

And now, looking at 2017, we expect to keep moving to the [bracket] that we expect in today's environment, which is between 26% and 28%.

Please note that, of course, all that is not taking into account the rumored and unclear changes in the US. Therefore, of course, we're not making any kind of speculation on what it could be and what could be the impact for the Group.

Equity investment and minorities, it's minus EUR27 million. Of course, this line was positive because we have a one-off last year, a dividend paid, following the CST disposal.

Here, we have a negative number. But in front of that we have some positive now which is coming from the equity method applied to Delixi, so that's why we have this minus EUR27 million.

And that give us a net income of EUR1.750 billion, at plus 24%.

I realize that I did not comment the restructuring, probably because it's exactly in line with what we are expecting. We said around EUR900 million for the three years, which means around EUR300 million every year.

We keep absolutely sticking to the roadmap, which is to keep restructuring and optimizing our manufacturing footprint, and, notably, in Western Europe; and that, of course, is contributing to the very strong productivity that we have.

And we work on generating the SFC saving, and the 4% decrease of the number of people outside production in the Company that Jean-Pascal described.

Below the net income Group share, I think it's important to look at comparable thing, which is the adjusted net income, where we exclude the one-off and non-recurring element. You have the full detail on the calculation in the appendix. And we are absolutely flat on this line at EUR2.117 billion of adjusted net income.

When we look now at the adjusted earnings per share, according to the IFRS calculation, it's EUR3.77, up 1%. When you just take the final count of shares at the end of the year, once we have finalized the buyback, it's an increase of 2%; and this is on that basis that we propose an increase in the dividend of 2%.

Page 27, and one of the very great achievements for the year 2016, which is our free cash flow. In fact, the performance is, first and foremost, coming from the operating cash flow. You see the very nice improvement at EUR2.942 billion versus EUR2.715 billion last year. That's really the quality of earning and the cash generation of the profit that we are posting this year.

You see that the CapEx is slightly decreasing, but very much in line with last year.

Working capital, Jean-Pascal highlighted the good work made on supply chain and controlling the level of inventory.

Then, you have the non-trade working capital, which is probably much more volatile, and which is negative by EUR54 million.

And that gives this free cash flow EUR2.2 billion, an all-time high record for the Group, and which shows our capacity to be super-cash generative.

Dividend, in line with expectation.

The acquisition, it's actually a slight disposal, EUR47 million, the few disposal that we have made during the year.

The net capital increase, it's a negative coming, of course, from the share buyback.

And then, you have an FX and other: it's for more than EUR400 million, coming from the ForEx and the part of our debt, or our cash, which is not in euro, and impacts December 31, 2016, versus December 31, 2015. And the rest of the other is mainly the decision that we have made to fund a number of pension throughout the world.

That gives a slight decrease -- sorry, slight increase of the debt of EUR194 million, despite the huge share buyback of the year; and a net debt of EUR4.8 billion for the year.

You have calculation of the ROCE in appendix. I don't want you to believe that we don't keep a very strong focus on that one.

We've been impacted, for the last few years, very negatively by the ForEx and the depreciation of the currency, and, notably, in new economy. But when we look organically we realize that over the last three years, and since the Invensys acquisition, we actually have been increasing by almost a full point at constant ForEx the ROCE, which was actually about our initial ambition. Therefore, it means that we would have been achieving this ambition without the ForEx. We believe it's important to be noted.

Moving to page 28, cash conversion, I don't come back on that; 118%, which mean that for the last three years we are significantly north of EUR100 million. Of course, the cash conversion here is calculated on the normalized adjusted net profit in order to take the right reference.

The net debt-on-adjusted EBITDA remain extremely low, showing the solidity of our balance sheet.

And then, moving to page 29, just to show the very nice evolution of our dividends over the last seven, eight years, and confirming that we are going to propose a dividend increase of 2% at our shareholder meeting, in April.

All right, so enough for 2016, and let's move to the outlook for 2017. Jean-Pascal, back to you.

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

Yes, as I was saying before, we are starting 2017 with, I would say, a view that we are well positioned with our geographies, which are probably more stable than what we saw last year, on a strategy which is sharpened, and, as we said, driving more products; more services; better systems; and more EcoStruxure, which we have really put in -- to which we have given new impulse in 2016.

When we look at our major end markets, in North America, we are anticipating modest growth. We have had a very good year in 2016, again, in residential, and in technology, in IT. But industry, on energy have been impacted by what happened in the market of [fallen years].

What we would expect is an improvement in industrial activity, where the world of reindustrialization is really a positive for us, and certainly a continued growth in residential market.

In Western Europe, we are expecting a moderate growth. But we are still benefiting from an environment with a lower euro; low oil price; lower interest rates, even if there is a bit more tension, but it's still very, very low.

Of course, there is Brexit. But so far, we've been seeing only an impact on the UK of the Brexit; the rest of Europe has not shown much impact of that.

China has been the recovering part of our geos in 2016 with already two quarters positive. We are expecting to improve in industry and infrastructure market. The construction market should grow at a slower pace because they are policy tightening. At the same time, the inventory is below the average of the previous years. So there are positives and negatives there. But China is back to the positives.

The Group will still face headwinds from oil and gas and continued weakness in resource-driven economies, driven by mining. But those tend to ease at the moment, and will certainly ease towards the end of the year. And the two things: raw materials are coming back up, and we see that in our costs, which, again, has always been good news for Schneider when it was happening.

And the second one is that because an oil price at $50-plus is better than where we were one year ago. So we see more serenity with our customers, and we see that in the orders of process automation, even at the moment.

Additionally, then there is the other phase, which is the Group will face a strong increase in raw material costs, estimated at EUR200 million at current prices. Well, not a new thing for us: when you look back, these are things that we have faced a lot. And we have always covered those increases with the management of prices over time.

In this environment, our priority is to grow our partner network through the launch of new products, new integrated offers; keep working on services and software; working on the margin improvement by selectivity on projects, especially in the infrastructure side; and keep a strong attention on cost control, on committing to the cost savings that we have explained in November.

We should benefit, in 2017, from the deployment of EcoStruxure architectures in the six domains that we explained, and these are creating further opportunity for growth.

So, in line with the objectives that we announced really not so long ago, during our Investor Day, we are targeting a revenue growth between 1% and 3% for the outside of infrastructure division, where the objective remains margin first. For infrastructure, well, we want to focus on that.

And we are expecting a 4% to 5% negative impact from project selectivity for the division in 2017.

In terms of margin, we're expecting an improvement of 20 bps to 50 bps organic improvement, but this time with a ForEx impact at current rates which is expected to be neutral on margin.

So that makes a long guidance, but for a world which is quite complicated. But, frankly, that we see more positives than what we are seeing one year ago.

Thank you for your attention. Now, we are ready for your questions.

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## QUESTIONS AND ANSWERS

**Amit Bhalla** - *Schneider Electric S.A. - Head of IR*

Well, thank Jean-Pascal; thank you, Emmanuel, for sharing the results, as well as the guidance. We'll open it up for questions. And I think we'll take like five or six questions. Of course, beyond that, we will be available at the investor relations team as well. Operator, can we have the first question, please?

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**Operator**

(Operator Instructions). Ben Uglow, Morgan Stanley.

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

Jean-Pascal, Emmanuel, a few questions. First of all, can you talk a little bit about the price increases, particularly in buildings?

In the past, there is a time lag, or there can be a phasing issue, between your ability to raise prices versus raw materials. How should we think about the first half of the year, and how do you see the current climate, in terms of actually raising prices? That was issue number one.

Issue number two, just on buildings, you've got a very nice margin increase year over year. Can you give us a sense, within buildings, how much of that is a mix impact relating to the growth in the final low-voltage area?

And then, the final question; related to that, when you look into 2017 and your price actions, how are you thinking about the final low-voltage piece within buildings? Thank you.

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**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO and CFO*

Ben, I'm going to try to take that one. But, of course, Jean-Pascal, please jump in if you want to clarify, or add up.

First of all, on the price increase first half, second half, Ben, you are a very seasoned analyst and, of course, you know that when you increase price, facing increasing raw material, there is always a lag, because to some extent the price increase are reacting to increase in the copper price, or other raw material prices. You take some time, because you don't do that [online] when you have an increase.

When we look at the past, as Jean-Pascal said it, there is always some lag. Of course, the challenge for us is to make it as short as possible, to be reactive. I can tell you that we have been putting our teams on notice quite already a while ago.

Now, we see the impact increasing. And, clearly, the EUR200 million today is not what we were expecting only a few weeks ago, so we need to adjust.

It is quite clear that we are going to react. We want to show already some clear reaction to that in H1. But, as always, there will be some lag and I would expect that the H2 impact will be even better than the first half.

Again, it's still a moving situation. We see the crisis on copper coming from the strike in Chile, in the key mine, which is sending back the copper price to $6,000 per [tonne]. It's not a stabilized landscape.

And we're going to see -- I can just tell you that we are having that as a top priority for everybody. We are making sure that we launch the action, again, in a market where we don't want to be doing too brutal, or things that would push us outside the reasonable market. So we need to do that with a clear vision that we're going to match, and, if possible, overcome, this negative impact.

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

If I may, in pricing, we are managing two very different realities. There is China, where we are managing China for China. What we give as an objective to China is to make sure that they protect their margins. But they are doing a lot of productivity and a lot of [evolution] on their costs, so they can do that, and it incurs negative pricing, but with a positive impact on the margin. That's one.

On the rest of the world, we have shown, already in 2016, good positive pricing. Because we don't have the same local and regional dynamics, we are managing the raw material increases with price decreases.

Managing China, on one side, in 2016, which has been negative on pretty much all of the negative; and the rest has been already pricing up, which is good sign on the capacity to do it.

Second point is that if you look back, and I can personally look back, 12 years on this there were many inflationary years. And there were some (technical difficulty) year on year where we had an issue that when the raw material was far above what we are mentioning here, that was the double, but even in that year we managed to pass EUR200 million in the second half. So that was (technical difficulty). And it was very brutal and unexpected.

It's a lot of hard work, but these are things we know how to do it. We are already on it; we have started to warm up in 2016.

Somewhere, we present all of our aggregated number, including China. But these adjustments is controlled in China, and it's very (technical difficulty), therefore, [it makes this] adaptation much easier. And this is how we intend to work and keep working in 2017.

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**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO and CFO*

Ben, on the second question, on the building, more specifically, how much of that is a mix impact, it's clear that when, what we call, the retail business, so wiring devices, final low voltage, is growing mid single-digit, that's coming at a good margin, and that's certainly helping.

But it's not the only driver. There was also a significant discipline put on cost, there was productivity, there was raw material deflation: all that has been helping the building business.

When it comes to price action, and I think that was your last question on low voltage, the more you go diffuse, probably is easier if you're strong in the channel, it is to adjust the price and price up. I would certainly, on the final low voltage, take a positive view on the capacity to react on inflation, on cost.

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

Very helpful. Thank you very much.

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**Operator**

Andreas Willi, JPMorgan.

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

Two questions, please: one on China, one on IT. On China, you said you had single-digit [mid-sizing of the] growth in industry, maybe you could elaborate a little bit on that. Some of your peers have shown more like 20% growth in Q4.

And what do you see in the market in terms of inventory levels in the industrial channel, given that some have pointed to a very strong selling during Q4?

Maybe also in terms of China, your mix in industry, which may explain why you lag some of you competitors, and what you're seeing there? Because you said earlier also you see inventories lower in general in China. If you could comment specifically on construction, also the [whole of] the business.

On IT, you mentioned some weakness in Europe in the second half; what do you expect from that business, more broadly, looking into 2017? We haven't had any growth in the business, or in the industry, for some time now, so that's affecting the datacenter spending on virtualization, and so on, that increase [basically,] capacity. Can we expect that business to grow again?

And could you see a positive impact from protectionism; effectively, that companies/countries want to have more of their own datacenter storage rather than have maybe such a big bias to the US, where data is stored?

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

Okay, thank you, Andreas. On China, on industry, what we've seen in the rebound mostly on the OEM customers, which is a strong --

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**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO and CFO*

Yes, actually, we've been growing, in total, 16% in industry in China in Q4. So I don't know how it compares with competitors, but that was a very interesting (multiple speakers).

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

And, frankly, knowing that any kind of cycle of sales in industry is pretty long when you speak to OEMs and the end users I never consider too much quarterly sales.

But, for us, we have seen the market improving in the past years. We have also brought new offers, and particularly what we call medium offers, which are more adapted to the China market. So we have had a very significant rebound in Q4.

When I was speaking about the stock, I was speaking about the stock of housing, so I was much downstream of the chain. I was not speaking about the stock called the inventory.

Maybe, back to industry, I don't see that we have stock things in the channel, right? It's a sell, especially when you go into industry, which has pretty much followed through specification on partnership with OEMs or end users, so there is no other stuff in there of the chain.

In construction, look, the good news that we saw in 2016 is that China was close to be back to positive with some variation. There is some tightening of the regulation, and it's been pretty much an on-and-off phenomenon over the past few years in China; the economy was becoming tighter.

What we see is that there is an inventory on construction which is rather below what it was in the past two years. So, on one side, those regulations are cooling down the market; on the other side, there is a demand -- or there is an offer which is rather below what it used to be.

On energy and infrastructure, while we see more projects for us, but it came from our focus on a certain number of segments in the field of water, in the field of transportation. So we see -- we are optimists on that side, in a market which is not as buoyant as it used to be.

On IT, market should be up next year; and this is a place where we will see significant plays in the datacenter.

In IT, you have to consider one thing, is that what we report at IT in our figures is IT technology. In our jargon it is white space, so what you find in the IT room, so the racks, the desk, the PDU, and the software of automation on the datacenter.

This has been going well. And especially, there are some support to the growth of that part of the business, like edge computing, which is a pendent to cloud computing, which is driving enrichment at the [hit] point on filling the part of the smaller IT rack system.

On the upstream part, which I would say is a co-location market, or the cloud market, (inaudible) industry is going to bigger system so the mix of what we provide to the datacenter is less on the white space reported in IT, but it's more on low voltage, on medium voltage, which is reported in infrastructure and in building. And there, we've seen rather an improvement, a very significant improvement, of the backlog with a double-digit growth in the past month that we're going to have to deliver in the next coming months.

I realize that my answer can be seen as not completely satisfactory. But if we would give a full report by customers, you will say you lose visibility on the technology. If you would -- well, we are explaining our case. But today, the quarter reporting is built by technologies, and we are expecting a progressive ramp-up through the year.

**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO and CFO*

Yes. Indeed, as Jean-Pascal said, we have seen order intake improving. And we do expect, globally, to be back to growth in IT in 2017, and that's part of the guidance that we have been sharing with you and (multiple speakers).

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

(multiple speakers) low voltage and (inaudible).

**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO and CFO*

And in addition to that, of course, it's impacting low and medium voltage. And we think that there is a possibility that we could be back to growth in Europe, as well.

Just want to clarify, I said 15%. My mistake, if you take the (technical difficulty), it's actually plus-8% in Q4 in China.

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

Altogether, industry was plus-8%.

**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO and CFO*

Yes, it was plus 8%.

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

Thank you very much.

**Operator**

Gael De-Bray, Deutsche Bank.

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

My first question would be around the incremental margins that one should expect to see in 2017 in the industry and buildings divisions. Historically, we've seen pretty strong leverage when volumes grows [impact], but what should we assume now, given the commodity cost headwinds?

And then, I have a follow-up question on the pricing issue. Could you elaborate on why pricing deteriorated in H2 after being about flat in H1? Thank you.

**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO and CFO*

Yes, Gael, happy to take that. On the incremental margin in 2017, we have an objective for the Group of 20 to 50 bps, organic. I'm not going to detail that. I would say, fundamentally, things haven't changed at all. Each time that you have an acceleration on the top line it's, of course, good for the margin.

The challenge for us, I think, we're very clear, is to make sure that we react very, very rapidly to the EUR200 million headwind that we face on the raw material. But otherwise, capacity to improve the margin on building and industry, with particular focus on industry, will come after two years of decrease on the margin.

And we believe that everything linked to the short cycle, and OEM, and discrete automation, if it's growing, as we expect, faster, should help the mix as well.

So we think that this is still there. And that's certainly our ambition, to see these two businesses contributing to our overall objective in 2017.

On price, the reason for H2 to be, without China, again, you need to make the difference between the two, a bit below H1 is the fact that in a number of countries, which have seen a lot of depreciation in the year 2015, and with price action at the time, we had some impact in the first half that eased in the second half. So that's the reason for that.

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

Okay. Thank you.

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**Operator**

Andre Kukhnin, Credit Suisse.

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**Andre Kukhnin** - *Credit Suisse - Analyst*

Firstly, can I just double-check, on industry numbers in China that you gave, up 8% in Q4, including process, was the 16% number for discrete, specifically?

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**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO and CFO*

No, that was not a comprehensive number on the full perimeter, so that was a partial number. If you take everything related to the China market, the good number is plus 8%.

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**Andre Kukhnin** - *Credit Suisse - Analyst*

Got it. And could you give any idea how discrete did, ex-process?

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**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO and CFO*

Discrete, between the various lines, was between mid- and high-single digit. That's roughly what we have seen on the discrete part.

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**Andre Kukhnin** - *Credit Suisse - Analyst*

Thank you. Secondly, on mix, a similar question to the price just before, the H1 looks a bit better than what H2 turned out. I appreciate there's a tougher comp in there, but could you just talk about the dynamics of mix improvement for you between H1 and H2, and how the momentum of that is carrying into 2017?

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**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO and CFO*

Yes, on mix, I don't see a major difference between H1 and H2; I think that the performance is quite similar.

We keep pushing in product, services; that's coming with a positive contribution. It was probably further improving on the margin on system in the second half. And then, you have very complex impact on the geographies, between the various product lines, which are difficult to describe.

But I would say what we've seen for the full-year 2016 just show the kind of ambition that we should have for the future. At the end of the day, we have this powerful engine of productivity. We want the net price not to be negative; and we certainly want the mix that can be, I would say, [benignly] negative, but not the kind of very negative that we had in the past. That's what we've done in 2016. That is clearly our ambition for the future.

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

It's really a repositioning of our business. When we say more products, more services, and better systems that means also that we are repositioning a part of our access to the market through the channel; that means some systems are turning into product sales. So it's really strong. Everything is bringing a positive to the mix here.

And we are committed to that. And it's a little bit more than just execution. It's really a systematic screening of what we do on the system part and making sure that we embark our partners in a part of it so that everybody benefits from the strategic repositioning. And that has been starting to really pay in 2016. And I believe the trends are showing that we have the formula, now we just have to push more.

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**Andre Kukhnin** - *Credit Suisse - Analyst*

Very clear. Thank you. And can I just, last question, taking a step back and looking at your new product launches and momentum in that, it looks like it stepped up in 2016 versus 2015. But could you help quantifying that, maybe in terms of number of new products launched in 2016 versus 2015, or percentage of sales from new products?

And how does that impact the margin for you? Are they immediately margin accretive, neutral, or come with an upfront cost that you don't get back?

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

Difficult to quantify. But 2016 has certainly been one of the years where we launched most of products on systems, products integrated in systems. A part of what we said in H2 is that there is reinvestment linked to that.

A new product has for a short time a negative impact on what you do, both on the gross margin, because the product is not at full volume, and then also in support function cost. So the price to pay is that there is some pressure, temporary pressure, six months, one year. But then, when it's full speed, we pay attention that the new generation is always most cost effective than the previous one, and it has better traction on the market.

At the moment, as we speak, if you look on the diagram that we presented on EcoStruxure, you've got offers like MTZ or Masterpact, is world-leading product by a lot. The substitution of the old Masterpact by the new Masterpact is a big thing for us.

We are launching also a totally new range of molded case circuit breaker, where we are an absolute world leader; that has a pretty big impact on what we do in everything in low voltage. The Altivar process, which is our new generation of motor drive, is really a big substitution in our portfolio.

So there is a bit in that, in some pressure that we have on costs on H2 and margin. Always, the improvement of margin is quite good also, but it's carried a lot by the strategic repositioning from solutions to product and from systems to product and services, which I was mentioning before.

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**Andre Kukhnin** - *Credit Suisse - Analyst*

Got it. Thank you very much for your time.

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**Amit Bhalla** - *Schneider Electric S.A. - Head of IR*

Operator, we'll take one last question, please.

**Operator**

Martin Wilkie, Citi.

**Martin Wilkie** - *Citi - Analyst*

Just one question on your tax rate guidance. I know that you, obviously, had Invensys tax loss carry forwards that were benefiting, but also you've had this benefit of a lower corporate tax rate in France. And on simple math, it looks like the improved tax rate in France should be bigger than the falling away of the Invensys tax loss carry forwards.

Just, if I can understand a little bit about why your tax rate should be stepping by quite so much, given that you've got the prospect of lower rates in France. Thank you.

**Emmanuel Babeau** - *Schneider Electric S.A. - Deputy CEO and CFO*

No, I think it doesn't play like that, because the improvement [in] difference on the tax rate will only happen in 2020, so we have to take the negative today. But the positive will come only later, so, unfortunately, it's not for now.

And I'm sure you remember that we had a very powerful EUR500 million tax benefit from Invensys, which has been largely spread over the first three years, so not entirely, but [it is increasing]. And the 26%, 28% is very consistent with the normalized bracket for a tax rate that we've shared in the past years.

Noting that, in addition to that, there is some change in legislation in term of deduction of some debt in some countries, and so on, which move that. Unfortunately, it's not a stable landscape. And that the 26%, 28% bracket, is what we have today, but a lot can happen and that could change that bracket; for the bad or the good way, I don't know. But it's just a very moving and unstable environment.

**Martin Wilkie** - *Citi - Analyst*

Okay, thank you. That was very helpful.

**Amit Bhalla** - *Schneider Electric S.A. - Head of IR*

All right, thank you very much. With that, I think we'll conclude the conference call for today. Thanks, everyone, for attending. And we will be available, in investor relations, for further questions, if you have. Thank you very much.

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

Thank you. Talk to you soon. Bye.

**Operator**

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