

Interview with Emmanuel Babeau, Deputy CEO in charge of Finance and Legal Affairs

In 2018, we delivered strong operational and financial performance, reaching a new record high EPS.



**What were the highlights of the 2018 performance for Schneider Electric?**

Strong execution and focus on our strategic priorities were key to delivering the strong operational and financial performance in 2018. With the good momentum in products, services and software, we recorded 6.6% organic growth and reached €25.7bn in revenue. Our gross margin continues to develop well and reached 39%, improving consistently over the past three years, reflecting our focus on high value-added products and solutions.

2018 in brief

Strategy, technologies & businesses

- March 29**  
Schneider Electric Opens New East Asia & Japan Headquarters in Singapore
- April 3**  
Schneider Electric transforms its Le Vaudreuil site into a smart factory showcase using EcoStruxure for Industry
- April 5 – 6**  
Schneider Electric hosts more than 5,000 customers, partners and influencers at its Global Innovation Summit in Paris
- April 5**  
Schneider Electric, Danfoss and Somfy join forces to create a Connectivity Ecosystem for residential, mid-size building and hotel markets
- September 20**  
Two Schneider Electric smart factories recognized as the Lighthouses of the Fourth Industrial Revolution by the World Economic Forum
- November 13**  
Schneider Electric boosts its innovation ecosystem with 'Schneider Electric Ventures' to identify, nurture and support bold ideas

Finance

- January 25**  
Schneider Electric takes control of IGE+XAO after the successful tender offer
- March 1**  
Schneider Electric announces the completion of the combination between AVEVA and the Schneider Electric industrial software business
- March 7**  
Schneider Electric launches a capital increase reserved for employees
- May 1**  
Schneider Electric, partners with Temasek to buy Larsen & Toubro's Electrical & Automation business and to combine it with its Low Voltage & Industrial Automation Products business in India

Free cash flow

€2.1bn

+40bps ↑  
before ForexReturn on  
Capital Employed

11.8%

We kept working on efficiency of our support function costs (SFC) and improved our SFC to revenues ratio by 50bps organically while continuing to invest in our digital and marketing capabilities. Through the combination of a good level of gross margin and SFC leverage, we grew our adjusted EBITA by +10% organic, exceeding for the second year in a row the top end of our targeted range (+4% to +7%) and our adjusted EBITA margin improved by 50bps organically to reach 15.1%. Recent acquisitions (Asco Power, IGE + XAO and AVEVA) also contributed positively, all delivering a strong performance. As a result of this strong operational performance, coupled with an improving cost of financing, our Net Income increased by +9%. Overall, we are reaching a new record high level in terms of earning per share, enabling us to increase our proposed dividend by +7%.

#### The Group targets an organic growth in operating profit in 2019, what are the key levers?

Our priority for 2019 is to continue to deliver profitable growth, targeting organic growth in our adjusted EBITA within the range of +4% to +7%, in-line with our previously stated average yearly objective for the period 2017-2019. To deliver this strong performance, the Group will use two levers: firstly, organic topline growth where the Group targets between +3% and +5% and, secondly, organic adjusted EBITA margin expansion of +20bps to +50bps.

#### Could you share your medium-term ambition to increase operating profitability?

We have the ambition to increase our operational margin and therefore move the Group closer to the upper-end of our stated 13% to 17% adjusted EBITA margin range which we target through the cycle. In order to achieve this ambition, we will keep working on the levers within our control to improve the underlying performance of Schneider Electric.

We will continue to focus on generating profitable growth while maintaining a strong focus on industrial productivity, organizational simplification and efficiency. We will also further concentrate our portfolio of technologies on the core Energy Management and Industrial Automation businesses and have put under review assets representing c.€1.5 to €2bn in revenue terms. Overall, we are targeting to improve the adjusted EBITA margin by c.200bps (before FX) over the next three years.

#### How do you intend to drive shareholder value in the next years?

We have positioned the company on two powerful and structural global demand drivers, specifically the energy transition and the industry of the future, which represent strong opportunities for the business in the medium and long term. Our two synergetic businesses: Energy Management and Industrial Automation have leading market positions in their respective markets and are ideally positioned to benefit from these secular trends while delivering strong financial performance to our shareholders.

With close to +8% organic growth per year in our operating profit over the past three years, our objective is to continue generating strong earnings growth through a combination of top line growth and margin expansion. Combined with the strong FCF generation and our solid balance sheet, this allows us to offer attractive returns to shareholders through a progressive dividend policy and a newly launched €1.5bn to €2bn share buyback program over the next 3 years.

**Emmanuel Babeau,**  
Deputy CEO in charge  
of finance and legal affairs

#### Human Capital

##### January 22

Schneider Electric features among the 104 companies included in the 2018 Bloomberg Gender-Equality Index

##### February 7

Schneider Electric is named as one of the World's Most Admired Companies, according to the 2018 list published by Fortune. The company ranks fifth in the electronics industry

##### October 9

Schneider Electric ranks in the top 15 companies in the world for Gender Equality, according to Equileap

##### 10 – 13 October

Schneider Electric announces the winning team of Go Green in the City 2018, its international student case study competition focusing on innovative energy solutions for smart cities

#### Corporate Social Responsibility

##### January 23

Schneider Electric launches a partnership with Sustainable Energy for All (SEforALL)

##### February 12

Schneider Electric is named one of the 2018 World's Most Ethical Companies® by the Ethisphere® Institute

##### April 5

Schneider Electric unveils EcoStruxure™ for Energy Access, an affordable, flexible and open architecture and platform that improve profitability and efficiency of off-grid installations with data-driven analysis

##### June 20

Jean-Pascal Tricoire is appointed to the Board of the United Nations Global Compact

##### November 27

Schneider Electric supports #GivingTuesday 2018 and involves its employees in 40 countries

##### December 11

Schneider Electric presents Villaya Emergency, a containerized mobile solar microgrid solution designed for ease of use in any humanitarian emergency