1. Group strategy and market opportunities

Schneider Electric is leading the Digital Transformation of Energy Management and Automation in Homes, Buildings, Data Centers, Infrastructure and Industries. With global presence in over 100 countries, Schneider is the undisputable leader in Power Management – Medium Voltage, Low Voltage and Secure Power, and in Automation Systems. We provide integrated efficiency solutions, combining energy, automation and software.

In our global Ecosystem, we collaborate with the largest Partner, Integrator and Developer Community on our Open Platform to deliver real-time control and operational efficiency. We believe that great people and partners make Schneider a great company and that our commitment to Innovation, Diversity and Sustainability ensures that Life Is On everywhere, for everyone and at every moment.

1.1 Our mission

At Schneider Electric, our mission is to serve our customers by developing innovative products and solutions that simplify the lives of those who use them. We bring together our expertise and solutions to drive new possibilities.

As a **leader of the Digital Transformation of Energy Management and Automation**, we are committed to global improvement in connectivity, sustainability, efficiency, reliability and safety in 5 places: in our homes, in our cities and buildings, in our industries, and in the cloud.

Our intent is to make sure that Life is On for everyone, everywhere and at every moment with our technology. We ensure that energy is on for our customers and that it is:

◆ **safe:** protecting people and assets;

◆ **reliable:** guaranteeing ultra-secure, ultra-pure and uninterrupted power especially for critical applications;

◆ **efficient:** delivering solutions adapted to the specific needs of each market that simplify customers' lives and improve their efficiency and productivity;

◆ **sustainable:** helping customers build a sustainable future by using less of their resources and minimizing the impact on the environment; and

◆ **connected:** leveraging new opportunities with the convergence of Operational Technology (OT) and Information Technology (IT).

1.2 Megatrends in our environment are creating opportunities

Life is On when Life is Powered and Digital. Our world is increasingly electric and digitization is enabling a new level of connectivity. Electrification and Digitization continue to shape our lives as new economies are built and mature economies are transformed, creating new opportunities for Schneider Electric.

Electrification

Our world is becoming more electric, as electricity consumption forecast to increase by 60% by 2040. According to the International Energy Agency, electricity consumption will grow twice as fast as all other energy sources. Three factors drive this transformation.

◆ Electricity is the primary source of energy for modern development: IT and modern appliances and applications are all powered by electricity.

◆ Electricity is an efficient and flexible source of energy. As a result, a number of sectors are shifting towards greater use of electricity, like transportation for instance.

◆ Electricity is the primary vector for decarbonization today, with renewable energies.

The rise in personal income and the continued urban migration in new economies is driving the rate of electrification, especially in residential and commercial buildings. The IEA estimates that new economies will represent 85% of global power consumption growth. China alone is expected to account for 30% of total growth. Several of these new economies are expected to see their power consumption increase by a factor of 2 to 3 in the coming 20 years.

Electricity multiplies the efficiency of end-consumption, especially when produced from renewable energies. As a result, some sectors are progressively shifting towards more electricity in their energy mix. Electric vehicles could for instance represent 54% of new vehicle sales by 2040 according to Bloomberg (New Energy Finance). This contributes to increasing electricity consumption, in particular in new economies as they continue to develop their infrastructure, at the expense of other energy sources.

Electrification is also the central solution to the current decarbonization with the ongoing energy transition, which involves the migration of the power sector towards a greater mix of renewable energies. CO_2 emissions related to energy represent around 55% of total greenhouse gas emissions (31% for direct emissions, 24% for power and heat), and they are the fastest-growing emissions. The decarbonization of the power sector alongside the electrification of other energy demands, such as transportation, brings the potential for significant decarbonization.

The rapid deployment and falling costs of clean energy technologies continue to drive this transformation and make it possible. Bloomberg estimates that renewables could capture more than 85% of total investments through 2040. The trend since 2010, in which time costs of new solar PV have come down by 70%, wind by 25% and battery costs by 70%, will continue and shift the cost advantage to renewables and storage. Bloomberg has estimated that the tipping point could be reached in China and India in the early 2020s (comparing new solar installations to new coal power plants). This transition is creating new challenges for the power system as a new decarbonized and decentralized energy paradigm shapes up, with a need for sustained and improved reliability, greater efficiency, flexibility, and overall collaboration. The demand side becomes the center of gravity of the new power system, creating a multitude of opportunities. Digitization will be the key enabler of this transformation.

The world will be more electric and digital, and this is very favorable for Schneider Electric, having focused > 90% of our business on the Energy Demand side, with strong global leadership positions across our 4 end markets.

Digitization

In the past 20 years, the Internet has connected 3.5 billion people together. Over the next years there will be 10 times more devices connected than people and by 2020 the Internet will connect over 30 billion devices. The increase in connectivity is complemented by access to real-time information through enhanced and competitive computing capabilities. This is changing our personal and professional lives. Customer experience is at the center of this transformation and companies are digitizing their operations to meet these demands. At the same time, they expect a complete digital experience from their own suppliers. Employees are also increasingly using online platforms and tools to collaborate across countries. Digitization is changing the way we work and is creating a multitude of new opportunities.

Digitization is driven by the combination of 5 technological advances:

◆ pervasive sensing enabling the collection of vast amount of data;

◆ the cloud, enabling aggregation and secured access to data;

◆ analytics creating insights from data;

◆ mobility through smart devices, enabling pervasive, rich and easy user experience;

◆ and finally, cybersecurity providing protection from against attacks or damage.

Digitization enables machines, plants and buildings to reach new levels of reliability, safety, efficiency and productivity. It enables step changes in terms of asset performance management (notably with predictive analytics), operator empowerment (augmented reality) and making enterprises and facilities more agile to varying operating conditions (information systems, analytics, lifecycle management). Industrial software is the core of smart factories. Schneider Electric has significantly strengthened its industrial software offering, especially in operations management, for process management as well as industrial automation applications.

Electrification and digitization are creating many new opportunities for Schneider Electric, from growing needs in terms of automation and connectivity to the massive requirements for demand side energy management. Schneider Electric will continue to play a leading role in the movement toward a more reliable, safe, efficient, sustainable, and connected world.

1.3 Group strategy

As a leader in the Digital Transformation of Energy Management and Automation, Schneider Electric is at the forefront to capture these megatrends with an extensive energy management and automation offer that the Group delivered globally through complementary business models and access channels. We have a unique set of energy management and automation technologies, strategically positioned on the demand side of the energy landscape.

Driving the world's digital energy transition

The energy transition generates significant issues that remain to be tackled, as the world operates a paradigm shift towards decentralized and intermittent renewable power. Digitization on demand side is a key success factor to enable this transition.

The World Economic Forum has estimated that energy efficiency is the cheapest solution to tackle the transition. However, 70% of the world's energy is still used today without any efficiency performance requirements. For new buildings, ⅔ of the energy consumption has no applicable codes or standards. According to the IEA, the improvement in energy efficiency in the major energy-consuming sectors (industry, buildings and residential) could help reduce energy use by 15% to 25%, a very attractive business scenario in all economies. Schneider Electric has developed a unique portfolio of products and solutions for active energy management to homes, buildings, industrial plants, data centers and infrastructures. Our digital solutions typically enable savings of 30%, based on data provided by past projects.

The new emerging power system requires increased flexibility. Here again, digitization of the demand side enables increased levels of flexibility. Schneider Electric has developed a comprehensive portfolio of solutions to monitor and digitally control demand. In addition, the company has been very active in developing microgrid solutions, which inherently bring new levels of flexibility to the grid. Schneider Electric's innovative, advanced digital solutions and services enable utilities to operate and maintain more reliable, resilient, and efficient grids, enabling the smooth integration and management of distributed energy resources into power networks. Finally, Schneider Electric is also active in advising customers on their energy procurement strategies, enabling companies to adopt more sustainable and efficient energy profiles, a must do as the number of market actors increases alongside demands for decarbonized, reliable and cost effective energy solutions.

The one full-liner in automation: leading in discrete, hybrid and process automation

Industries are facing significant opportunities as digitization pervades all usages. Schneider Electric is the sole full-liner in process automation and hybrid manufacturing, delivering complete IIoT (Industrial Internet Of Things) solutions for the plants and machines domain. Through EcoStruxure™, built upon leading smart connected devices, a complete renewed edge control and leading software platform, Schneider Electric delivers IIoT services to improve efficiency and energy management for the whole life-cycle of plants and machines. As industries digitize, they can extract increased performance from their assets, notably through predictive maintenance, longer lifetime, optimized energy and raw materials consumption. They can also significantly empower operators, notably with the use of augmented reality and digital repositories. They can achieve a greater level of agility for their enterprises, optimizing plant manufacturing in varying demand and supply conditions, and streamlining supply chains throughout the enterprise. Our references have shown that productivity can be improved by around 30% through the proper deployment of digital technologies.

Driving the digital transformation of customers and partners

Schneider Electric is leading the digital transformation of energy management and automation, with a portfolio of activities 90% focused on the demand side. Through EcoStruxure™, Schneider brings a comprehensive response to the challenges of digital transformation, across 6 domains and for 4 end-user markets. EcoStruxure™ is an open architecture, which integrates connectivity at the lowest level, control at the edge for critical operations, and cloud-based digital services, throughout the lifecycle of assets. EcoStruxure™ architectures are deployed across 480,000+ sites around the world. EcoStruxure™ is also a community, with 20,000+ system integrators and developers, actively engaging on the platform, as well as a broad range of technology alliance partners, supporting the development of a complete open ecosystem.

In addition to continuously innovating and digitizing our offers, Schneider Electric aims to provide the best-in-class digital experience to our customers and partners. Our digitized and dynamic sales & marketing channels, provide customers with easy access to up-to-date information on our offers and company, be it on social media, our web or our partner portals. We deliver a digitized and tailored customer service experience from the design phase to operations and maintenance. Digitization is at the core of the Group's strategy and Schneider Electric is committed to supporting the digital transformation of its customers and its partners. We also want to facilitate interaction between our partners, across the value chain, by bringing them on to one open platform and integrating them in to a digitally enabled ecosystem that will eliminate current inefficiencies.

Leveraging opportunities in new economies

New economies will continue to experience accelerated development in the medium-term as they catch up with more mature economies and in many cases leapfrog into the latest digital technologies. Schneider Electric's long-term commitment to new economies has resulted in strong growth over the last decade, at around 15% CAGR. Our customer focus and local knowledge have resulted in several emblematic customer successes, such as the following examples:

China: Power and Automation solution for a leading steel company, leveraging the strengths of EcoStruxure™ plug-and-play architecture from connected products to software. The customer faces difficulties in cost optimization (labor, energy, capacity management) and deploys a complete EcoStruxure™ solution, including power system, automation system, optimization application to reach a productivity increase objective of 30%. In addition, the solution delivers enhanced benefits such as increased safety, reduced mechanical issues and facilitated maintenance.

India: Future-proofing the data centers of a global IT infrastructure services provider with Schneider Electric solutions and services. Schneider Electric carried out a comprehensive audit for 11 data center sites across India. This resulted in the delivery of a modular and scalable solution with remote monitoring for predictive maintenance supported by Schneider Electric experts. The outcome include savings of up to 50% of floor space, 75% less time spent on maintenance and 25% savings on generator capacity.

South Korea: The Smart Panel solution implemented in a world-class general construction project incorporated measurement, connection, and powerful energy management capabilities. This project resulted in cost reduction through efficient energy management, improved facility operations and power stability and a 30% reduction in electrical room space.

New economies present the biggest long-term opportunity for growth as a result of electrification and digitization. Schneider Electric expects continued opportunities and growth in these markets. Our long-term commitment helps us build an intimate knowledge of these markets and we believe that the strength of our brand, our competitive local supply chain and the development of local marketing and R&D capabilities are competitive advantages.

Building differentiated and complementary business models

Our 4 businesses offer a wide range of products, services, software and solutions. Each of these offers have different revenue growth and profitability profiles, complementing each other to fulfil our partners' and customers' needs. With a strategy of accelerated growth of our profitable businesses and improvement in our systems, Schneider Electric focuses on selling:

◆ More products through our industry-leading partner network offering a wide range of market-leading products supported by a superior digital customer experience. Our products offer best-in-class technology to our distributors and direct partners, such as contractors, system integrators and electricians, who provide the ability to reach large numbers of small and medium-sized customers. Our connected products, the "things" of IoT, connect seamlessly to higher-level systems and software, with embedded cybersecurity.

◆ More services to partners and end users to maximize the business value of their installations and optimize their processes. Schneider Electric offers a wide range of services, such as digitally enhanced field services to our large installed base, digital services providing customers with the right information in the right place and time and advisory services, such as energy management and sustainability services helping end users understand and optimize their energy and resource use. With a network of over 37,000 qualified technicians and domain experts, Schneider Electric gives our customers optimized performance and peace of mind.

◆ More software to drive efficiency and control for our partners and end users. In the past 5 years, Schneider Electric has developed of a full portfolio of software, apps, and analytics to permit, enable and catalyze optimization. With the recent integration of AVEVA, we have created a global leader in industrial software, with scale and relevance in key markets and an extensive technology portfolio. This will provide our customers with a comprehensive and open software portfolio offering an unmatched set of end-to-end solutions covering all aspects of digital asset management from process simulation to design, construction and manufacturing operations.

◆ A better system where we focus on delivering more specialized systems (equipment & projects), both through our partners or direct to end users, with tested and validated reference architectures. They provide significant opportunities to develop greater customer intimacy and stickiness through dialogue with final end-users, which in turn helps inform the Group's quest for continuous innovation.

Our products, services, software and solutions are all combined in EcoStruxure™, our open, interoperable, IoT-enabled system architecture and platform. EcoStruxure™ delivers enhanced value around safety, reliability, efficiency, sustainability, and connectivity. EcoStruxure™ leverages advancements in IoT, mobility, sensing, cloud, analytics and cybersecurity to deliver Innovation at every level, from Connected Products, Edge Control to Apps, Analytics & Services. EcoStruxure™ has been deployed in 480,000+ installations, with the support of 20,000+ system integrators, connecting over 1.5 million assets.

Our EcoStruxure™ architecture and interoperable technology platform brings together energy, automation, and software. It provides enhanced value around safety, reliability, efficiency, sustainability, and connectivity. In turn, this advancement opens up the digital world to customers across our end markets, enabling them to be competitive in today's IoT economy.

Investing in profitable and responsible growth while driving efficiency

We believe in the high and long-term growth potential of our business and Schneider Electric continuously invests to drive that growth. This investment is focused on sustained spending on research and development, as well as growing our commercial presence and skills, especially in the fields of high value-added technologies and services.

In addition to our commitment to organic growth, the Group has invested in companies, joint ventures, strategic alliances and mergers that have reinforced our global leadership, provided skills in energy management and automation, or related to local businesses in new economies.

Finally, driving efficiency at all levels of the Company is an equally important focus. We continuously seek to generate savings from purchasing and manufacturing and through improving operational efficiency by reducing selling, general and administrative expenses, while maintaining best-in-class standards in environmental sustainability and social responsibility.

1.4   Group competitive strengths

Schneider Electric is a leader in technology innovation and adapts to changing ecosystems and customer needs.

Technological leadership in energy management and automation

We are developing best-in-class technology in energy management and automation to meet growing customer needs and challenges. We estimate that nearly 80% of our revenue is derived from sales in businesses where Schneider Electric enjoys a number 1 or 2 market position: low voltage distribution, medium voltage distribution and grid automation, discrete industrial automation and control, critical power and cooling. We design products and solutions that we believe offer the best levels of safety, reliability and efficiency. This is achieved through a renewed commitment to innovation and significant investments in research and development. As a result, our products and solutions meet the needs of our customers for safety, simplicity, connectivity, and flexibility. Additionally, through an ongoing dialogue with our customers, we are able to maintain our very high standards of quality and to anticipate the innovation that will help drive our future growth. Thanks to this technological leadership, the Group's brands are among the most recognized in the industry.

Accelerating our digital transformation journey

Schneider Electric accelerates its own digital transformation journey with the formation of Schneider Digital, ensuring a consistent and integrated digital experience across our offers and interactions with customer and partners. Schneider Digital is based on 4 foundational pillars:

◆ Leveraging common technology: through the appointment of a Chief digital officer, the development of a transversal digital organization, the centralized animation of a network of technology partners, and a global resource allocation management system. For instance, the Schneider Electric Digital Services Factory, a 'virtual' factory created in cooperation with Accenture, enables us to rapidly build and scale new offerings in areas such as predictive maintenance, asset monitoring and energy optimization;

◆ Enhancing competencies: through extensive competency mapping, digital learning and university partnerships;

◆ Measuring performance: through the establishment of a digital barometer and the creation of a digital committee at board of directors' level;

◆ Supporting a strong innovative ecosystem: with a robust development ecosystem for partners, developers and system integrators, faster time from idea to market, and the ability to scale customer projects. For instance, our open EcoStruxure™ platform uses open protocols and standards to ensure we can innovate and accelerate development with our best-in-class partners. Openness is critical for bring value to our customers.

The value of an integrated portfolio

We maximize the Group's synergies and value proposition to customers in our end markets through our integrated portfolio, enhanced by our unique and integrated EcoStruxure™ approach, as well as our integrated and specialized salesforce. This integrated play generates close to 50% cross-selling of offers across our 4 end markets, with pull-through technologies growing at a higher rate. The values of such integrated approach are exemplified in the following customer references:

◆ A World Class reference data center for a leading telecom services company in Africa with a solution consisting of a large UPS system and a ~50% attach rate in Power Management and Industrial offers. The combined offer, together with our Lifecycle and Preventive Services were unmatched by the competition;

◆ A Major transportation operator in Shanghai with a full solution including operation system, distribution system, electromechanical devices and spare parts. This enabled the customer to move from passive response to pro-active maintenance, and lower total investment during the lifecycle especially during the Opex phase;

◆ An End-to-end Smart Grid solution & Water Management system including Medium Voltage, Process Automation and Software Integrated Building Management System. The integrated solution increased the efficiency of operators and management. The implementation of advanced unified dashboards improved the Situation Awareness and Operational readiness and provided immediate access to critical KPIs & Reporting data in the Field.

Multiple access channels for a broad and diffuse user base

We work with many types of partners, such as distributors, system integrators, contractors, panel builders, electricians, machine manufacturers and others, as well as with our end customers. The Group has developed the widest network of distribution and direct partners in its industry. This provides us with many access channels to a market comprised of a broad and diffuse user base, ensuring the right conditions for locally-run projects and local economic development. These diverse market access channels, which support our model with limited capital investment, also help to ensure that we are not dependent on a limited number of large customers.

Long-term relationships with our distribution partners and end customers are key to us and we are therefore constantly seeking to enhance the value we add. Today's value chain in electrical distribution is highly fragmented and inefficient, from design to maintenance. At Schneider Electric we strive to improve interactions across the value chain and bring all partners onto one open platform, with the right tools to simplify the CapEx phase. As the worldwide leader in numbers of partners involved in the electrical distribution cycle, Schneider Electric's mission is to integrate it into an ecosystem. Digitization will help to connect these fragmented channels into a single Power Ecosystem.

Global reach with a unique local presence

We have operations in more than 100 countries, providing a balanced global geographical exposure. Due to our large footprint, we are one of the few companies that can deliver the highest standards of technology and quality in energy management and automation, across all multinational customer operations around the world. This enables us to provide optimal services to our global customers, in every location. In addition, we are reinforcing our local presence and strong local partnerships in every country to serve our diffuse customer base. Lastly, with 41% of our revenues in new economies

in 2017, we believe we are well positioned to capture growth. Our presence in many diverse markets ensures that we understand local needs, which assists us in serving our customers in each country with dedicated products and solutions adapted to local requirements.

Scale through our integrated and global supply chain

Our Global Supply Chain integrates over 200 factories and more than 90 distribution centers in 45 countries, managing 261,000 references and processing 140,000 order lines/day. It has a strong focus on customer satisfaction and operational efficiency. Powered by EcoStruxure™ solutions, our Global Supply Chain continues to make significant progress in both areas and in 2016 Schneider Electric was included in Gartner's Supply Chain Top 25 Ranking for the first time, as a clear sign of our achievements.

Schneider Electric supply chain is engaged in continuous digital transformation to provide the best tailored customer experience while integrating sustainability at every step through greener and more efficient sites operating with EcoStruxure™.

2. Businesses, end-markets and customer channels

Schneider Electric is centered on 2 core offerings : Energy Management (Medium Voltage, Low Voltage and secure Power) and Industrial Automation and operates in 4 principal markets: non-residential & residential buildings, utilities & infrastructure, industry & machine manufacturers, and data centers & networks.

The Group manages multiple market access channels built on strong partnerships.

2.1 Leadership positions in our businesses

Schneider Electric operations are organized into 4 businesses: Medium Voltage, Low Voltage, Secure Power and Industrial Automation[1].

Energy Management

Medium Voltage

**Medium Voltage business:
Number 1 Worldwide in Medium Voltage & Grid Automation**

The Medium Voltage ("MV") business provides our customers with the answer to the complex equation of the energy transition. Historically, the Infrastructure scope encompases primary and secondary Medium Voltage switchgear, transformers, electrical network protection and automation, remote control systems, and MV/LV substations. With IoT reaching power products, the medium voltage business is now further built around connected products and software for the integrated management of mission-critical infrastructure and Advanced Grid Solutions as well as asset performance management. Our software suite includes, for example, Advanced Distribution Management Software (ADMS), Operation Management Software (OMS), Supervisory Control And Data Acquisition (SCADA) software and pipeline management software. Our products, software, solutions and associated services can be delivered directly to our end-users or indirectly through different channels under various models, ranging from transactional sales to end-to-end project delivery.

Energy Management

Low Voltage

**Low Voltage business:
Number 1 Worldwide in Low Voltage and Building Automation**

Low Voltage ("LV") electrical distribution products and solutions address the needs of all end-markets from residential to commercial buildings, spanning across industries, infrastructures and data centers. The offer portfolio is extensive and includes: protection functions (such as circuit breakers), power monitoring and control, power meters, electrical enclosures, busways, cable management systems, power factor correction, products for living spaces (such as wiring devices, network connectivity, home automation and building controls), as well as renewable energy conversion and connection equipment and electric vehicle charging infrastructures. EcoStruXure Power, the IoT-enabled power management solution of Schneider electric, enhances connectivity, real-time operational reliability and smart analytics for low and medium voltage architectures in all end-markets.

Building Automation facilitates comfort and energy efficiency in non-residential buildings through automation and security systems, including heating, ventilation & air-conditioning ("HVAC") controllers, sensors, valves and actuators, programmable regulators, centralized building management systems, space optimization solutions, access control, video cameras and security monitoring equipment. EcoStruXure Building, the open, collaborative smart building IoT platform, combines building management software with hardware and services, to maximize efficiency and comfort while reducing energy costs up to 30%.

(1) Low Voltage was previously named Building and Secure Power was named IT.

Energy Management

Secure Power

**Secure Power business:
Number 1 Worldwide in Critical Power
and Cooling**

The Secure Power ("SP") Business specializes in critical power products and solutions for data centers and other applications where power continuity and quality is essential. The portfolio includes single-phase and 3 phase Uninterruptable Power Supplies ("UPS"), plug-in surge protection, IT enclosures, power distribution units, security and cooling systems, services and IT Facility management software.

Industrial Automation

**Industrial Automation business:
Number 2 Worldwide in discrete and
machine automation
Number 4 Worldwide in process
automation**

The Industrial Automation business scope includes Process, Hybrid and Discrete Automation, providing comprehensive products and solutions for the automation and control of machines, manufacturing plants and industrial sites. The offer is based on smart connected devices such as discrete sensors, motion systems, and world leading positions in push buttons and signaling as well as motor control applications based on leading ranges of frequency converters (Altivar) and motor starters/contactors (Tesys). The business includes a full range of comprehensive edge control systems and software such as distributed control systems (Foxboro Evo) and leading safety systems (Triconex), machine and process control (PLC Modicon) and human-machine interface ("HMI") operator panels. The Industrial Automation business also provides an innovative range of software for design, operation and maintainance of the industrial processes. This includes modeling/simulation (SimSci), supervisory control systems (Wonderware) and asset management (Avantis) software, addressing the full life-cycle of the industrial assets for IIoT-ready solutions. Industrial Automation's software and apps offer is addressing autonomous machines as well as complete processes to improve productivity and energy efficiency, leveraging the Group's connected offer for power distribution to deliver a complete automation and power solution.

(1) Medium Voltage was previously named Infrastructure and Industrial Automation was named Industry.

2.2 Serving 4 attractive end-markets

Schneider Electric serves customers in 4 principal markets:

◆ non-residential & residential buildings;

◆ utilities and Infrastructures;

◆ industries and machine manufacturers;

◆ data centers and networks.

Non-residential and residential buildings

The non-residential buildings market includes public, commercial and industrial buildings such as offices, hotels, hospitals, shopping malls, schools, sports and cultural centers. Because this sector is energy intensive, energy efficiency is key and is subject to new and demanding regulations. Specific requirements must be met in terms of occupant comfort, safety and environmental friendliness, as do the needs of owners and building managers seeking to reduce investment costs and optimize maintenance and operating costs. Schneider Electric's non-residential customers include end-users, property developers, design firms, systems integrators, panel builders and installers, electrical equipment distributors and building management companies. EcoStruxure™ Building unlocks value across the building ecosystem to meet the requirements of building owners, real estate developers, system integrators, facility managers and building occupants.

In the context of single-family homes and apartment buildings, Schneider Electric's market is driven both by renovation and refurbishment needs, particularly in mature economies, as well as by construction, particularly in new economies. Whether for renovation or construction, the underlying challenge is to reconcile technical constraints, local standards and regulations with consumer preferences. They not only desire comfort and aesthetics, but increasingly, energy efficiency, connectivity, security and monitoring services as well. Residential customers include mainly electricians, architects and decorators, those involved in the home automation industry, lighting and security firms, construction firms, contractors, electrical equipment distributors and large do-it-yourself ("DIY") stores, as well as end-users and home owners.

Utilities and infrastructures

Current global challenges in the utilities and infrastructure market include increasing energy demand, the need for increased energy efficiency to reduce environmental impact, and the development of decentralized renewable energy sources on the grid causing more stability concerns. This market also faces changes in regulations, particularly those regarding demand response and prosumer integration in the energy system, and the growing need for security, reliability, and real-time control to ensure efficiency stability. We believe these challenges provide long-term growth prospects for Schneider Electric. Our main customers in this market include energy system operators, prosumers, water utilities, the owners and operators of transportation and oil gas infrastructure and municipalities.

Industries and machine manufacturers

Our energy and automation solutions enable us to serve almost all segments of the industry and machine manufacturers market, including the refining, petrochemical and oil & gas industries, mines, cement plants, water & waste-water industry, the food-processing industry and material handling and packaging machines. Energy and operational efficiency is at the heart of the challenges facing these industries, which include the reduction of production costs, compliance with new regulations, and the reduction of the environmental impact of industrial activity. In addition, both the rapid industrialization taking place in new economies and the need to modernize existing industrial facilities in mature economies create significant opportunities for growth. Our customers include end-users and professional intermediaries, engineering firms, systems integrators, OEMs, electro-intensive industries, panel builders and electrical distributors.

Data centers and networks

Data centers are secure, precision-cooled sites containing Information Technology (IT) equipment that processes and stores very large quantities of digital data. These sites are the nerve centers of businesses and the public sector. The expansion of data centers requires a significant increase in electricity to accommodate the IT equipment's operation and cooling, as the amount of energy needed to cool these rooms has become comparable to the amount of energy needed to operate the equipment itself.

Schneider Electric believes that data centers and networks are a high-potential market due to the growing digitization of professional and personal activities. With the development of internet giants, cloud computing the physical infrastructure of data centers tends to be increasingly the business of dedicated players with high performance expectations, while the need for faster, more localized data is driving the need for Edge computing. Thanks to EcoStruxure™ for Data Centers, Schneider Electric is in a unique position to deliver a full solution of connected products from Electrical distribution, Building management systems to IT space, managed by integrated supervision software enabling advanced monitoring services.

2.3 ## Multiple accesses to markets

> **Customer satisfaction**
>
> Customer satisfaction is an integral part of Schneider Electric's growth strategy. Every contact with Schneider Electric should be a positive experience that makes all customers, no matter who they are or where they are located, feel understood and satisfied. This commitment is an important differentiating factor, and customer satisfaction surveys are regularly carried out in all countries in which the Group operates, and employees attend related training programs.
>
> Customers also have access to online diagnostics and support services (an e-catalogue, downloadable software and online information and training).

A large portion of Group revenues is made through intermediaries such as distributors, systems integrators, installers and purchasing advisors, who all bring their own added value and know-how, allowing the Group to access a number of different markets.

Distributors & retailers

Over 40% of the Group's total sales goes through our privileged Distributor partners, which support us in making our products accessible in stores, either off-line or online, in 190 countries all over the world.

Our Distribution partners encompass 4 types of players: large international groups, such as Rexel and Sonepar; electrical wholesalers and generalist distributors, such as Graybar, Zhongyeda Electric, CED Edmunson; and local players; as well as IT specialists, such as Tech Data and Ingram Micro. In addition, the Group uses specialized distribution channels for highly technical products such as automation solutions and industrial software, access control and security products.

Schneider Electric assists its distributors in advising their customers and helping them benefit from our technical innovations. To maintain a high-performance network, the Group works hand-in-hand with distributors on supply chain improvements, technical training and joint marketing actions. With e-commerce growing fast, Schneider Electric is present in all our Distributors websites and ensures we offer our key customers a seamless O2O (Online-to-Offline) experience.

We also work with key DIY Retailers, such as Home Depot and Lowes in the USA, Kingfisher in the UK and Saint-Gobain Distribution in France, to ensure our leadership in the Home Improvement and Renovation market.

Other intermediaries & partners

Panel builders

Panel builders build and sell electrical distribution or control/monitoring switchboards, primarily for the building, energy and electricity infrastructure markets and industry. Their main customers are contractors. Panel builders mostly buy low and medium voltage devices, such as circuit breakers and contactors, and increasingly, prefabricated systems. There are more than 35,000 panel-builders throughout the world.

Contractors

To design solutions tailored to end-users' specific needs, Schneider Electric works closely with contractors, small specialists or generalist electricians, large companies that specialize in installation equipment and systems and designers.

Electricians & DIY stores

Electricians design and perform electrical installations, primarily in residential and small non-residential buildings. They are therefore our key customers and we have one of the most comprehensive networks of electricians worldwide. Schneider Electric helps electricians to operate more efficiently through a suite of training, technical support and digital tools, like the app "My Schneider Electic".

Schneider Electric strengthens its relationship with electricians by increasing their visibility to end-users through different marketing actions including "installer locators" on Schneider Electric's website. Schneider Electric has one of the most comprehensive networks of electricians worldwide.

DIY stores are a key channel in making Schneider Electric's offers visible to consumers as well as electricians. Schneider Electric ensures that it assists them with digital marketing programs on their e-commerce sites as well as in their physical stores.

All of the partners mentioned above contribute their own added value to end-customers, first by advising them on the choice of solutions that best suit their needs and then by installing efficient systems thanks to a suite of web-based digital tools called "Building Life Management". The main objective for Schneider Electric is to support them in the rapid development of solutions and technologies for the residential market: lighting, temperature and door/window management systems, recharging equipment for electric vehicles and renewable energy solutions.

In order to strengthen a relationship based on mutual trust and added value, Schneider Electric partners actively with contractors, providing technical training and support. To maximize our business impact, we have a multichannel communication model using personal and digital means, thanks to our Partner Relationship Management (PRM) platform.

In this regard, the EcoXpert program aims to secure special partnerships with certain specialized contractors, with whom Schneider Electric shares all its expertise on renewable energy and energy efficiency solutions and services. The EcoXpert network is being developed in many countries throughout the world.

Systems integrators

System integrators design, develop and support automation systems to meet their customers' needs for the performance, reliability, precision and efficiency of their operations. By providing global coverage and local contacts, they offer their clients a high degree of flexibility.

Schneider Electric has considerably expanded its automation line-up, giving systems integrators access to a powerful platform covering all areas of automation, from field control to Manufacturing Execution Systems (MES).

Specialists

To meet their customers' growing demand for comfort, ergonomics and design, specialists (engineers, architects and design firms) are constantly looking for more efficient and better integrated solutions for energy management, as well as for access control, security, and building automation.

They are therefore essential partners for Schneider Electric's growth, notably in the high-potential buildings and residential markets, which include the construction and renovation of single-family homes and apartment buildings.

Schneider Electric provides information and training tools for specialists, such as dedicated showrooms, electrical installation guides, installation design software and training methods.

End-users

Original Equipment Manufacturers

Original Equipment Manufacturers (OEMs) continuously seek to improve machine price/performance and time-to-market in segments ranging from packaging to textiles, conveyors, materials handling, hoisting and HVAC. Schneider Electric is one of the market leaders in these segments, and works closely with over 15,000 OEMs. The Group leverages its expertise and know-how to nurture these special partnerships. This is mainly achieved through:

◆ an extensive knowledge of OEM applications;

◆ a continuous R&D effort to develop innovative, high-performance and cost-effective offers and solutions;

◆ dedicated centers of excellence that offer the most competitive solutions for new machines, in particular, pre-tested, pre-developed and personalized solutions;

◆ international customer support to deliver high-performance after-sales service worldwide;

◆ a dedicated program for multi-site and/or global OEMs that enhances their ability to offer superior solutions on an international scale.

Other large end-users and strategic accounts

Schneider Electric also addresses customers directly in a number of end-markets, including:

◆ Automotive, where the Group serves large automotive equipment manufacturers;

◆ Cloud & Finance, in which the Group provides comprehensive solutions for customers including internet giants, as well as in telecoms, co-location, and finance sub-segments;

◆ in Healthcare, the Group serves hospitals, clinics, labs, and life sciences manufacturing;

◆ Food & Beverages, in which the Group serves customers in various types of food processing industries;

◆ Mining, Minerals & Metals, which includes customers in mining, cement, metals, and other bulk materials;

◆ Oil & Gas, in which the Group provides integrated solutions and high performance systems, software and services to oil companies and EPCs, from production to processing and supply chain;

◆ in Utilities, the Group serves companies producing, delivering, and/or selling electricity to customers;

◆ Water & Wastewater includes customers across the entire water cycle, from water resources to water distribution, sewerage and treatment.

Schneider Electric has established a dedicated organization for global customers, "strategic accounts", with the purpose of developing privileged relationships with them. To meet these customer expectations, the Group offers "preferred supplier contracts" and dedicated customer support to ensure that they receive the highest quality services.

This organization is based on short lines of communication and decision-making, rapid mobilization of Group resources throughout the world, and dedicated teams in which management is directly involved.

Schneider Electric serves 89 global customers including Apple, BHP Billiton, EDF, ExxonMobil, Nestlé and Veolia Environnement.

2.4 Competitive landscape

The main global competitors of Schneider Electric, by technology, are:

◆ **low voltage and building automation:** ABB, Siemens, Eaton, Legrand, Johnson Controls;

◆ **medium voltage distribution & grid automation:** ABB, Siemens, Eaton, GE;

◆ **discrete and process automation:** Siemens, Rockwell Automation, ABB, Emerson, Honeywell, Yokogawa;

◆ **critical power & cooling for IT and non-IT applications:** Vertiv, Eaton.

Other regional and emerging market competitors include: Chint, Weg, Larsen & Toubro and Delta Electronics.

3. Ambitious long-term financial targets for attractive shareholder returns

Schneider Electric's opportunities, strategy and business positioning have led its management to define ambitious long-term targets for the company. Over the long term, the key priorities remain focused on profitable growth, cash conversion and capital efficiency.

Two sets of targets have been defined: business performance targets and capital efficiency targets.

Across the economic cycle[1] performance targets:

- ◆ **Average organic revenue growth:** 3 to 6% across the cycle;
- ◆ **Adjusted EBITA:** margin between 13% and 17% of revenues;
- ◆ **Cash conversion:** around 100% of net profit converted into free cash flow.

Across the business cycle capital efficiency targets:

- ◆ **ROCE[2]:** between 11% and 15%;
- ◆ **Dividend:** payout around 50% of net income;
- ◆ **Capital structure:** retain a strong investment grade credit rating.

(1) Schneider Electric defines a business cycle as a period including a slowdown and an expansion, or a period in between. This concept allows investors to estimate the Group's long-term growth potential across a business cycle. The length of a business cycle can vary and cannot be forecast.
(2) ROCE is defined as: adjusted EBITA after tax/Average capital employed. Capital employed is defined as: Shareholders' equity + Net financial debt + Adjustment for associates and financial assets.

4. Company history and development

4.1 History

From its beginnings in steel during the Industrial Revolution 180 years ago, to electricity and, more recently, energy management, the Group has undergone significant changes in its operations throughout its history.

1836-1980

A family business becomes a major player

1836: Brothers Adolphe and Joseph-Eugene Schneider take over an abandoned foundry in Le Creusot, France and, 2 years later, create Schneider & Cie, focusing primarily on the steel industry. Schneider & Cie grows rapidly, specializing in the production of heavy machinery and transportation equipment, and eventually becomes the Schneider Group, a diversified conglomerate.

1975: the Schneider Group acquires an interest in Merlin Gerin, one of the top manufacturers of electrical distribution equipment in France, involved in the electricity sector since 1920.

1981-2001

The Group refocuses on the electricity sector

1981-1997: Schneider Group refocuses on the electrical industry by divesting its non-strategic assets, such as its public works company, Spie Batignolles. Schneider Group undertakes a series of strategic acquisitions: Telemecanique in 1988, Square D in 1991 and Merlin Gerin in 1992.

1999: Schneider Group acquires Lexel, one of Europe's largest suppliers of installation systems and control solutions. In May 1999 the Group is renamed Schneider Electric, to clearly emphasize its expertise in the electrical field.

SINCE 2000

A Strategic Transformation

At the turn of the **2000s**, Schneider Electric radically rethinks its growth strategy, setting itself 3 goals:

◆ ensuring a more balanced exposure to its strategic end-markets;

◆ enhancing its portfolio of historical operations (electricity distribution, automation and industrial control) with adjacent and synergetic businesses in order to boost its organic growth potential; and

◆ anticipating the future energy requirements of companies and individuals.

This strategy leads Schneider Electric to conduct a number of strategic acquisitions both in mature countries and in new economies targeting companies offering complementary products and solutions.

4.2 From Power & Control to the Digital Transformation of Energy Management and Automation

Strengthening its leadership in low voltage distribution

◆ We have been a long-time leader through our Merlin Gerin and Square D brands.

◆ We have reinforced our Wiring Devices and ultra terminal offer with several acquisitions: Clipsal in 2003, OVA, Merten and GET in 2006, Marisio and Wessen in 2008.

◆ We grew our portfolio in renewables conversion with Xantrex in 2008.

◆ We grew our presence in new economies with the acquisition of Delixi in China, Conzerv in India (2009) and Steck group in Brazil (2011).

Building a global leader in medium voltage & grid automation

◆ We have historically been one of the leading players in medium voltage electrical distribution products and equipment.

◆ With the acquisition of Areva T&D (Areva's medium voltage distribution division) in June 2010, we became world leader in medium voltage and grid automation.

◆ In 2010, the Group acquired 50% of Electroshield-T Samara, a leading medium voltage company in Russia. In 2013, Schneider Electric acquired full ownership of this company, transforming Russia into a key market for the Group and turning Schneider Electric into a key player in the oil, gas and mining industry, as well as in the development of energy efficiency and the smart grid.

◆ With the acquisition of Telvent in 2011, a Spanish software company with a strong presence in North America, we became global leader in ADMS (Advanced Distribution Management Systems), supporting the monitoring and management of large electrical distribution networks.

Developing a global leader in industrial automation and control

◆ We have been a long-time leader in discrete automation through our Telemecanique brand.

◆ We reinforced our Industrial Automation & Control portfolio with the acquisition of Citect in 2006, RAM Industries in 2008, Cimac and SCADA group in 2010 and Leader & Harvest in 2011.

◆ In January 2014, we closed the acquisition of Invensys plc. This strategic move allows us to enter the process automation world and reinforces our position in integrated industrial automation and electro-intensive segments.

Building a global leader in critical power

◆ We identified critical power as a key technology for our portfolio and gained majority control of MGE UPS in 2004.

◆ We became a world leader with the acquisition of American Power Conversion (APC) in 2007, the US-based world leader in single-phase and 3 phase UPS with operations on all continents and USD2.5 billion in revenues.

◆ We expanded our operations in new economies with the acquisition of UPS manufacturer Microsol Tecnologia in Brazil in 2009 and the acquisition of APW in India in 2011.

◆ In 2011, we broadened our portfolio with cooling offers from Uniflair, data center services from Lee Technologies and backup power storage from Luminous.

Creating a major player in building automation & security

◆ As the result of several acquisitions, in particular TAC in 2003, Andover Controls in 2004 and Invensys Building Systems in 2005, we became a major player in building automation.

◆ We entered the video security market in 2007 with the acquisition of Pelco.

◆ In recent years we have further developed our operations in mature countries, in particular through the acquisition of 2 pioneering French companies in 2010: Vizelia, a provider of software that monitors the energy consumption of buildings in real time, and D5X, a specialist in solutions optimizing the use of commercial buildings.

◆ The acquisitions of Summit Energy (2011) and M&C Energy group (2012) increased our expertise in energy procurement services.

4.3 Recent external growth

In 2017, Schneider Electric further optimized its offer portfolio to strengthen its focus on core businesses and drive the Group's performance:

◆ in January 2017, Schneider Electric announced it has acquired the remaining 26% stake in Luminous Power Technologies. The Group now holds full ownership of Luminous Power Technologies, a leading power back up and home electrical specialist in India;

◆ in June 2017, Schneider Electric announced it has finalized the sale of Telvent DTN to TBG AG. Telvent DTN is a leader in providing information services, supply chain connectivity tools and decision support solutions in agricultural, energy and environmental industries;

◆ in October 2017, Schneider Electric announced it has signed an agreement to acquire Asco Power Technologies, a leader in the Automatic Transfer Switch ("ATS") market.

Transformations through Company Programs

Schneider Electric's company program

At Schneider Electric, we deploy strategy through a structured framework called our Company Program. Our Company Program comprises 5 pillars: Do More, Digitize, Innovate, Step Up and Simplify, which provide all employees with visibility of our annual and long-term priorities. Under each of the pillars is a set of broad transversal transformations that help Schneider achieve growth for our company and customers.

DO MORE	DIGITIZE	INNOVATE	STEP UP	SIMPLIFY
Create more opportunities for our customers and for ourselves	**Digitize for our customers, for efficiency and simplicity**	**Surprise our customers with innovation, to make their lives simpler and better**	**Our customers get great service because great people work at Schneider**	**Simplifying our work makes the difference to customers**

1. Do more for customers to create more opportunities for them, and for Schneider Electric

This initiative aims to bring more value to customers and business to partners, more products and services, better systems, and a sustainable and connected supply chain. To continue to drive growth, the initiative also focuses on launching new innovative offers, increasing the effectiveness and impact of marketing spend, and increase market influence under the Sales and Marketing transformation.

2. Digitize for customers, for efficiency and simplicity

With EcoStruxure as a platform, the aim is to accelerate and scale the digital journey, generating new customers, channels to market, offers, and sources of revenue. The Group's offers will be more connected, enabling new services and improving its customers' life. The digital customer experience will be improved to deliver an end-to-end, simple and intuitive partner and customer experience.

3. Innovate to support growth and sustainability

The innovate initiative will focus on delivering the right products and solutions for customers in a focused and short timeframe. In addition, Schneider Electric will remain a partner of choice in sustainability, in its innovations and its operations, and will continue to measure its progress through the Planet & Society Barometer 2015-2017.

4. "Step Up" people to make Schneider Electric a great place to work

This initiative focuses on increasing the competency of Schneider Electric employees through stronger collaboration, enhanced training and a culture of high performance while continuing to have a strong commitment to diversity and workplace satisfaction.

5. Simplify operations for increased efficiency

Simplifying work and operations makes the difference to customers. The Group aims to simplify its management setup to make the company leaner, further increase supply chain productivity, optimize R&D efficiency and solution execution and increase sales force efficiency.

Schneider Electric's company program shows strong results

2017 marked the third year of the Group's current company program and showed strong positive results. The Group met most of the targets set with several major milestones being achieved.

Within our Do More initiative

◆ More products: product revenues up +4.3% in organic terms FY17, with 100+ launches in 2017.

◆ More software: industrial software sales are stable with Q4 slightly up. The transaction announced with AVEVA provides a single software portfolio across the asset lifecycle for continuous & hybrid processes.

◆ More services: High single-digit growth in FY17 orders; +6% organic growth in Q4 revenues

Within our Simplify initiative

◆ Accelerated efficiency through around €650 million in gross support function cost reduction plus industrial productivity in 2017 (around €1.9 billion since 2015).

Within our Digitize initiative

◆ The number of connected assets increased +25% vs. 2016.

◆ Unique connected customers doubled vs. 2016.

Within our Innovate initiative

◆ The Planet and Society Barometer exceeded the 2017 target, with a score of 9.58/10. Sustainability has been recognized externally through numerous awards for our long-term commitment to environmental dimensions.

◆ Numerous launches of products, control platforms and software within the EcoStruxure architecture.

5. Research & Development

Innovation is key to our company's growth. Schneider Electric has had a history of innovation over the past 100 years.

Changes in our world are more profound than ever. New technologies, enabling distributed and connected energy for the first time, challenge us to redefine the way we live our lives. Schneider Electric invents technologies that will transform the places where we live, work, and play. As the global specialist in energy management and automation, we create connected technologies that reshape industries, transform cities and enrich lives. At Schneider Electric, we call this Life Is On. Life Is On when life is energized, efficient and connected. And life gets richer and more sustainable when energy gets safer, more reliable, and more efficient. Our promise is to make sure Life Is On for everyone, everywhere and at every moment.

Schneider Electric shares its expertise in energy management, industrial automation, and process efficiency to help people connect to an always-on world. Since 2016, EcoStruxure™, which is Schneider Electric's IoT-enabled open and interoperable system architecture and platform, is delivering enhanced value around safety, reliability, efficiency, sustainability and connectivity for our customers.

The Internet of Things (IoT) is simply the inter-networking of physical devices to collect and exchange data via internet protocol (IP). The true power and applicable value of IoT becomes evident when it is connected to the 5 emerging technology transformations that accelerate our capacity to converge OT and IT systems: mobility, cloud, sensing, analytics and cybersecurity. With EcoStruxure™, we continue to leverage these advancements to deliver innovation at every level - from Connected Products to Edge Control to Applications, Analytics and Services. We deliver our innovative solutions through tested and validated future-proof reference architectures that enable the design of end-to-end, open, interoperable and connected systems.

Our EcoStruxure™ platform enables design and operation of connected systems at scale with best-in-class security built around 3 core capabilities:
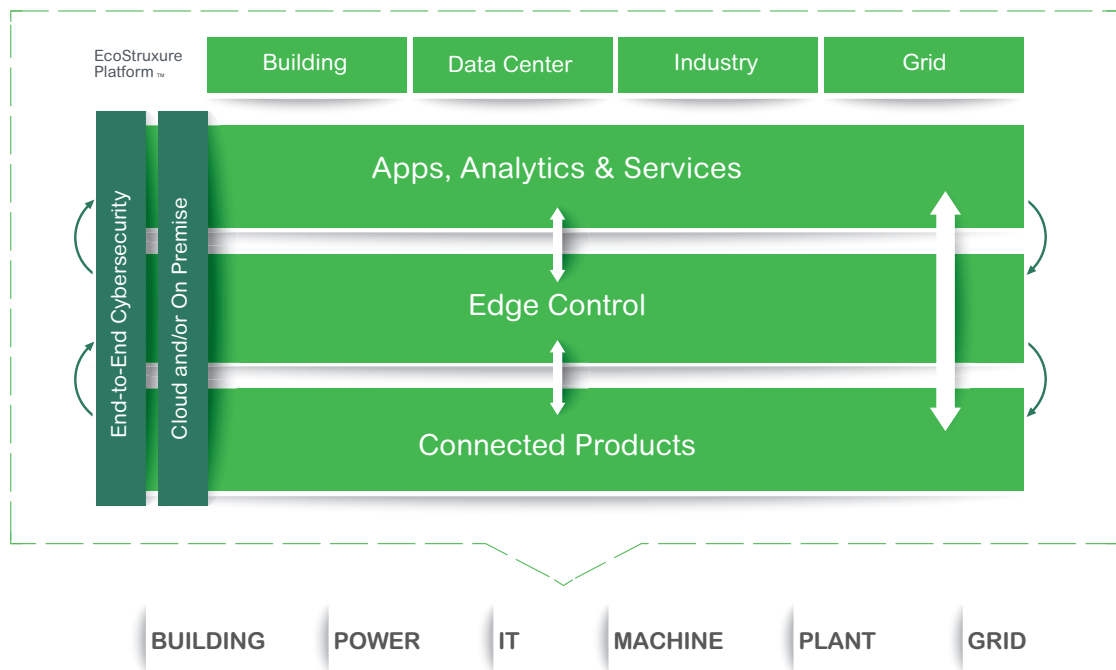
During 2017 the Group launched numerous innovative offers across its Businesses: Industrial Automation (Industry), Medium Voltage (Infrastructure), Low Voltage (Building) and Secure Power (IT). There is a clear value proposition that is now built around our 6 EcoStruxure™ domains. All the EcoStruxure™ domains were showcased during our Innovation Summit, in Hong Kong, in September 2017.

Several technology leaders participated in a workshop on how R&D can innovate faster and better. They concluded the following:

1. Ensure customer intimacy and insights are a part of the R&D culture;

2. Improve accountability through improved project management and governance;

3. Leverage R&D competencies in line with the R&D footprint diversity;

4. Introduce lean and agile methodologies to the traditional Offer Development Waterfall Process;

5. Evolve the current Offer Introduction Process to the Winning Offer Launch Process;

6. Practice open innovation with start-ups, universities and collaboration with partners;

7. Ensure consistency with respect to data, in all EcoStruxure™ domain architectures.

These findings will be used to improve the way we perform R&D at Schneider Electric in the years to come.

5.1 Delivering truly innovative solutions

The advances mentioned above generate innovation across market segments, all the way from residential to smart cities, as illustrated in these few examples.

Buildings

Schneider Electric keeps innovating and investing in the traditional core of its business. In 2017, a very disruptive Air Circuit Breakers offer was introduced. The new Masterpact MTZ is the first ever IoT Air Circuit Breaker, combining legendary reliability with unpreceded robustness to adapt to harsh environment with a set of new advanced functionalities enabled by digitization. In particular, the Masterpact MTZ embeds certified class 1 energy metering, which is making it unique in its category. Natively Ethernet connected, it simplifies the electrical installation, optimizing uptime and reducing operations costs, which is very well adapted to critical applications. This offer is a key pillar of EcoStruxure™ Power, enabling edge connectivity and apps/analytics service offers. It is completely future ready thanks to its digitally modularity: it can be upgraded and enriched at any time in the life of the electrical installation, thanks to downloadable digital modules adapted to each end-user application.

In 2017 Schneider Electric also introduced a new platform of molded case circuit breakers (MCCB)'s, deployed as Compact NSXm in IEC markets and PowerPact B in UL/CSA/NEMA markets. This new range offers the best performance versus size ratio on the market and full discrimination with Compact NSX and Acti9, confirming the leadership of Schneider Electric on the core values of Electrical Distribution. Their Everlink Power connections are patented, ensuring cost effective and safe connection thanks to creep compensation. The range is introduced with a complete range of accessories covering all types of applications and mounting modes. It also includes a unique version with built-in Earth Leakage protection up to 160 A. This new range integrates perfectly in all Schneider Electric switchboard designs (Din Rail mount ready) enabling space saving up to 25%. PowerPact B and Compact NSXm are very suitable for building, industry, machine, infrastructure and data center applications.

PowerTag is the first solution in the world which gives the facility manager or electrician the ability to make their electrical panel digital within 30 minutes. This product, which is now launched worldwide, offers huge flexibility and simplicity, making it unique and cost effective. This is the only accurate energy sensor that is self-powered and wireless communicating. It can easily be added to any miniature circuit breaker (MCB), not only to monitor the energy consumption and but also to track critical equipment. In a world where we must deliver more decarbonized and more reliable energy, PowerTag opens the door for a new world of digital opportunities. We can now connect all types of buildings and infrastructure sites to the Schneider EcoStruxure™ digital platform easily. And thanks to PowerTag, residential panels are also becoming digital, solar-ready and EV-ready.

Schneider Electric EcoStruxure™ Fire Expert is a new online application capable of creating a totally new, recurring revenue stream in the fire detection business. Being totally a digital software offer, the profit level is much higher than with traditional fire detection offers. This online application is based on Value Stream Mapping, giving unique value to most of the people involved in the fire detection system lifecycle. This is a game changer in this industry, by offering subscription based system extensions (licenses).

There have also been digital innovations in the 'Wiser' line of products with the introduction (in certain countries) of Wiser Light connectable switches, dimmers, and relays, Wiser Door connected door entry systems and Wiser Heat boiler control and radiator control for multi-room heating systems. Schneider Electric has also introduced Sequence 5, a luxury range including connectivity capabilities. Other offers include new innovations in AvatarON and Odace, which all enable connectivity.

In Enclosures, last year the Group invented Derbe, a power control center for distributed energy resources in buildings. It is scalable and future-ready, providing smart and optimized power and energy management to achieve your savings, sustainability and resiliency goals. A new busway connectivity system was also launched with

thermal monitoring capability to follow busway's temperature and support predictive maintenance (especially for data center customers).

Utilities & infrastructures

With more decentralized generation, 2 way flow of decarbonized energy and new demand profiles from active consumers, energy communities and EV, Utilities must digitize to optimize flexible energy resources. By leveraging the Internet of Things, integrating IT and OT systems and consistently managing all data, EcoStruxure™ Grid is enabling utility digital transformation by providing comprehensive IT/OT utility solutions.

EcoStruxure™ ADMS is the core integrated application with new IT/OT functionalities like DERMS (Distributed Energy Resources Management System), Demand Response, Energy Storage, critical in the evolving energy system environment.

In order to manage the Group's EcoStruxure™ Grid and Power ambition, the 2017 plan was a massive move towards digital switchgear both for private and utility markets. Schneider Electric has been released a new range of protection relay Easergy P3 and a new Remote Terminal Unit Easergy T300.

Easergy P3 is the latest modular solution for protecting, controlling and monitoring medium voltage assets including feeders, motors, transformers, generators and capacitors in the power networks with advanced communication, cybersecurity and latest compliance with the IEC61850 standards delivering unparalleled flexibility and configurability, while at the same maintaining ease of use, commissioning and reduced total lifecycle cost. It is designed for unparalleled efficiency, greater connectivity and enhanced safety to allow panel builders, contractors and partners to save time every day, whilst helping to ensure that critical assets and personnel remain protected. With our unique easy-to-use One-Box design, Easergy P3 includes more than 40 protection functions and 9 communication protocols to reduce variation, specification, ordering and delivery times.

Easergy T300 Remote Terminal Unit (RTU) is a modular hardware and firmware platform and an application building block for medium voltage and low-voltage public distribution network management and for distribution automation. It offers a single solution for control and monitoring, from a simple pole-top device to a large MV/MV or MV/LV substation. Combined with its powerful communication capabilities in terms of protocols and media support, it can be deployed to enable a variety of applications including distribution grid self-healing applications, fault current detection with centralized and decentralized feeder automation and transformer medium voltage and low voltage monitoring. The industry-leading RTU complies with the latest 61850 standards with advanced cybersecurity features complying to IEC62351 and IEEE P16866 and provides advanced power quality information complying to various IEC standards.

Then, being the leader in secondary distribution, the Group has been enhancing its star offers with the smart RMU for utilities, the connected SM6 for buildings and a new generation of circuit breaker.

Smart RMU is the combination of the Group's core product RM6 with the new T300 RTU, which enables the new Utilities challenges (network availability, integration of distributed energy, energy quality and efficiency, and obviously cost and asset management optimization) to be met. With the advantage of compactness, and integration of power metering and fault detection, the Smart RMU is delivered and guaranteed as a pre-configured, pre-tested solution, thus ensuring peace of mind for the customer.

Connected SM6 combines its renowned efficiency and safety with a best-in-class digital experience. New IoT capabilities have been added to this proven medium voltage switchgear in order to enhance the customer experience. This IoT-ready switchgear not only allows condition monitoring of the asset 24/7 to prevent downtime and boost operational efficiency but also enhances safety with fast embedded arc detection.

Easypact EXE is the latest addition and the first product of Schneider Electric's new generation of Vacuum Circuit Breakers. Based on a limited number of global bricks, it offers increased reliability for better safety, improved flexibility for an easier integration, and enhanced modularity for more partner added value. Supply chain efficiency has been optimized to offer more reactivity and a shortened customer logistic offer with Easypact EXE. Ready to be integrated into EcoStuXure and ready for online configuring and ordering, Easypact EXE brings customers into an enhanced digital experience.

Industries & machine manufacturers

As end users and OEMs re-examine their automation and operation management strategies to take advantage of the Industrial IoT to enable operational excellence and improve overall business performance, EcoStruxure™ architectures for Machines and Plants play a key role in managing convergence between information technology and operational technology through Connected Products, Edge Control and Applications, Analytics Services while embedding natively cybersecurity features.

The Modicon M580 Ethernet programmable automation controller (ePAC) possesses industry-leading processing speed and memory, plus stronger embedded cybersecurity. Its core Ethernet capabilities allow seamless, faster, enterprise-wide access to operating data. For the hybrid industry, it is considered the highest-performing PAC in the marketplace – designed as the right controller for the IIoT and beyond.

Modicon M580 ePAC is the controller which, especially when applied with EcoStruxure™ Hybrid DCS, can help manufacturers achieve better, measurable, earlier ROI and up to 100% returns on their project investments in less than 3 months.

For switching and controlling, Schneider Electric has just launched a new Tesys D Green contactor offer. This new line of contactors is not only compliant to new REACH and RoHS standards, but also energy efficient, with the lowest power consumption in the market. It is directly connected to PLC and digital controllers, in order to really optimize the automation system of our OEM customers, while reducing the number of commercial references by 10. Lastly, the Group also integrated the Smart Motor protection relay Tesys T offer in EcoStruxure™ Plant, providing all necessary libraries for our Oil & Gas, Mining Minerals Metals Water & Waste Water customers.

The Altivar Process is the next generation of variable-speed drives, designed to deliver IIoT benefits. A smart, connected device with built-in intelligence to gather data and share information to the enterprise level, the Altivar Process can improve operational efficiency, profitability and reduce total cost of ownership (TCO).

Altivar Process can minimize TCO, increase profitability, and help customers save 8% in maintenance costs. Productivity can be improved up to 20% by maintaining operations at the best efficiency point (BEP), utilizing built-in advanced system management with unmatched visibility and control – giving operators complex production insights clearly and intuitively.

The Group's innovative augmented reality software application for mobile devices uses the device's camera to recognize cabinets and machines and then superimpose real-time data and virtual objects onto them, giving operators and technicians immediate access to relevant information and guidance to reduce downtime and improve maintenance efficiency. The cloud design tool enables OEMs to develop custom augmented reality application for machines. Operators can safely be guided through maintenance operation, visualize key contextual data and find relevant information in a minimum of time.

Schneider Electric connectivity solution provides secure remote access to our customers allowing remote programming and diagnostics. Maintenance and service operations can be executed from any PC independently from the operator's location. This offer allows to create a virtual connection between the expert and the machine/devices, easing the commissioning and reducing the time to identify any potential problems. Thanks to this solution travel needs and machine downtime are reduced, while experts' availability increases.

Cybersecurity concerns continue to expand in the industrial sector, with directed attacks creating losses for companies and disruptions for the public, with undirected or semi-directed attacks such as ransomware moving into industrial control rooms and with a general raising of the level of risk awareness in boardrooms.

In response, the Group continues to increase the security and differentiation of its offers with IEC62443 certifications for the Triconex Safety system and 4 development sites, certification of the market-leading secure ePAC for critical systems in France and China, while continuing the leadership work with governments and standards bodies (ODVA, OPCF, etc.) to shape the future of industrial security as it moves to the IIoT and secure cloud.

The strategy of combining improved offer security with best-in-class offers from partners continues with Claroty networks being added as cybersecurity partners within the Collaborative Automation Partner Program as well ongoing work with both start-ups and leading security companies around the world.

Data centers & networks

Large data center builds continue to see the highest growth in this segment as Internet giants and colocation providers continue to build out capacity to support the new digital business and personal lifestyle that is generating Big Data through high bandwidth content and IoT. These include centralized public cloud data centers, as well as regional public clouds that are located in urban areas. Enterprise data centers are now going through a modernization phase with digital transformation and have stabilized. Schneider Electric specializes in back-up power, power distribution, cooling, IT racks, digital services and software management in the power, IT and building domains. The Group's solutions are used to optimize energy and operating costs for data center operators as well as delivering the desired redundancy and availability.

Riding the wave of data center builds, next generation 3-Phase Galaxy UPS were launched into the market last year with lower capacity versions set to enter the market this year, providing unique energy efficiency and power scalability features. Large UPS lifecycle costs and physical footprint are further minimized as Lithium-ion batteries start to become more popular. To meet the rapid deployment challenges of the colocation customers in the IT room, an innovative solution called HyperPod was introduced to provide a fully contained and secure architecture for rack-based IT deployments. It is designed with the future in mind and will support today's IT equipment as well as tomorrow's. Schneider Electric will continue to evolve the HyperPod system with innovative power, cooling and software management.

Data center services continue to be a growing customer need and Schneider Electric has taken major steps in expanding the Group's digital service offers to provide the benefit of reduced response time through automation of systems. EcoStruxure™ IT Expert Mobile insights was launched to provide monitoring and alerts to any device. EcoStruxure™ IT Advisor Remote service provides recommendations through analytics and direct linkage to our service bureau for expert collaboration and dispatch automation. Schneider Electric continue to expand its service bureau and data center operations staff.

Requirements for low latency, regional and local computing at the "edge" is an emerging trend. Such edge IT deployments support real-time control and deterministic data handling where data security and sovereignty are required. Schneider Electric expanded its range of packaged micro data centers that can be populated with computing equipment and shipped to the site as a turn-key solution for the local edge. Schneider Electric also develops a digital design tool called the "Local Edge Configurator" to fully configure micro data centers and has continued its partnership with Hewlett Packard Enterprise for edge applications, and are forming relationships with major IT vendors across the globe.

5.2 Financing innovative start-ups

In 2000, Schneider Electric created an investment structure called Schneider Electric Ventures to invest in high-tech start-ups whose innovations fit with the Group's future development. In 2010, Schneider Electric Ventures became Aster Capital Partners with the launch of a new capital investment EUR105 million fund to finance innovative start-ups operating within the areas of energy, new materials and the environment, jointly subscribed by Alstom, Solvay and the European Investment Fund. In 2017, Aster raised EUR240 million to be invested primarily in Europe and the United States. Aster takes position as the leading venture capital fund dedicated to the energy transition.

Managing a portfolio of partnership opportunities

The mission of Aster is to purchase minority interests in innovative start-ups in the fields of energy and mobility based in Europe, Israel, North America and Asia. The scouting activities constitute a source of particularly productive partnerships and forge contacts with about 1,700 small and mid-sized businesses around the world each year. In 2017, a new investment was made, Habiteo (EUR2.5 million), joining the first 24 companies already in the portfolio, including Lucibel (FR), Iceotope (UK), Entouch Controls (US), OpenDataSoft (FR) and Ekwateur (FR). Aster has also recorded successful exits in 2017, notably with the IPO of Avantium and Digital Lumens (acquired by Osram).

Habiteo – EUR2.5 million investment in November 2017

Habiteo is a sales and marketing solution for real-estate developers. It helps them sell their properties faster by generating sales content (3D models, video clips, etc.), and manage their workflow and sales process on different channels to ensure a high-quality customer experience. The company was created in 2014 by Jeanne Massa. It has continuously improved its solution and now supports more than 150 real estate-developers in their digital transformation.

Identifying emerging trends and technologies and delivering relevant inputs

Aster is in touch with start-ups on a daily basis. This gives Aster a unique perspective on emerging technologies, customer needs and new market segments. The work is shared at 3 levels:

◆ by identifying emerging trends and weak signals which may have an impact on markets, customers and/or future Schneider Electric business, and sharing them on a regular basis with the leaders within Schneider Electric;

◆ by introducing about 300 start-ups every year to Schneider Electric teams within relevant countries, businesses and corporate departments; and

◆ by publishing market reviews that are presented to Schneider Electric teams. This year once again, about 15 relevant topics have been covered and shared within Schneider Electric.

The Aster teams continuously improve the dedicated web platform that they have made available to all Schneider Electric employees to give them an exhaustive access to these resources, information and database.

Business Incubation at Schneider Electric

Schneider Electric and Aster have co-designed an active incubation model to bring additional innovation and growth drivers to Schneider Electric through ideas owned by its employees. This Business Incubation initiative will enable the creation of new businesses using business models and/or technologies which are not adjacent to current Schneider Electric business models or technologies. It's a bold enterprise which will allow better management of the dichotomy between Schneider Electric's performance focus and the risks associated with new ventures, notably by accepting VC-like success rates in a "fail fast" mode. Ultimately, the goal is to build new businesses which could assist Schneider Electric in the near future.

6. Organizational simplicity and efficiency

Schneider Electric is leading the digital transformation of energy management and automation. We make it possible for IoT-enabled solutions to seamlessly connect, collect, analyze and act on data in real-time, delivering enhanced safety, efficiency, reliability and sustainability.

Schneider Electric has transformed their organization to best serve its customers' which has accelerated its journey as an established global leader over the past decade. Under the current organization, with the focus of EcoStruxure solutions at the core and the launch of Schneider Digital, Schneider has a strong foundation to transform the digital landscape towards growth for both the company and its customers.

6.1 A customer-focused organization

Dual orientation – technologies and end-markets

Schneider Electric is organized into 3 business units. Each business unit is responsible for specific technologies and addresses targeted end-markets. The organization was designed to support our business models: transactional, equipment, projects, and services with strong technological leadership and close customer relationship.

◆ **Low Voltage & Secure Power** business scope includes low voltage, building automation and renewable technologies as well as critical power and cooling technologies for data centers and non-IT applications.

◆ **Medium Voltage** business scope includes medium voltage and grid automation technologies.

◆ **Industrial Automation** business scope covers industrial automation, control and sensors technologies.

Each of these business units manages its R&D, marketing and sales teams and is responsible for its global results.

Several back-office functions such as Finance, Human Resources, IT systems and Global Marketing are handled by the Global Functions, which have a governance role and provide services internally.

Rationalization and optimization of synergies

The organization is deployed in accordance with 3 key concepts: **specialization, mutualization and globalization**. Specialization mainly concerns sales and front-office operations. Mutualization covers local back-office operations at the country and regional level. Globalization concerns the 7 support functions, now known as Global Functions.

Our Organization is structured around 3 Core Principles…

Specialize	Mutualize	Globalize
Because this is how we bring value to our Customers	**To maximize Cross-Selling across Businesses**	**Whenever the approach is Global and must be ONE**
3 Global Businesses	1 Zone or Country President	1 Global Supply Chain
• Global P&L ownership • Focus on Offer Creation & Business Models • Drive Services, Segments, Solutions & Software	• Market Coverage engine to maximize cross-sell across Businesses • 1 Face to SE employees and authorities • Mutualized Back Office for cost and Quality	• Tailor, Optimize, Deliver 6 Global Functions • Leverage our scale and ensure efficiency

◆ **Specialization:** In each country, each local sales force is organized under local Business VPs as soon as it reaches critical mass. The aim is to deploy specialized front office per business in each host country to respond more effectively to customer demand for specific expertise. Each business is also responsible for its overall results, both for product sales (in its business lines) and the implementation of solutions (especially for end-market segments within its scope). As projects can consist of products coming from different business units and in order to define a single point of contact for customers, each business unit is responsible for projects in certain defined end-markets. Business efforts have focused on implementing and strengthening existing teams dedicated to meeting the specific needs of these strategic customer segments with a strong focus on the collaboration between the business lines, in order to ensure these customer's needs are met as fully as possible.

◆ **Mutualization:** The business is organized around Organizational Regions: North America, China, France, Europe (which is comprised of 6 international zones: United Kingdom & Ireland, Northern Europe, Italy & CEEI, CIS, DACH, Iberian) and International Operations, which is comprised of 5 international zones (South America, East Asia & Japan, Middle East and Africa, India, and Pacific). Each of these regions has empowered Zone Presidents and Country Presidents, which are appointed in each country to be the custodians of 4 businesses in their countries: Industrial automation, Medium voltage, Low voltage and Secure power, including Field Services. In addition, they are responsible for monitoring the full transversal P&L of the country, deploying Schneider Electric's strategy in the country (including all local cross-functional topics such as increasing cross-selling among businesses) and pooling the local back-office resources. These resources are gradually brought together in each country or region under the Zone or Country President's supervision and can include multiple local support functions ranging from administration to project execution, depending on the situation. In addition, the Zone and Country President serves as the mutualization driving force and Schneider Electric's main representative in the country, most notably in dealings with employees and local officials.

◆ **Globalization:** Major support functions that are not specific to a given country or business are globalized to increase experience and leverage a significant scale effect around cost and service. Manufacturing and Supply Chain operations, areas of shared services or expertise (such as Finance and Human Resources), Strategy, Digital (including information systems) and Global Marketing functions are now included within the Global Functions. The global Supply Chain continues to focus on the areas of global productivity, customer differentiation and customer satisfaction.

Globalization concerns the 6 support functions, now known as Global Functions:

◆ Finance;

◆ Marketing;

◆ Global Supply Chain;

◆ Human Resources;

◆ Strategy;

◆ Schneider Digital.

Schneider Digital

To operationalize and accelerate our digital transformation journey, Schneider Electric launches the new Schneider Digital organization. Schneider Digital unifies our transversal activities under 1 organization: Information Process & Organization, Internet of Things, Digital Transformation as well as Digital Customer Experience, which is jointly led with Global Marketing. Under the Schneider Digital organization, there are 6 practices fully responsible for architecting and delivering their own set of end-to-end capabilities, platforms and programs to reach our desired business results: IoT & Digital Offers, Digital Customer Experience, Digital Engineering, Digital Sales & Support, Digital Data Hub, and Enterprise IT. The 6 practices are supported with transversal functions with transversal governance roles: Digital Architecture, Digital Convergence and M&A, Finance and Digital Portfolio, Digital Security, Digital Alliances & Ecosystems, Digital Transformation & Stakeholder Communities, and Executive Governance.

Geographic dimension and legal structure

The Group's goal is to establish, wherever possible, a single legal structure in each country.

Schneider Electric's simplified legal organization chart is as follows:
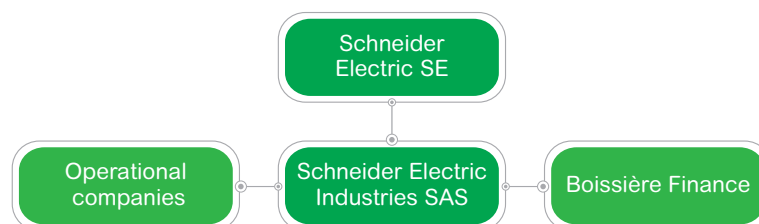
The list of consolidated companies is provided in note 32 to the consolidated financial statements. Boissière Finance is the Group's centralized cash-management structure; it also centralizes hedging operations for all subsidiaries.

6.2 Manufacturing and supply chain: global redeployment

Schneider Electric has 208 plants and 98 distribution centers around the world. Customer satisfaction is its top priority.

While working constantly to improve occupational health and safety and environmental protection, Schneider Electric's manufacturing policy aims to fulfill 4 key objectives, in order of priority:

◆ to achieve a level of quality and service that meets or exceeds customer expectations;

◆ to obtain cost-competitive products while continuing to deliver strong and consistent productivity;

◆ to develop system speed and efficiency and limit production sites' risk exposure (currency parity, geopolitical risks and changes in cost factors);

◆ to optimize capital employed in manufacturing operations.

A significant number of the production facilities and distribution centers are dedicated to the global market. The other units are located as close as possible to their end-markets. Although design and/or aesthetic features may be adapted to meet local requirements, Schneider Electric standardizes key components as much as possible. This global/local approach helps Schneider Electric maximize economies of scale and optimize profitability and service quality.

Drawing on its global scope, Schneider Electric is constantly re-balancing and optimizing its manufacturing and supply chain resources.

Continuous improvement on a global scale

At the same time, an industrial excellence program called Schneider Performance System (SPS) has been rolled out in all plants to substantially and continuously improve service quality and productivity. The program also takes into account our environmental and staff health and safety criteria. Based on a lean manufacturing approach, SPS is supported by the extension of Six Sigma and Quality and Value Analysis programs across the Group. By deploying these optimization methods globally and sharing best practices, the Group intends to raise the operational performance of all its plants to the same high standard.

Schneider Electric's sites and products meet the applicable regulatory requirements relating to the environment. A continuous assessment system to ensure compliance with regulations is in place, relying mainly on internal and external auditors. On a regular basis, these norms and standards are exceeded by the specific requirements we set ourselves, for instance by replacing certain materials and substances used for our products before regulations require us to do so. Our plants and logistics centers with more than 50 employees are ISO 14001 (environment) certified, and almost half of these sites have also achieved ISO 50001 (energy efficiency) certification. We implement an integrated management system that also covers Quality (ISO 9001) and Health and Safety (OHSAS 18001). In 2016, Schneider Electric continued implementing its Environmental and Health & Safety strategies for the 2015-2020 period, focusing its efforts on approximately 10 priority areas. These place increasing importance on eco-design, making it systematic and exhaustive, on our efforts to reduce CO_2 emissions, on our circular economy goals for our offers and for the resources used, and on our ever-increasing energy efficiency objectives. We strive in particular to constantly boost our customers' capacity to objectively assess the environmental added value our solutions offer them (energy and CO_2 efficiency, lifespan and ease of repair, etc.). We take into account customer expectations concerning our products' environmental profile, information transparency and access, and even end-of-life product management.

In terms of Health and Safety, a range of programs are in progress to boost the "Safety Culture" of each of our sites and each of our employees, in particular through "safety visits" training and recognition of good practice. We conduct Health and Safety audits on each of our sites in order to assess practices, performance, governance and culture. Monthly and quarterly steering committees are held with the company's top management in order to track progress and make the necessary decisions for continuous improvement.

These programs cover our entire value chain, including R&D, purchasing, manufacturing, logistics, marketing and sales.

Schneider Electric has implemented a policy to systematically identify and reduce its industrial risk in order to secure maximum service to its customers and to minimize any impact of disaster, whether it is internal in nature (fire) or external (natural disasters). This policy relies on local actions to remove the identified risks following audits led by an external firm recognized by insurers, as well as an action plan for the continuity of production. If, after corrective actions, the risk remains too high, then the activity is repeated at another Schneider Electric site. Since 2014, this process has been extended to single-source suppliers in order to reduce the risk level in 5 areas (financial, geopolitical, industrial, quality and dependence on Schneider Electric activity), in addition to identifying the action plan in the event of a supply disruption.

The segmented response to customer needs

Since 2012, Schneider Electric has launched the Tailored Supply Chain program as part of the company program Connect, with the aim to better align the supply chain set-up with the needs and behaviors of each customer segment (distributors, partners, panel builders, etc.).

This approach has required the implementation of a more dynamic industrial strategy to restructure customer service practices, and the configuration of products, equipment, delivery methods and services offered to Group customers. In parallel, the Group has had to simplify its working approaches and focus on creating value for its customers by streamlining its decision-making processes and its organizational structure.

This led to the announcement of a new Industrial Organization for 2013, which is structured around 8 regions (Europe, CIS, China, India, Pacific, Asia, North America, South America) and groups all of Schneider Electric's industrial activities together in these regions. In addition, this also led to the vertical integration of all Purchasing activities to simplify and unify its contact with suppliers.

In the 2015 to 2020 period, 9 initiatives are under implementation to continue to transform the supply chain at every stage from suppliers through to end customers:

◆ reduce the release time to customers;

◆ basic logistics offering, customized according to type of channel;

◆ industrial planning customized according to customer segment;

◆ development of the services offering, in line with our customers' installed base;

◆ improvement of the overall performance of the equipment supply chain;

◆ involvement of preferred suppliers in all aspects of this transformation approach;

◆ continued optimization of the entire industrial system to offer customized customer service;

◆ focus on excellence of the supply chain for growth activities;

◆ management of the release of new product offerings.

The aim is to make the Group's supply chain a positive differentiating factor for our customers and, in turn, to gain a competitive advantage over our competitors.

The digitization of the supply chain

Since 2013, Schneider Electric has put emphasis on digitization as a way to accelerate and intensify its transformation, and this year Global Supply Chain has launched TSC 4.0, adding 6 digital accelerators to the previous program, to speed up our transformation thanks to increasing digitization.

Source, Make, Deliver, Plan, Care and Innovation are the 6 digital transformations just launched to target a full end to end digital supply chain, to optimize our efficiency at the same time we bring more value to our customers.

Supply chain optimization will benefit from the flow model, combined with the integration of the IT systems of our logistics partners with cloud technology. Similarly, a partnership with Kinaxis will enable the "digitization" of industrial planning and extend the scope. This technology facilitates interaction loops between the different functions and improves our responsiveness to customers while also significantly reducing the value of fixed assets in inventory. Finally, the development of new features tailored to each customer segment on our targeted computer systems (of the supply chain) is supported by a strengthened IT convergence plan.

This digitization of the supply chain is using our EcoStruxure™ solutions and Schneider Electric will have about 100 of industrial sites by 2020 as real show case for customer to demonstrate that EcoStruxure™ is one of the best in class solution to optimize Process and Energy Efficiency, but also Asset reliability. TSC 4.0 fully meets the priorities of the Group's industrial strategy by targeting customer satisfaction first and foremost while reducing costs for increasing responsiveness and reducing capital employed.

A key competitive advantage for our customers

All of these efforts to improve the supply chain have been recognized well outside the company. In September 2017, Gartner, a leading IT research and advisory firm, ranked Schneider Electric's supply chain 7th in Europe and 17th worldwide, an improvement of 15 and 49 places respectively in 2 years.

The Group's aim for the next few years is to turn this into a competitive advantage through customer recognition that we offer the best logistics solutions. The new 2015-2020 company program aims to drastically improve the capacity and response speed of the supply chain while strengthening economic and ecological efficiency in order to even better serve our customers by providing them with a customized logistics response that meets their expectations while ensuring sustainability.

6.3 Purchasing: selection and internationalization

Purchasing corresponds to around 50% of revenue and plays a crucial role in the Group's technical and business performance. As part of the new company program to optimize purchasing, the Group is continuing to pursue its plan, launched several years ago, to seek to source its purchases from the top-performing suppliers ("recommended" suppliers) and aims to increase local sourcing in the new economies to more than 50%. The Group is rolling out the "Purchasing Excellence System" with a view to involving suppliers, as a component in the 'Complete Logistics Chain', in the achievement of our performance objectives focused on customer satisfaction.

Schneider Electric primarily purchases prefabricated components, raw materials (silver, copper, aluminum, steel and plastics), electronic and electrical products and services. The diverse supplier list includes multinationals as well as small, medium and intermediate sized companies.

Suppliers are selected for the quality of their products and services, their adherence to delivery deadlines, their competitiveness, their innovative capacity and their commitment to corporate social responsibility (CSR). As a participant of the UN Global Compact, Schneider Electric encourages its main suppliers to contribute to its sustainable development initiative according to the guidelines of standard ISO 26000, through ongoing improvement in the level required (to achieve 100% "recommended" suppliers by 2017).

7. Risk Factors

As described in section 8 of this chapter "Internal control and risk management", Schneider Electric regularly analyses the risks and threats it faces, which has revealed 6 major risk categories as follows:

◆ risk factors related to the Group's business, which also include the solutions business, supplier risks and competitive threats;

◆ industrial and environmental risks that also include risks such as natural catastrophes and political disturbances, etc.;

◆ information system risks and cyber threats;

◆ market risks covering currency risks and raw material price fluctuation risks;

◆ legal risks that also cover intellectual property;

◆ litigation and related risks.

The Group's main risks and threats are summarized in a chart of overall risks based on their impact and probability.

7.1 Operational risk

Schneider Electric operates worldwide, in competitive and cyclical markets

The worldwide markets for the Group's products are competitive in terms of pricing, quality of products, systems and services, development and introduction time for new offers. Schneider Electric faces strong competitors, some of whom are larger than we are or are developing in certain lower cost countries. The Group is exposed to fluctuations in economic growth cycles and to the respective levels of investments within the different countries in which we operate. The Group's widespread geographic coverage and diversified end-markets enable us to ride out downturns on specific markets.

As 42% of the Group's revenue is generated in emerging countries, we are exposed to the risks associated with those markets.

The Group's wide international presence exposes us to many economic, legal and political risks in the countries in which we operate. These include risks arising from social unrest (particularly strikes and walk-outs), political instability, unforeseen regulatory changes, restrictions on capital transfers and other obstacles to free trade, and local tax laws. All of these risks may have an adverse effect on the Group's operations, results or financial position.

Schneider Electric has implemented procedures designed to protect the Group as far as possible from these risks, which are generally beyond our control, and to manage them as effectively as possible. These procedures include quarterly business reviews in which performance and projections are monitored, in terms of activity, action plans, results to date and forecasts, at all organizational levels of the Group (see section 1.8 "Internal control and risk management"). The Group also has the necessary competencies to manage these risks, mainly through our central functions (finance, legal, tax and customs).

Nevertheless, these measures implemented by Schneider Electric, might be insufficient to counteract these risks.

The growth and success of the Group's products depend on its ability to constantly adapt to and leverage new technologies to deliver high value products and solutions

There are major transformations impacting the markets in which Schneider Electric operates. This includes IoT and its major accelerators of mobility, the cloud, pervasive sensing, bit data and analytics. Customers expect ever more intelligent products with open interfaces enabling them to be tightly integrated into more and more complex software-based solutions. The resulting digitization of products, including native web connectivity opens numerous new opportunities, but will also accelerate the convergence of IT and OT technologies, thus making it possible for new players to enter our markets. The widespread usage of mobile devices creates new expectations from customers as far as the general usability of products. Last but not least, the increased connectivity of products increases the risk of cyber attacks.

To meet these challenges, the Group has increased its investments in the areas of embedded control (hardware and software), and cybersecurity. A Group-wide initiative aims at developing common control technologies, leveraging such advances as "controller on a chip", resulting in smart and open products that are "natively" secure. More and more, the development of products goes hand-in-hand with the development of life-cycle services leveraging web connectivity to deliver superior lifetime value to our customers. Such services not only open new recurring revenue opportunities for Schneider Electric, but reinforce the Group's competitive position *versus* potential new entrants.

The increased software content of the Group's solutions has resulted in specific investments in the area of user experience. The standards and techniques developed for software solutions apply readily to smartphones and allow development teams to seamlessly complement products and solutions with state-of-the-art mobile applications.

Regarding cybersecurity, a specific investment program has been launched to develop and deploy technology and process capabilities through the development lifecycle. Specialists embedded in the main development teams/centers are involved throughout all phases of the R&D development activities to help make products and solutions more inherently secure. A constant monitoring of emerging threats has been implemented in partnership with specialized firms and specific vulnerability management and incident response processes have been established to support customers of Schneider Electric solutions.

The market for software-based solutions has faster cycles than some of Schneider Electric's hardware markets. As a provider of critical infrastructure management solutions, the Group nevertheless does not compromise its standards of outstanding reliability and security. As a consequence, a program is underway to generalize the latest standards of System Engineering, allowing different teams to work in parallel on complex products or systems, while assuring the highest quality standards. Coupled with techniques such as early prototyping, leveraging 3D printing, and simulation, these efforts contribute to the continued reduction of go-to-market lead times.

To sustainably manage these challenges, the Group needs to constantly invest in the competencies of its 8,500 R&D engineers, both to reinforce its traditional domains of expertise and develop new ones. Leveraging Open Innovation through a global network that extends into universities, research centers, partners and start-ups compliments the backbone of Schneider Electric's R&D organization. Each network constantly monitors emerging technologies and competitive trends in its domain, decides the launch of research efforts to position the Group ahead of those trends and ensures the related upgrade of the network's talent pool.

Schneider Electric's strategy involves growth through acquisitions and mergers that are potentially difficult to execute

The Group's strategy involves strengthening its positions through acquisitions, strategic alliances, joint ventures and mergers. Changes in the scope of consolidation during 2017 are described in note 2 to the consolidated financial statements (Chapter 5).

External growth projects are examined in detail by the businesses and corporate functions (strategy, finance, legal affairs, tax and Human Resources) concerned, under a rigorous internal process developed and led at Group level. A launch committee is responsible for initiating the review process to identify the risks and opportunities associated with each external growth project, while a number of validation committees review the results on an ongoing basis. Projects that successfully come through the review process are submitted for approval to the Group Acquisitions Committee made up of the main members of senior management. The largest projects require the prior approval of the Chairman and CEO, who refers to the board of directors, if necessary.

External growth transactions are inherently risky because of the difficulties that may arise in integrating people, operations, technologies and products, and the related acquisition, administrative and other costs.

This is why an integration procedure for new acquisitions has been drawn up. The integration of acquisitions is a process that extends over a period of 6 to 24 months depending on the type and size of the newly acquired company. The integration scenario for each acquisition varies depending on whether the business was acquired to strengthen or extend the Group's existing line-up or enter a new segment. There are a number of different integration scenarios, ranging from total integration to separate organization. An integration plan is drawn up for each acquisition and submitted to the Acquisitions Committee for approval. The plan is implemented by an integration manager who reports to a Steering Committee that initially meets at monthly intervals and then on a quarterly basis.

The unit that presents the acquisition project is accountable to the Group's senior management for meeting clearly defined business plan targets covering future performance and expected synergies. Actual performance is measured against business plan targets during quarterly business reviews and, for the largest acquisitions, by the board of directors.

Value in use is determined by discounting estimated future cash flows that will be generated by the tested assets, generally over a period of not more than 5 years. These future cash flows are based on Group management's economic assumptions and operating forecasts. The discount rate corresponds to Schneider Electric's weighted average cost of capital (WACC) at the valuation date plus a risk premium depending on the region in question (local risk-free rate), the nature of the target's business (appropriate beta), and the structure of the financing (taking into account the debt to equity ratio and risk premium on the debt). The Group's WACC stood at 7.1% at December 31, 2017, a slight decrease compared to the 2016 financial year. The perpetuity growth rate was 2%, unchanged on the previous financial year.

Goodwill is allocated to a Cash Generating Unit (CGU) when initially recognized. The CGU allocation is done on the same basis as used by Group management to monitor operations and assess synergies deriving from acquisitions. Impairment tests are performed at the level of the cash generating unit (CGU), *i.e.,* the Low Voltage (*Building*), Medium Voltage (*Infrastructure*), Industrial Automation (*Industry*) and Secure Power (*IT*) businesses.

Where the recoverable amount of an asset or CGU is lower than its book value, an impairment loss is recognized. Where the tested CGU comprises goodwill, any impairment losses are firstly deducted therefrom.

The Group's success depends on its ability to attract and retain the best talent, and engaging its workforce to support our Growth ambition for the future

Competition for highly qualified management and technical personnel is intense in the Group's industry, and becomes a bigger challenge as the Group continues its trajectory of growth. Future continued success depends in part on the Group's ability to attract, hire, onboard and retain the best qualified personnel, especially in the areas of technology and energy efficiency solutions. This ability can only result from a strong employee-centric People Strategy and its ability to prepare its workforce for the future.

The Group's People Strategy is strongly anchored in its Leadership & Culture 2020 vision, ensuring that we have a unique way of leading and working together, establishing a strong bond between employees and the company. The cornerstone of this ambition is the experience of employees throughout their journey at Schneider Electric. The People Strategy aims to create a culture that is a differentiator for its clients: focused on speed, customer service and ease of business. This is achieved thanks to our focus on learning, openness, transparency, and inclusiveness.

In this framework, the Human Resources Function is valued as a business enabler, bringing efficiency and quality to the employee experience. Our entire People Strategy defines the transformations we want to accomplish, one of them being to increase our diversity and create an inclusive culture. We believe it is in meeting the expectations of our customers through ongoing innovation. Our multi-hub organization with senior leaders in every continent has been created to facilitate the growth of talent, and to give every employee the same chance of success in any part of the world.

The Group's acquisitions and growth ambitions have increased its global presence and internationalized the profile of its workforce. This, coupled with structural reorganizations, has highlighted the importance and necessity of offering equal opportunities to everyone, everywhere. Diversity & Inclusion efforts at all levels of the organization are therefore pivotal to create a common Schneider Electric identity. To achieve this ambition, the Group is progressing several areas, including its commitment to United Nations Women HeForShe movement: and gender pay equity. In 2017, the Group launched its Global Family Leave Policy, which is an industry-leading practice that is differentiated through its scope and reach. The policy provides time-off for key life stages like welcoming a new baby, taking care of sick or elder relatives, and mourning the loss of a family member

To nurture an innovative workforce and understanding that all employees are considered «Talent», the Group encourages its people to take ownership of managing their performance and career development. The Talent aspiration of the Group gives managers an enhanced visibility to plan for longer-term career development and succession to critical roles in the organization, while accelerating the development of high potentials. Our culture of systematically reviewing talent at every level of the organization gives fair opportunity to everyone to progress and for the Group to benefit from a circulation of talents. At employee level, taking ownership for their development and growth also means that they have access to a talent management system and development opportunities.

At Schneider Electric, we are immersing our employees in a culture of life-long learning from the moment they onboard the company.

This is a culture where everybody learns constantly and builds new capabilities. Our objective is to cultivate people that are recognized as the best professionals in their industry. As a competitive advantage, our learning culture provides opportunities for everyone in the company to proactively further their professional development while leveraging high tech digital solutions to accelerate their time to knowledge, and provide a good user experience. To stay ahead of the game, employees are encouraged to turn learning into action and experiment with purpose

The Schneider Electric workforce is recognized as a high performing global team that enjoys growing the business of the company and beating the competition. The Group nurtures an environment where employees receive ongoing feedback, recognition and coaching. Our culture is distinctive in its speed and agility and its powered by an effective and flatter organization. Our empowered leaders are supported by a strong 'Leadership Academy' and build skills to evaluate and differentiate fairly, strengthening the way we manage performance.

Schneider Electric believes that well-being generates performance and performance generates well-being. The Company has embraced a well-being transformation with the ambition of building a company where our people make the most of their energy Understanding that well-being is a joint responsibility between the Group, its leaders and employees, we have implemented targeted actions under a holistic view that addresses the physical, social, mental and emotional spheres. As a result, we create a safe, secure, healthy, productive and flexible work environment. We leverage technology to be more collaborative, and have defined rituals that allows our employees to be more effective, especially the globally dispersed teams.

Having employee engagement at its heart, the Group has for the past few years regularly sought both blue and white-collar feedback through a bi-annual company-wide employee engagement survey. Listening to our employees and acting upon their feedback is a key pillar of our HR Strategy and actions.

These employee engagement efforts support employer branding initiatives; the Group's Employer Value Proposition (EVP) enables HR professionals and leaders to become talent scouts, build 'talent mapping' capability, and a proactive external pipeline. Programs and initiatives under its People Strategy, coupled with a compelling EVP have led to the Group being recognized as an «Employer of Choice».

Work continues to be done in these and other areas so that HR is equipped to effectively deliver its EVP and further support the Group in its future endeavours.

7.2 Industrial and environmental risks

Defective products or design flaws may cause bodily harm or property damage and subject the Group to product liability claims and other adverse effects

Despite its testing and quality procedures, the Group's products might not operate properly or might contain design faults or defects, which could give rise to disputes in respect of its liability as seller or manufacturer, notably in Europe, where liability related to defective products could lead to a loss of revenue, claims under warranty and legal proceedings. Such disputes could reduce demand for the Group's products or harm its reputation for safety and quality. To prevent or limit these risks, Schneider Electric immediately recalls products if there are any doubts whatsoever that a product or one of its components is not 100% safe for people and/or property.

As in 2016, no broad product recall was begun in 2017.

Some expenses incurred by Schneider Electric within the context of product recalls are covered by the liability insurance program described in the "Insurance" section below.

Provisions for product risk totaled EUR445 million as of December 31, 2017 (see note 23 to the consolidated financial statements).

The Group's plants and products are subject to environmental laws and regulations

The Group's plants and products are subject to extensive and increasingly stringent environmental laws and regulations in all countries in which it operates.

To limit risks related to the environment, the Group started a process to continuously improve the environmental performance of its plants and industrial activities, as well as a process to review and monitor possible environmental risks. This program, known as CLEARR (Company-wide Look at Environmental Assessment and Risk Review), included 221 sites in 2017, each giving rise to the identification and review of historical or current potential environmental risks. These 221 sites were selected for their current and past industrial activities, and therefore the environmental risks that may affect them. Each CLEARR assessment was reviewed by an independent expert consultant, and each observation was discussed with the management of the site in question. Each of these sites then set an action plan, where required, and periodic monitoring (at least annual) is carried out.

"Due Diligence Phase I" analyses are triggered as required, to better classify the nature of the risks identified and confirm the likelihood and impact, in order to trigger actions or update the amounts of provisions to be reflected for accounting purposes.

The Group records environmental provisions when the risks can be reliably measured, or it is likely that clean-up work will have to be performed and related costs can be reasonably estimated. Provisions for environmental risks related to the Group's sites totaled EUR290 million as of December 31, 2017. If no risk has been identified in a given location, Schneider Electric will not estimate the financial cost of environmental risks. The Group expects its costs for environmental compliance programs to increase as a result of changes to existing environmental regulations and the introduction of new regulations.

In addition, since 1992 Schneider Electric has had a formal environmental policy in place aimed at improving the environmental performance of manufacturing and transport processes, promoting eco-design, and incorporating its expectations into the procedures it uses to select suppliers and materials, all in the name of environmental protection. The aim of this policy is also to identify, assess and prevent environmental risks in order to be in a position to comply with the different applicable environmental laws, including those in force in the European Union, (concerning its products: WEEE directives, RoHS and REACH regulation), China (RoHS China, etc.), the United States, India, Korea, Japan and in all locations where the Group operates. Regarding industrial activities, the Group decided to deploy ISO 50 001, ISO 14001, OHSAS 18001 management systems, worldwide and at each site. An Integrated Management System (IMS) is being deployed, bringing together these 3 management systems and the ISO 9001 quality management system, thus helping to drive efficiency and effectiveness. Moreover, more than 130 sites have already implemented an ISO 50001 energy management system.

There can be no guarantee that Schneider Electric will not be required to pay significant fines or compensation as a result of past, current or future breaches of environmental laws and regulations by companies that are currently or were previously members of the Group. This exposure exists even if the Group is not responsible for the breaches, in cases where they were committed in the past by companies or businesses that were not part of the Group at the time.

Schneider Electric may also be exposed to the risk of claims for breaches of environmental laws and regulations. Such claims could adversely affect Schneider Electric's financial position and reputation, despite the efforts and investments made to comply at all times with all applicable environmental laws and regulations as they change.

If Schneider Electric fails to conduct its operations in compliance with the applicable environmental laws and regulations, local judicial or regulatory authorities could require the Group to conduct investigations and/or implement costly clean-up measures to deal with the current or past contamination of current or former production facilities or off-site waste disposal facilities, and to scale back or temporarily or permanently close facilities in accordance with the applicable environmental laws and regulations. This also applies to the ecosystem upstream of Schneider Electric's suppliers, who also operate within clear regulatory frameworks, and whose activities may be impacted, or even interrupted, in the event of failure to comply with local environmental rules.

Finally, the Group may be exposed to new risks related to recent acquisitions. In accordance with IFRS rules, these risks are assessed in the framework of the allocation of the purchase price, as specified in note 2 to the consolidated financial statements. In this context, and as was the case for past acquisitions such as Invensys, Asco - acquired in 2017 - and its industrial sites are subject to such assessments conducted by independent experts on a site-by-site basis.

7.3 Management of risks in relation to climate change

The Sustainable Development Department is in charge of implementing the Group's strategy in relation to all the components of sustainable development. Climate change represents altogether a risk and an opportunity for Schneider Electric's business. The processes aiming at identifying and assessing the risks related to climate change, as well as the diagnosis and the action plan towards reduction of emissions are described in section 3.3 of chapter 2 (page 98).

7.4 Information systems risks

The Group operates, either directly or through service providers, a wide range of highly complex information systems, including servers, networks, applications and databases, on premise and in the cloud, that are essential to the efficiency of our sales and manufacturing processes as well as platforms to enable Digital Offers such as EcoStruxure™. Failure of any of these hardware or software systems, a fulfilment failure by a service provider, human error or computer viruses could adversely affect the quality of service offered by the Group.

The Group regularly examines alternative solutions to protect against this type of risk and has developed contingency plans, and incident response capabilities to mitigate the effects of any information system failure. Dedicated governance structures have been set up to manage relations with service providers responsible for outsourced IT systems operations.

Problems may also be encountered during the deployment of new applications or software. In the last few years, the Group has developed ERPs systems under SAP, which it started to roll out in 2008. This roll-out process has been carried out fully or partially in several countries since 2008, and was deployed in France during 2017, with the United States planned to conclude in 2019.

In addition to the deployment of ERP systems, the Group is deploying various applications aimed at enhancing commercial experience, employee effectiveness and supply chain efficiency as well as enabling digital commercial offers such as EcoStruxure™. All applications are subject to certification testing attempting to remove system vulnerabilities. These systems are housed either in on-premise data centers managed by our service providers or are cloud-based applications.

In view of these projects' complexity, extensive functionalities and their worldwide deployment, the Group has set up dedicated governance and cost control structures to manage these issues and limit the related risks. Risk mitigation strategies are continuously improved including monitoring of legislative changes across country borders to maintain compliance with digital asset requirements.

However, despite the Group's policy of establishing governance structures and contingency plans, there can be no assurance that information systems projects will not be subject to technical problems and/or execution delays. While it is difficult to accurately quantify the impact of any such problems or delays, they could have an adverse effect on inventory levels, service quality and, consequently, on our financial results.

7.5 Market risks

Interest rate risk

The Group is exposed to risks associated with the effect of changing interest rates in different countries. Interest rate risk on borrowings is managed at the Group level, based on consolidated debt and taking into consideration market conditions in order to optimize overall borrowing costs. Most bond debt is fixed rate. At December 31, 2017, 88% of the Group's gross debt was fixed rate.

Maturities of financial liabilities are presented in note 24.1 to the consolidated financial statements.

A 1% increase in interest rates would have a positive impact of around EUR21 million on the Group's net financial expense.

The financial instruments used to hedge the exposure of the Group to fluctuations in interest rates are described in note 26 to the consolidated financial statements for the year ended December 31, 2017.

Exposure to currency exchange risk

The Group's international operations expose it to the risk of fluctuation of exchange rates. If the Group is not able to hedge these risks, fluctuations in exchange rates between the euro and these currencies can have a significant impact on our results and distort year-on-year performance comparisons.

We manage our exposure to currency risk to reduce the sensitivity of earnings to changes in exchange rates through hedging programs relating to receivables, payables and cash flows, which are primarily hedged by means of forward purchases and sales.

Depending on market conditions, risks in the main currencies may be hedged based on cash flow forecasting using contracts that expire in 12 months or less.

Schneider Electric's currency hedging policy is to protect our subsidiaries against risks on transactions denominated in a currency other than their functional currency. More than 20 currencies are involved, with the US dollar, Chinese yuan, Singapore dollar, Australian dollar, British pound, the Hungarian forint and Russian rubles representing the most significant sources of those risks. The financial instruments used to hedge our exposure to fluctuations in exchange rates are described in note 26 to the consolidated financial statements for the year ended December 31, 2017 (Chapter 5).

In 2017, revenue in foreign currencies amounted to EUR19.2 billion, including around EUR6.5 billion in US dollars and 2.9 billion in Chinese yuan.

The main exposure of the Group in terms of currency exchange risk is related to the US dollar, the Chinese yuan and to currencies linked to the US dollar. The Group estimates that in the current structure of its operations, a 5% appreciation of the euro compared to the US dollar would have a negligible impact on operating margin (a translation effect of minus EUR34 million on EBITA).

Equity risk

Exposure to equity risk primarily relates to treasury shares but remains limited. The Group does not use any financial instruments to hedge these positions.

An increase in raw material prices could have negative consequences

The Group is exposed to fluctuations in energy and raw material prices, in particular steel, copper, aluminum, silver, lead, nickel, zinc and plastics. If we are not able to hedge, compensate for or pass on to customers any such increased costs, this could have an adverse impact on our financial results.

The Group has, however, implemented certain procedures to limit exposure to rising non-ferrous and precious raw material prices. The purchasing departments of the operating units report their purchasing forecasts to the Corporate Finance and Treasury Department. Purchase commitments are hedged using forward contracts, swaps and, to a lesser extent, options.

The financial instruments used to hedge our exposure to fluctuations in raw material prices are described in note 26 to the consolidated financial statements for the year ended December 31, 2017.

In 2017, purchases of raw materials totaled around EUR1.9 billion, including around EUR900 million for non-ferrous and precious metals, of which roughly 53% was for copper. The Group enters into swap and options agreements intended to hedge all or part of its non-ferrous

and precious metals purchases in order to limit the impact of price volatility of these raw materials on our results. At December 31, 2017, the Group had hedged positions with a nominal value of EUR153 million on these transactions.

Counterparty risk

Financial transactions are entered into with carefully selected counterparties. Banking counterparties are chosen according to the customary criteria, including the credit rating issued by an independent rating agency.

Group policy consists of diversifying counterparty risks and periodic controls are performed to check compliance with the related rules.

In addition, the Group takes out substantial credit insurance and uses other types of guarantees to limit the risk of losses on trade accounts receivable.

Liquidity risk

Liquidity is provided by the Group's cash and cash equivalents and undrawn confirmed lines of credit. As of December 31, 2017, the Group had access to cash and cash equivalents totaling EUR3 billion. As of December 31, 2017, the Group had EUR2.7 billion in undrawn confirmed lines of credit maturing after December 2018.

The Group's credit rating enables it to raise significant long-term financing and attract a diverse investor base. The Group currently has an A- credit rating from Standard & Poor's and an Baa1 credit rating from Moody's. The Group's liabilities and their terms and conditions are described in note 24 of Chapter 5.

In line with the Group's overall policy of conservatively managing liquidity risk and protecting our financial position, when negotiating new liquidity facilities the Group avoids the inclusion of clauses that would have the effect of restricting the availability of credit lines, such as covenants requiring compliance with certain financial ratios. As of December 31, 2017, Schneider Electric SE had no financing or confirmed lines of credit that were subject to covenants requiring compliance with financial ratios.

The loan agreements or lines of credit for some of our liquidity facilities include cross-default clauses. If we were to default on any of our liquidity facilities, beyond a threshold we could be required to repay the sums due on some of these facilities.

Moreover, anticipated reimbursement provisions exist for certain financing and lines of credit in case of change of control. Under these provisions, the debt holders may demand repayment if a shareholder or shareholders acting together hold more than 50% of the company's shares, and for the majority of contracts, this event triggers a downgrading of the company's rating. As of December 31, 2017, EUR5.6 billion of the Group's financing and lines of credit had these types of provisions.

7.6 Legal risks

Our products are subject to varying national and international standards and regulations

Our products, which are sold in national markets worldwide, are subject to regulations in each of those markets, as well as to various supranational regulations (sales restrictions, customs tariffs, tax laws, security standards, etc.). Changes to any of these regulations or standards or their applicability to the Group's business could lead to lower sales or increased operating costs, which would result in lower earnings and profitability.

Our products are also subject to multiple quality and safety controls and regulations, and are governed by both national and supranational standards. The majority of our products comply with world-recognized International Electrotechnical Commission (IEC) standards as well as with the applicable rules in the European Union, and in particular the REACH and RoHS rules. Any necessary capital investments or costs of specific measures for compliance with new or more stringent standards and regulations could have a negative impact on Group operations.

In addition, in the majority of the markets on which its products are sold, Schneider Electric is subject to national and supranational regulations governing competition. If the Group is implicated in these areas, this could have a significant impact on the Group's businesses, results and financial position. However, to mitigate these risks, the Group completed its *Principles of Responsibility* by implementing a global competition law policy that has been widely rolled out within the Group, together with a training program set up by the Legal Affairs Department.

Risks related to products sold

In addition, in case of malfunction or failure of one of its products, systems or solutions, Schneider Electric could incur liability arising from any resulting tangible or intangible damages, or personal injury. Similarly, the Group could incur liability based on errors in the design of a product, system or solution or because of a malfunction related to the interface with other products or systems. The failure of a product, system or solution may involve costs related to the product recall,

result in new development expenditures, and consume technical and economic resources. Such costs could have a significant impact on the profitability and cash and cash equivalents of the Group. The business reputation of Schneider Electric could also be negatively impacted.

To prevent these risks, Schneider Electric has implemented quality procedures at the level of design, development and production of its products, systems and solutions. In case of product returns, the type and source of the failures are analyzed and corrective actions are implemented. The Group has also put in place insurance coverage to cover its civil liability and the risk of product recalls (see section 1.7 "Risk factors on Insurance policy").

The development and success of the Group's products depends on its ability to protect its intellectual property rights

The future success of Schneider Electric depends to a significant extent on the development and protection of patents, knowledge and trademarks ("intellectual property rights"). Should a third party infringe on the Group's intellectual property rights, the Group may have to expend significant resources monitoring, protecting and enforcing its rights. If we fail to protect or enforce our intellectual property rights, our competitive position could suffer, which could have a material adverse effect on our business. In addition, the unauthorized use of intellectual property rights remains difficult to control, particularly in foreign countries, whose laws do not always effectively ensure the protection of these rights. They could be counterfeited or used without the consent of Schneider Electric, which could have a material adverse effect on our reputation and operating profit.

To mitigate this risk, the patents developed or purchased by the Group are tracked by the Industrial Property team within the Finance and Control – Legal Affairs Department. All intellectual property matters are centralized and managed by this team for the whole Group, and in coordination with the other teams within the Finance and Control – Legal Affairs Department, which ensure that the Group's interests are defended throughout the world. The same approach and organization applies for the Group's brands portfolio.

7.7 Disputes

Following public offers launched in 1993 by SPEP (the holding company of the Group at the time) for its Belgian subsidiaries Cofibel and Cofimines, proceedings were initiated against former Schneider Electric executives in connection with the former Empain-Schneider Group's management of its Belgian subsidiaries, notably the Tramico sub-group. At the end of March 2006, a criminal court in Brussels, Belgium, ruled that some of those executives were responsible for certain of the alleged offenses and that some of the plaintiffs' claims were admissible. It also held that Schneider Electric and its Belgian subsidiaries Cofibel and Cofimines were civilly liable for the actions of those executives who were found liable. The plaintiffs claimed damages representing losses of EUR5.3 million stemming from alleged management decisions that reduced the value of or

undervalued assets presented in the prospectus used in conjunction with the offering, as well as losses of EUR4.9 million in relation to transactions carried out by PB Finance, a company in which Cofibel and Cofimines then held minority interests. In its ruling, the court also appointed an expert to assess the loss suffered by those plaintiffs whose claims were ruled admissible. The expert's report was submitted in 2008. The defendants and the companies held civilly liable contest the amounts provided by the expert in their entirety on the basis of a counter-analysis drawn up by Deloitte. Schneider Electric is paying the legal expenses not covered by the insurance of the former executives involved. A settlement agreement was signed with a group of plaintiffs and some of the remaining plaintiffs have appealed (i) parts of the March 2006 ruling and (ii) a ruling made

in 2011 by the Court of First Instance denying the admissibility of some of the plaintiffs' claims.

The Brussels Court of Appeals delivered its judgment on June 26, 2017, declaring the plaintiffs' claims to be time-barred or ungrownded. Following this judgment, one of the plaintiffs decided to lodge an appeal on the grounds of procedural irregularity. The case is expected to be heard in 2018.

The main issue outstanding following the disposal of Spie Batignolles in 1996 was concerning litigation in France with SNCF Mobilité before the administrative court. The Group discussed the issue with SNCF and the dispute was settled amicably in 2016 at no cost for Schneider Electric beyond its own legal costs.

Although SNCF Mobilité is still in a legal dispute with some entities of the Bouygues group in the context of this case, it should not have any impact on this amicable settlement.

Schneider Electric was also among 2,000 companies worldwide that were mentioned in the Volcker report on the Oil for Food program published by the UN in October 2005, which stated that the Group had entered into agreements with the Iraqi state-owned entities between 2000 and 2004 under which surcharge payments totaling approximately USD450,000 are alleged to have been made to the Iraqi government. Schneider Electric Industries has been indicted in France

in 2010 in relation to this report, then referred in May 2013, along with 13 other French companies, to the criminal court, which rendered its decision on June 16, 2015, discharging all the companies. However, the Bench appealed this decision, which will be judged by the Paris Court of Appeals in late November 2018.

In addition, some Group entities worldwide, including in Brazil and Pakistan, are directly or indirectly cited in anti-trust proceedings without, however, any proven or serious risk of conviction in this regard having been identified to date.

Various other claims, administrative notices and legal proceedings have been filed against the Group concerning such issues as contractual demands, counterfeiting, risk of bodily harm linked to asbestos in certain older products and work contracts.

Although it is impossible to predict the results and/or costs of these proceedings with certainty, Schneider Electric considers that they will not, by their nature, have significant effects on the Group's business, assets, financial position or profitability. The company is not aware of any other governmental, court or arbitration proceedings, which are pending or which threaten the company, that are liable to have or, during the last 12 months have had, a material effect on the financial position or profitability of the company and/or the Group.

7.8 Insurance strategy

Schneider Electric's general policy for managing insurable risks is designed to defend the interests of employees and customers and to protect the company's assets, the environment and its shareholders' investment.

This strategy entails:

◆ identifying and analyzing the impact of the main risks;

◆ preventing risks and protecting industrial equipment; definition of protection standards for sites (including those that are managed by third parties) against the risk of fire and malicious intent, audits of the main sites by an independent loss prevention company, roll-out of a self-assessment questionnaire for the other Group sites;

◆ drawing up of business continuity plans, in particular, for the Group main sites and critical suppliers;

◆ roll-out of crisis management tools by the Group's Security Department;

◆ carrying out hazard and vulnerability studies and safety management for people and equipment;

◆ implementing global insurance programs negotiated at the Group level for all subsidiaries with insurers meeting appropriate minimum credit ratings;

◆ optimization of financing for high-frequency/low-severity risks through retentions managed either directly (deductibles) or through captive insurance companies.

Liability insurance

The 3-year insurance program put in place on January 1, 2015 was renewed as from January 1, 2017 for a new period of 3 years. This program, deployed in more than 75 countries, provides coverage and limits in line with the current size of the Group and its evolving risks and commitments.

Certain specific risks, such as aeronautic, nuclear and environmental, are covered by specific insurance programs.

Property damage and business interruption insurance

The 3-year insurance program put in place as of July 1, 2016 was continued in 2017. This is an "all risks" policy which covers events that could affect Schneider Electric's property (including fire, explosion, natural disaster, machinery breakdown) as well as business interruption resulting from those risks.

Assets are insured at replacement value.

Transport insurance

A new insurance program covering all risks of loss or damage to goods while in transit, including intragroup shipments, was put in place as from January 1, 2017.

Erection all risk insurance

The erection all risk insurance program providing cover for damage to work and equipment for projects taking place at our clients' premises was continued in 2017.

Other risks

In addition, Schneider Electric has taken out specific cover in response to certain local conditions, regulations or the requirements of certain risks, projects and businesses.

Self-insurance

To optimize costs, Schneider Electric self-insures certain high-frequency/low-severity risks through 2 captive insurance companies:

◆ a captive company based in Luxembourg provides Property Damage and Transport reinsurance worldwide as well as Liability reinsurance outside the USA and Canada. The total amount retained is capped at EUR20 million per year;

◆ for the entities located in the USA and Canada, a captive insurance company based in Vermont (USA) is used to standardize deductibles for civil liability, workers' compensation and automobile liability. These retentions range from USD1 million to USD5 million per claim, depending on the risk. An actuary validates the provisions recorded by the captive company each year.

The cost of self-insured claims is not material at the Group level.

Cost of insurance programs

The cost (including tax) of the Group's main global insurance programs, excluding premiums paid to captives, totaled around EUR20 million in 2017.

8. Internal control and risk management

8.1 Definition and objectives of internal control and risk management

Definition and objectives

The Group's internal control procedures are designed to ensure:

◆ compliance with laws and regulations;

◆ application of instructions and guidelines issued by Group Senior Management;

◆ the proper functioning of the company's internal processes;

◆ the reliability of financial reporting; and more generally, internal control helps the Group manage its businesses, run efficient operations and use its resources efficiently.

Internal control aims to prevent and manage risks related to the Group's business. These include accounting and financial risks, as well as operating, fraud and compliance risks. However, no system of internal control is capable of providing absolute assurance that these risks will be managed completely.

Scope of this report

The system is designed to cover the Group, defined as the Schneider Electric SE parent company and the subsidiaries over which it exercises exclusive control.

Jointly controlled subsidiaries are subject to all of the controls described below, with the exception of self-assessments of the implementation of Key Internal Controls (see "Operating Units" below), page 61.

Internal control reference documents

The Group's internal control system complies with the legal obligations applicable to companies listed on the Paris stock exchange. It is consistent with the reference framework laid down by the *Autorité des Marchés Financiers* (French Financial Markets Authority – AMF) on internal control and risk management.

The Group's internal control process is a work in progress; procedures are adapted to reflect changes in the AMF recommendations and the business and regulatory environment, as well as in the Group's organization and operations.

Information used to prepare this report

This report was prepared using contributions from the Group's Internal Audit and Internal Control Departments, the Management Control and Accounting Departments, as well as the various participants in internal control. It was reviewed by the Audit Committee.

8.2 Organization and management: internal control key participants

In 2017, the Group's organizational chart is based on Senior Management for Global Functions and Operating Divisions; defined in terms of businesses, geographical location, logistical or industrial responsibility.

The Group's corporate governance bodies supervise the development of the internal control and risk management systems. The Audit Committee has particular responsibility for monitoring the system's effectiveness (see committees of the board, chapter 3 section 4, page 173).

Each manager is responsible for monitoring internal control in his or her area, at the different levels of the organization, as are all Key internal control participants, in accordance with the tasks described below.

Senior Management

Senior Management is responsible for designing and leading the overall internal control system, with support from all key participants, in particular the Group Internal Audit and Internal Control Departments.

It also monitors the Group's performance, during business reviews with the Operating Divisions and Global Functions. These reviews cover business trends, action plans, current results and forecasts for the quarters ahead.

Similar reviews are carried out at different levels of the Group prior to Senior Management's review.

Internal Audit Department

The Internal Audit Department reports to Senior Management. It had an average headcount of 20 people in 2017. The internal auditors are responsible for ensuring that, at the level of each unit:

◆ the identification and control of risks is performed;

◆ significant financial, management and operating information is accurate and reliable;

◆ compliance with laws and regulations and with the Group's policies, standards, procedures is ensured;

◆ compliance with the instructions of the Head of the Group is ensured;

◆ acquisition of resources is carried out at a competitive cost, and their protection is ensured;

◆ expenses are properly engaged and monitored;

◆ correct integration and control of acquisitions is ensured.

Annual internal audit plans are drawn up based on a combination of a risk based and audit universe coverage based approach. The risk based dimension is embedding risk and control concerns identified by Senior Management, taking into account the results of past audits, the results of Key Internal Control self-assessments returned by the units and other indicators such as Corruption Perception Index and COFACE Country Index. When necessary, the audit plan is adjusted during the year to include special requests from Senior Management. The internal audit process is described in the section "Control procedures" below.

After each internal audit, a report is issued setting out the auditors' findings and recommendations for the units or function audited. The management of the audited entities or the audited domains is requested to define for each recommendation an action plan aiming at implementing corrective actions. Measures are taken to monitor implementation of recommendations and specific follow up audits are conducted if necessary.

The audit reports and the implementation of its recommendations are distributed to Senior Management and to the President of the Audit Committee. A synthesis of the main take away and conclusions from the audit missions is presented to the Audit Committee for each of the committee session (5 times per year).

These reports are subject to regular exchange with the Group's auditors.

The Head of the Internal Audit and Internal Control has direct access to the President of the Audit Committee and meets her on a regular basis over the year.

Internal Control Department

The Internal Control Department, which reports to the Internal Audit Department, is responsible particularly for:

◆ defining and updating the list of Key Internal Controls in close cooperation with the Global Functions and other subject matter experts in line with the recommendation of the AMF reference framework;

◆ maintaining and leading a network of around 27 regional internal controllers who:

  ◆ perform on-site control of the accuracy of self-assessments; perform management diagnosis missions and check the efficiency of remediation action plans implemented by the units within their geographic scope. After each internal control or management diagnosis mission, a report is issued setting out findings and recommendations for the attention of the persons in charge of the unit controlled,

  ◆ follow implementation by the units within their scope of the internal control action plans defined following self-assessments, internal control or management diagnosis missions;

◆ maintaining and leading a network of around 11 local internal controllers who are responsible to support the local management on internal control topics and act as process owners for certain key areas such as the chart of authority, segregation of duties. This network will be extended step by step over the coming years;

◆ organizing and monitoring the roll-out of self-assessment campaigns, internal control missions and the implementation of set action plans following self-assessments or internal control missions.

The team continues to improve the internal control process and adapt its procedures in light of the results of self-assessments and changes in the business environment or organization.

Finance and Control – Legal Affairs Department

The Finance and Control – Legal Affairs Department is actively involved in organizing control and ensuring compliance with procedures.

Within the department, the Management Control and Accounting unit plays a key role in the internal control system by:

◆ drafting and updating instructions designed to ensure that statutory and management accounting practices are consistent throughout the Group and compliant with applicable regulations;

◆ organizing period-end closing procedures;

◆ analyzing performance and tracking the achievement of targets assigned to the operating units.

The Management Control and Accounting unit is responsible for:

◆ the proper application of Group accounting principles and policies;

◆ the integrity of the consolidation system database;

◆ the quality of accounting and financial processes and data;

◆ training for finance staff by developing and leading specific seminars on the function;

◆ drafting, updating and distributing the necessary documents for producing quality information.

The unit drafts and updates:

◆ a glossary of terms used by the Management Control and Accounting unit, including a definition of each term;

◆ the chart of accounts for reporting;

◆ a Group statutory and management accounting standards manual, which includes details of debit/credit pairings;

◆ a Group reporting procedures manual and a system user's guide;

◆ a manual describing the procedures to be followed to integrate newly acquired businesses in the Group reporting process;

◆ an intercompany reconciliation procedures manual;

◆ account closing schedules and instructions.

The Management Control and Accounting unit monitors the reliability of data from the subsidiaries and conducts monthly reviews of the various units' primary operations and performance.

The Finance and Control – Legal Affairs Department, the Tax and Legal teams oversees tax and legal affairs, to provide comprehensive management of these risks.

Within the Finance and Control – Legal Affairs Department, the Finance and Treasury Department is responsible for:

◆ centralized management of cash and long-term Group financing;

◆ centralized management of currency risk and non-ferrous metals risk;

◆ monitoring of Group trade accounts receivable risk and the definition of the credit policy to be implemented;

◆ the distribution of rules for financial risk management and the security of incoming and outgoing payments;

  ◆ define guidelines and contributes to the definition of Key Internal Control indicators relating to treasury and credit management,

  ◆ review the related risks of complex projects as a subject matter expert,

  ◆ select Group Tools for Credit, Trade and Cash Management;

◆ the annual review of financial structures – balance-sheet changes and financial risks – facing the Group's companies during formal financial review meetings.

Procedures for managing financial risk are described in "Risk Factors" chapter 1, section 7.

Operating Divisions and business units

The Operating Division management teams play a critical role in effective internal control.

All Group units report hierarchically to one of the Operating Divisions, which are led or supervised by an Executive Vice-President, supported by a SVP Finance.

The Executive Vice-Presidents leading or supervising the Operating Divisions sit on the Executive Committee, which is chaired by the Chairman and CEO of the Group.

Within each business unit, the management team organizes control of operations, ensures that appropriate strategies are deployed to achieve objectives, and tracks unit performance.

A Management Committee led by the corporate Management Control and Accounting unit reviews the operations of the Operating Divisions every month.

Global Functions and Division (Human Resources, Supply Chain, Information Systems, etc.)

In addition to specific processes or bodies such as the Group Acquisitions Committee (see "Risk Factors" chapter 1, section 7) for making and implementing strategic decisions and centralization of certain functions within the Finance and Control – Legal Affairs Department (see above), Schneider Electric centralizes certain matters through dedicated Global Functions thus combining decision-making and risk management at the corporate level.

A Technology Council, namely the Chief Technology Officers (CTO) board, grouping all Divisional and Business Chief technology officers as well as key Corporate Technology Functions involved in Offer Creation & Research, meets monthly to ensure cross-divisional coordination in setting the strategic direction for innovation. Additionally, this board gets it direction from the business unit leaders who are a part of the Executive Committee. This has been done to ensure a simple structure so that the technology can be close to business and to maintain consistency across all divisions of Schneider Electric.

The Human Resources Department is responsible for deploying and ensuring the application of procedures concerning employee development, promoting diversity and ensuring safe, healthy working conditions. The department is also responsible for establishing guidelines on rewards and compensation, hiring, on and off boarding, learning, amongst other Human Resources related guidelines.

The Procurement Department within Supply Chain is responsible for establishing guidelines concerning procurement organization and procedures; relationships between buyers and vendors; and procedures governing product quality, level of service, and compliance with environmental standards and Group *Principles of Responsibility*.

Global Functions and Division also issue, adapt and distribute policies, target procedures and instructions to units and individuals assigned to handle their specific duties. Global Functions have correspondents who work with the Internal Control Department to establish and update the Key Internal Controls deployed across the Group.

8.3 Distributing information: benchmarks and guidelines

The main internal control benchmarks are available to all employees, including in the Group's employee portal. Global Functions send updates of these reference documents to the appropriate units and individuals through their networks of correspondents.

In some cases, dedicated e-mails are sent out or messages are posted on the employee portal to inform users about publications or updates.

Whenever possible, the distribution network leverages the managerial/functional organization to distribute standards and guidelines.

Principles of Responsibility

See "Ethics & Responsibility" chapter 2, page 87.

Compliance code governing stock market ethics

The compliance code sets out the rules to be followed by management and employees to prevent insider trading. All employees who have access to sensitive information are bound by a strict duty of confidentiality. It also sets restrictions on purchases and sales of Schneider Electric SE securities by persons who have regular or occasional access to sensitive information in the course of their duties (see "Organizational and operating procedures of the board of directors", chapter 3 section 2 on page 167). Such persons are prohibited from trading in the Company's securities at any time if they are in possession of price-sensitive information which has not been made public and during specified periods prior to (and until the day of) release of the Group's financial statements and quarterly information on sales.

International Internal Auditing Standards

The Internal Audit Department is committed to complying with the international standards published by the Institute of Internal Auditors (IIA) and other bodies.

International Financial Reporting Standards (IFRS)

The consolidated financial statements for all fiscal years commencing on and after January 1, 2005 have been prepared in accordance with International Financial Reporting Standards (IFRS), in compliance with European Union regulation no.1606/2002.

The Group applies IFRS standards as adopted by the European Union as of December 31, 2017.

The Group's accounting principles reflect the underlying assumptions and qualitative characteristics identified in the IFRS accounting framework: accrual accounting, business continuity, true and fair view, rule of substance over form, neutrality, completeness, comparability, relevance and intelligibility.

The Group statutory and management accounting standards manual explains how IFRS principles are applied within the Group, taking into account the specific characteristics of the Group's activities.

The application of Group accounting principles and methods is mandatory for all Group units, for management reporting and statutory consolidation.

The Group statutory and management accounting standards manual and the IFRS principles are available via the employee portal.

Approval limits

Under current management practice, the Group has set approval limits for Senior Management for certain decisions. Local management will define the local approval matrix for relevant decisions within the approval limits set by the Group.

Within this framework, business segment executives, functional, operational and local management is therefore able to approve certain decisions depending on the nature and threshold.

In addition, all transactions which by their size or nature could affect the Group's fundamental interests, must be authorized in advance by the board of directors, *i.e.,* decisions relating to the acquisition or disposal of holdings or assets for amounts greater than EUR250 million; decisions relating to strategic partnerships and major changes of course in the strategy, and decisions relating to the issuance of off-balance sheet commitments that exceed the limits prescribed by the board.

Statutory and management reporting principles

An integrated reporting and consolidation system applicable to all Group companies and their management units has been in place since January 1, 2006. Statutory and management reporting principles and support tools are available on the Group employee portal.

The subsidiaries record their transactions in accordance with Group standards. Data are then adjusted, where necessary, to produce the local statutory and tax accounts.

The reporting system includes consistency controls, a comparison of the opening and closing balance sheets and items required to analyze management results.

Key Internal Controls

A list of Key Internal Controls was drawn up in 2008 and is reviewed annually. They cover:

◆ the Control Environment (including the Responsibility and Ethics program, chart of authority, segregation of duties, business continuity plan, retention of records and business agents);
◆ operating processes (Procurement, Sales, Logistics, etc.);
◆ accounting and financial related cycles;
◆ Human Resources and Information Systems cycles.

The Key Internal Controls are available to all units in the Group employee portal and shared depository, along with appendices with more detailed information, links to policy descriptions, an explanation of the risks covered by each Key Internal Control and a self-assessment guide.

For each cycle, the Key Internal Controls cover compliance, reliability, risk prevention and management and process performance. The operating units fill out self-assessment questionnaires concerning the Key Internal Controls using a digitized tool.

For new acquisitions, the entities may continue with their existing controls in transition before deploying the Key Internal Controls.

8.4 Risk identification and management

General risks at the Group level

The Internal Audit Department conducts interviews to update the list of general risks at the Group level each year. In 2017, around 100 of the Group's top managers were interviewed, in addition to external views such as financial analysts and board members. Since 2016 individualized risk matrices by Operation or by Business have been created.

The risks identified through these interviews are ranked by a risk score (comprising impact and likelihood of occurrence) and level of mitigation.

Risk factors related to the company's business, as well as procedures for managing and reducing those risks, are described in "Risk Factors" These procedures are an integral part of the internal control system.

The risk matrix and the analysis of changes from one year to the next contribute to the development of an internal audit plan for the following year. 78% of the risks categories identified in the Group's risk matrix are audited by the Internal Audit Department over a period of 5 years to assess action plans for managing and reducing these risks.

In 2017, overall risks relating to strategy and transformation have stabilized or improved compared to operational, environmental and regulations risks.

Local risks related to the company's business at the unit level

Local risks related to the company's business are managed first and foremost by the units in liaison with the Operating Divisions, based on Group guidelines (particularly via the Key Internal Controls). Each subsidiary is responsible for implementing procedures that provide an adequate level of internal control.

The divisions implement cross-functional action plans for risk factors related to the company's business identified as being recurrent in the units or as having a material impact at the Group level, as appropriate. The internal control system is adjusted to account for these risks.

The Group's insurance programs cover the remaining portion of transferable risks.

Risks related to Solutions

The Solutions Risk Management Department defines and implements principles and tools designed to manage the contractual (such as limitation of liabilities), technical (such as technical discrepancy versus customer specifications) and financial risks (such as margin slippage at solution execution phase).

The network of Solution Risk Managers assesses the risks of all major projects in conjunction with the Tender Managers during the preparation of offers.

Risk management by the Risk and Insurance Department

The Risk and Insurance Department contributes to the internal control system by defining and deploying a Group-wide insurance strategy, as defined in "Risk Factors and Insurance Strategy". The insurance strategy includes the identification and quantification of the main insurable risks, the determination of levels of retention and the cost benefit analysis of the transfer options. The Risk and Insurance Department also defines, proposes and implements action plans to prevent these risks and protect assets.

Risk management by the Security Department

The Group's Security Department defines corporate governance with regard to loss prevention in the area of willful acts against property and people.

To be more powerful and more balanced, a "Global Security-Group Committee" was created in 2017, gathering together the Zone Security Leaders (8 managers in total). Some of these leaders report directly to the Global Security Department (Central & South America, South East Europe, East Asia & Japan, Africa & Middle East) and some to local management with functional reporting to Global Security Department (North America, Greater India, CIS, France). In this respect and in close cooperation with the Risk and Insurance Department, it is directly involved in assessing the nature of such risk as well as defining adequate prevention and protection measures.

The Security Department publishes internally a table of "Country Risks" for use in security procedures that are mandatory for people travelling, expatriates and local employees. On request, it provides support to local teams for any security issues (site audit, expatriates or local employee security, security on assignments, etc.).

It provides daily coordination with the Group's worldwide partner in the field of medical and security assistance (International SOS & Controls Risks – start of contract in January 2011) as well as in the field of psychological support that is necessary to organize in some crisis context (Eutelmed – start of contract in April 2015).

It brings its methodology to develop emergency plans (evacuation plans, crisis management plans, business continuity plans, etc.) and coordinates the corporate crisis team (SEECC – Schneider Electric Emergency Coordination Center, created in 2009) each time that it is activated.

The Security Department co-chairs the Fraud Committee alongside the Internal Audit Department and the Legal Department and is directly involved in combating internal fraud (managing and carrying out internal investigations. The Security Department created in 2013 a Schneider Electric-Bureau of Investigation (SEBI) responsible for investigations (internal and external fraud) within the Security Department itself and in charge of supporting internal investigators as well as defining methodology & procedures to conduct investigations properly (in accordance with the law and to be efficient in gathering evidence effectively).

The Security Function also participates in crisis management, in the managing the corporate crisis cell and in supporting local entities (to limit the consequences of the occurrence of certain risks such as civil war, weather events, pandemics, attacks on people, terrorism, etc.). In addition, it regularly organizes Security Audits (R&D centers, head offices, sensitive plants, etc.).

Management of Information Systems risks

The Digital Security Function inside the Schneider Digital organization defines and implements specific security policies for information systems, ensuring systems and infrastructure hygiene, confidentiality, integrity, availability and accountability of all our information and technology assets. This department identifies critical risks, processes and information to prioritize, mitigate and secure Schneider Electric assets and offers.

8.5 Control procedures

In addition to the general missions already described, this section describes specific measures taken in 2017 to improve the Group's control system.

Operating units

For internal control to be effective, everyone involved must understand and continuously implement the Group's general guidelines and the Key Internal Controls.

Training in Key Internal Controls continued in 2017 for those involved for the first time in the annual self-assessment process: newly promoted managers and units recently integrated. Operational units, undertook self-assessment of compliance with the Key Internal Controls governing their scope of operations.

The self-assessments conducted during the 2017 campaign covered more than 90% of consolidated sales and made it possible to define improvement plans in the operating units, when necessary. The ultimate goal is that these evaluations should cover at least 90% of consolidated sales each year.

The self-assessments are conducted in the units by each process owner. Practices corresponding to the Key Internal Controls are described and the entity is either compliant or not compliant with a particular control. In 2017, based on the self-assessment, the level of compliance improved by around 2 points versus 2016.

If a particular unit is not compliant in any of the controls, an action plan is defined and implemented to achieve compliance. These action plans are listed in the self-assessment report.

The unit's financial manager conducts a critical review of the self-assessments by process, and certifies the quality of the overall results. The self-evaluation is then also certified by the person in charge of the unit.

The regional internal controllers carried out controls on site to assess the reliability of self-assessments and conducts diagnostic missions as requested by management.

Global Functions

In 2017, the Global Functions continued to set guidelines, issue instructions and provide support.

For example:

◆ the ethical risk matrix created in 2015 and updated in 2016 was requested for all entities. Results were analyzed in order to support the implementation of action plans via the network of *Principles of Responsibility Advisor*, depending on the level of exposure which is calculated based on both internal and external risk factors. External risks are based on internationally recognized indexes on corruption, human rights abuses and environmental pollution by countries. Internal risks are based on the level of communication and implementation of the ethics & compliance program, and company policies;

◆ the Security Department issued a new Global Security Directive on "International Assignee Security in Risky Destinations". This new Directive is to define the impact of the Duty of Care regarding this category of employees (commonly named "expatriates") and to define roles and responsibilities of all stakeholders involved. Risk management approach, guidance and recommendations for host countries and all key stakeholders are also provided;

◆ two Security Handbooks were also created: 1 for the use of the Country President and 1 for the use of the Site/Facility Manager. These Handbooks are to give the concerned manager a comprehensive single document gathering all the Company's relevant governance regarding Security;

◆ the Global Security Department created new security positions at zone level: North America, Central & South America, East Asia & Pacific, South-East Europe. These new positions are to provide more support to the local Security Managers or Correspondents and to the local Management in assessing risks and in defining relevant security setups, means & procedures;

◆ the Global Anti-Corruption Policy was updated and the Anti-Corruption Code of Conduct was issued;

◆ training on ethical topics continued for all employees, with a specific focus on the most exposed functions and entities – especially newly acquired companies. For more information, see the "Ethics & Responsibility" chapter 2, page 87;

◆ the Group chose and started to deploy Credit Management and Trade Finance tools worldwide, to improve the follow up of risks and commitments. A new organization was set up with a Credit Manager and Treasury & Trade Expert in each zone to enhance competency and control. A dashboard on Financing and Treasury subjects is now issued on a quarterly basis.

Internal Control Department

The Internal Control Department continued to deploy the Key Internal Controls – training and requests for self-assessments – throughout the units, with the scope extended to cover new units.

In 2017, certain Key Internal Controls that were identified since 2015 as critical remained a focus and actions were taken to increase the level of awareness and compliance.

The list of Key Internal Controls continues to evolve.

The software package for the management of self-assessment questionnaires and follow-up action plans of internal audit and internal control introduced in 2011 continues to be improved.

The local Internal Control team consists of around 11 members located in various geographies dedicated their efforts to improve internal controls in the local entities.

The regional Internal Control team consists of 27 regional internal controllers in 5 regions, who:

◆ perform the duties defined under the section "Organization and management: key participants of internal control – Internal Control Department" for the units in their geographical scope, covering all Operational Departments;

◆ establish standardized procedures (*e.g.*, for internal control assignments, such as control cycles, documentation, scope definition, work programs, etc.);

◆ completed more than 100 on-site inspection missions in 2017 to assess the level of internal control and issuing the necessary recommendations when needed.

Internal Audit Department

The Internal Audit Department contributes to the analysis and to strengthening the internal control system by:

◆ mapping general risks;

◆ verifying the effective application of Key Internal Controls during audit assignments;

◆ reviewing the audited unit's Internal Control self-assessment and related action plans.

The audit assignments go beyond the Key Internal Controls, and include an in-depth review of processes and their effectiveness.

Internal Audit also reviews newly acquired units to assess their level of integration into the Group, the level of internal control and the effectiveness of operational processes, as well as ensuring Group rules and guidelines are properly applied, and more generally compliance with the law.

A summary overview of the department's audits makes it possible to identify any emerging or recurring risks that require new risk management tools and methodologies or adjustments to existing resources.

In 2017, Internal Audit performed 39 audits, including:

◆ audits of units;

◆ audits of a number of risks or operating processes;

◆ post-acquisition audits for newly acquired companies;

◆ analyses of internal control self-assessments by the audited units;

◆ follow-up audits to ensure recommendations are applied;

◆ assistance assignments.

The most common findings and observations derived from these audits relate to the following topics: awareness on the Principle of Responsibilities and on the Responsibility & Ethics Dynamic program, segregation of duties and access rights to the IT systems, management of price conditions, alignment with the Chart of Approval, solutions and projects bid management and margin control at execution phase, security of payments, etc.

Fraud Committee

The Fraud Committee defines the policy against fraud and the process of reporting and treating fraud and suspected fraud, including changes in procedures or practices to avoid recurrence.

The limited Fraud Committee is composed of the Group General Counsel & Chief Compliance Officer, Head of Global Security and the Head of Internal Audit & Internal Controls; it meets on a monthly basis as well as on *ad hoc* basis.

It deals with cases of fraud, corruption, conflict of interest, breach of procedure, theft and related matters. All reported cases of fraud are reported to the Fraud Committee.

The Fraud Committee decides on investigations that are managed either locally by the Compliance Officer, or centrally by a member of the Fraud Committee depending on the seriousness of the incident and the level of management potentially involved. The Fraud Committee ensures the implementation of the action plan, the appropriate sanction as well as feedback for each proven case of fraud. A report is written and updated regularly for this purpose. The Fraud Committee presents an annual summary report to the Audit Committee.

8.6 Internal control procedures governing the production and processing of consolidated and individual company accounting and financial information

In addition to:

◆ its regulatory tasks;

◆ its responsibility for overseeing the close of accounts across the Group;

◆ its audits of the Group's results with respect to set targets (see "Internal Control Organization and Management: Finance and Control – Legal Affairs Department").

The Management Control and Accounting unit is tasked with overseeing:

◆ the quality of reporting packages submitted monthly by subsidiaries;

◆ the results of programmed procedures;

◆ the integrity of the consolidation system database.

In addition, the Management Control and Accounting unit ensures that:

◆ given that the Group consolidated financial statements are finalized a few weeks after the annual and half-year balance sheet date, subsidiaries perform a hard close at May 31, and November 30, of each year so that most closing adjustments for the period can be calculated in advance;

◆ the scope of consolidation as well as the Group's interest and the type of control (exclusive control, joint control, significant influence, etc.) in each subsidiary, from which the consolidation method results are determined in cooperation with the Legal Affairs Department;

◆ the Management Control and Accounting unit issues instructions to the units on the closing process, including reporting deadlines, required data and any necessary adjustments;

1. Trends in Schneider Electric's core markets

1.1 Industry and machines manufacturers

In 2017 the industry market enjoyed a strong and broad-based recovery across the Globe.

Global machinery production has benefited from investments rebound in extraction, commodity processing and intermediate goods industries, and continuing growth in consumer led sectors.

In Western Europe, the market recovery was driven by both internal and external demand, supportive credit conditions and sharp decline in political uncertainty.

IIoT, Digitization and Cybersecurity were at the heart of discussions and they will go on driving the industry by allowing costs optimization with more creative and sustainable solutions, fit-for-purpose design and digital transformation of operations.

1.2 Non-residential and residential buildings

Non residential buildings

In Western Europe, increased business confidence played a major role in the market's recovery. In Germany, increased demand in the automotive and retail sectors led to the growth. In France, the market growth has improved, mainly thanks to the industrial, offices and retail segments. However, growth of public building segments remained negative.

In the US, the market continued its' upward path, driven by office, warehouse, healthcare and Educational segments. Construction in transportation equipment and chemical segments has contracted.

In India, non-residential construction benefited from improved business confidence and acceleration of foreign investments. In Australia, non-residential construction growth has eased.

In China, Non residential market growth has moderated, with higher growth in office buildings and shopping complexes than in manufacturing building.

Residential

In Western Europe, residential construction has continued to grow. In Germany, low interest rates and demand related to migration stimulated growth significantly. In France, the market has rebounded sharply, driven by the government housing policy (both for new construction and renovation) and low interest rates. On the supply side, the delay between construction starts and permits has increased.

In the US, market has continued its upward trajectory, albeit at a slowed pace than in 2016. Pace of expansion in housing starts cooled after several years of strong growth following the 2007-2009 market collapse. Reversely, renovation market accelerated in 2017, driven by adaptation of new standards in breakers and repairs works post hurricanes.

In India, residential construction picked up mainly due to pronounced government efforts to provide affordable housing through PPP's and incentives. In Australia, growth in residential construction was underpinned by an increase in demand coming from a high level of migration. Low costs of borrowing also encourage renovation activity. In Australia, the market has slowed down.

In China, Residential market continued to grow in 2017 beyond expectations, driven by Tier 2 to 4 cities.

Tier one cities market has declined is response to property cooling measures.

On the contrary, in Tier 3 & 4 cities, residential construction growth accelerated. The fear of missing out in the property price boom has created an urgency to buy and resulted in a strong growth in housing sales and then in housing starts.

Another major contributing factor was the Government shanty-town renovation programme which has involved local Governments building or contracting to build new low-income housing for residents.

1.3 Utilities and Infrastructures

Electrical Utilities

Global energy policies are accelerating the shift towards a New World of Energy, which will likely result in a gradual transformation of the regulation, mission and business models of electric utilities. World-wide electricity consumption is back to growth, but only in non-OECD countries. In mature economies, energy efficiency gains on the demand side have resulted in a flat or decreasing consumption trend.

The integration of decentralized renewables, mainly in the form of rooftop PV and onshore wind farms is challenging T&D utilities for their core planning and operation duties. Electricity self-consumption from prosumers will require changes to be made to traditional utility revenue model to allow them to invest in necessary network reinforcement and build next-generation control systems in order to maintain reliability and system security, while preparing for an ever increasing penetration of distributed energy resources, including a significant amount of electric vehicles.

Power generation investment priorities have shifted to renewable energy, involving traditional utility investors as well as private investors (IPP), with a greater participation of individual prosumers or energy communities

Global investment in the utility sector remains healthy in all geographies, both in the mature economies where system transformation and renewable integration are the key drivers, as well as in new economies where generation and network capacity build-up are essential. Digital technologies are expanding at a faster pace throughout the utility industry to meet those new challenges.

Oil & Gas

The Brent oil price ended the year 2017 at a high point, close to USD70, with an average price around USD54 for the year, in strong growth versus 2016.

The major industry players have been engaged in a dramatic reduction in their operating cost structures which have given a profitable position at a USD50 oil price for new projects. Many are claiming their breakeven costs are below USD40. The improved cost position was achieved both by structural cost reduction but also by more creative and sustainable ways to optimize, fit-for-purpose design and digital transformation of operations.

At the current oil price and with the industry cost reductions and improved operation, we expect renewed investments and increased profitability.

The industry majors continue to be selective in their investments, while optimizing their portfolios. The portfolio shift to gas assets is becoming clearer as is the establishment of exploratory positions in renewables.

1.4 Data centers and Networks

Compute demand continued to shift from on-premise to off-premise computing. That is, enterprises moving their compute load to either leased space in colocation, where they house their own IT equipment, or to Internet Giants, where they are renting platforms, infrastructure and other products as a service. To add to this shift, the continued growth of social media and ecommerce have triggered even more growth in the off-premise market. Enterprises continue to maintain hybrid environments between existing on-premise facilities and the off-premise market through colocation service providers. With its strong portfolio and global footprint, Schneider Electric is well positioned for all markets of the hybrid data center environment and brings the strengths of our Low Voltage/Medium Voltage, Building management and IT business to serve those clients under the EcoStruxure for datacenter architecture.

As internet usage continues to grow in bandwidth intensive applications including video, social media, augmented reality and the increasing adoption of the Internet of Things there will be an increased need for compute and storage at the edge of the network. Schneider is a leader in distributed IT environments and with its modular systems coupled with EcoStruxure IT software is in a strong position to capture this next wave of computing.

The market for secure power in commercial and industrial applications rebounded in 2017 showing strong growth in emerging markets. Applications within the Oil & Gas, Transportation and Healthcare segments in particular led in the recovery of the market. With strong presence in key segments coupled with its global footprint, Schneider continues to be well position in the commercial and industrial market.

Software and services remained strong in 2017 and led growth for the IT Division. Digital platforms such as EcoStruxure IT continued to gain market momentum, enabling protection of customers' most critical equipment through smart alarming, remote troubleshooting and data-driven insights. Delivered by experts monitoring connected data center assets 24/7 our software provides visibility and live data directly to customers' smartphones.

2. Review of the consolidated financial statements

2.1 Review of business and consolidated statement of income

Acquisitions & divestments in 2016

On December 14, 2015, Schneider Electric announced that it has signed an agreement to sell its Transportation business, to Kapsch TrafficCom AG. On March 31st, 2016, the transaction was finalized with a final sale price established at EUR31 million.

No acquisitions occurred in 2016 that had a significant impact on the 2017 financial statements.

Acquisitions & divestments during the year

On April 3rd, 2017, the Group announced that it has signed an agreement to sell its Telvent DTN business, to TBG AG. On May 31st, 2017, the transaction was finalized with a final base sale price established at USD900 million.

On July 27th 2017, Schneider Electric announced that it has signed an agreement to acquire Asco Power Technologies ("ASCO"), a leader in the Automatic Transfer Switch ("ATS") market for a consideration of circa USD1,250 million in an all cash transaction. The transaction was finalized on October 31st, 2017. ASCO has been consolidated in full consolidation method in the Low Voltage (Building) business since November 1st, 2017.

Discontinued operations

On April 20, 2017, the Group announced the disposal of its Solar activity. At the end of this ongoing process, the Group will have a minority representation on Solar's board. This activity used to be reported within the Low Voltage (Building) business segment of Schneider Electric. Solar activity net income (EUR(25) million) and the estimated loss incurred from the disposal of the business (EUR(69) million) have been reclassified to discontinued operations in the Group consolidated financial statements. The comparative information has been restated.

Changes in foreign exchange rates

Changes in foreign exchange rates relative to the euro had a negative impact over the year. This effect amounts to negative EUR388 million on consolidated revenue and to negative EUR124 million on adjusted EBITA[1].

Revenue

On December 31st, 2017, the consolidated revenue of Schneider Electric totaled EUR24,743 million, an increase of 1.2% at current scope and exchange rates compared to EUR24,459 million on December 31st, 2016.

This variance breaks down into an organic increase of 3.2%, a net scope effect of -0.4% and a negative exchange rate effect of -1.6%, primarily due to the depreciation of the US dollar and the Chinese yuan against the euro.

2.2 Changes in revenue by operating segment

The Low Voltage (Building) business generated revenues of EUR10,812 million, or 43% of the consolidated total. This represents an increase of +3.3% on a reported basis, and an increase of **+4.4%** on a like-for-like basis, with growth across all regions, supported by new product launches and commercial actions. Final Distribution & Wiring Devices reported a solid growth. The Group's offers for Commercial & Industrial Buildings markets grew across all regions, in particular in North America. Focus on Energy Efficiency contributed to growth in Western Europe across countries and in Asia. China and Rest of the World posted a strong growth.

The Industrial Automation (Industry) business generated revenues of EUR5,816 million, or 24% of the consolidated total. This represents an increase of +6.0% on a reported basis and an increase of **+5.9%** on a like-for-like basis. Industrial Automation reported growth in all the regions, with a strong performance in products and OEM, driven by channel initiatives. Process Automation get back to growth as O&G stabilized and benefits from good dynamics in some process & hybrid segments. Western Europe grew across the region as OEM demand remain favorable. In Germany, Industrial automation posted strong growth thanks to product sales through partners and good project execution. In Asia-Pacific, Industrial Automation was up due to continued strength in industrial demand from machine manufacturers and end-users, with notably China performing strongly. North America was up with the US and Canada growing while Mexico declined. Rest of the World was up, driven mainly by Middle-East.

(1) Adjusted EBITA (Earnings Before Interest, Taxes, Amortization of Purchase Accounting Intangibles) is earnings EBITA before amortization and impairment of intangible assets from acquisitions, impairment of goodwill, other operating income and expenses and restructuring costs.

The Medium Voltage (Infrastructure) business generated revenues of EUR4,500 million, or 18% of the consolidated total. This represents a decrease of -8.5% on a reported basis, mainly due to the disposal of DTN, and a decrease of **-2.2%** on a like-for-like basis, impacted by selectivity initiatives on projects. Services revenues were stable but orders were up mid-single digit. North America decreased, while China posted a strong growth. Western Europe was flat, with growth in France. Rest of the World was impacted by Middle-East which suffered from a weak Oil & Gaz sector.

The Secure Power (IT) business generated revenues of EUR3,615 million, or 15% of the consolidated total. This represents an increase of +0.7% in a reported basis and an increase of **+2.1%** on a like-for-like basis. The Datacenter market, led by Secure Power channel, benefitted to the whole portfolio of the Group, with notably a double-digit growth on Low & Medium Voltage technologies. New Economies reported strong growth up to 7%, while Mature declined slightly. Services posted a good growth.

2.3 Gross profit

Gross profit increased from EUR9,358 million for the year ended December 31, 2016 to EUR9,498 million for the year ended December 31, 2017, or +1.5%, mainly due to an increase in productivity and actions on prices. As a percentage of revenues, the gross margin remained stable at 38.4% in 2017 (*versus* 38.3% in 2016).

2.4 Support function costs: research and development and selling, general and administrative expenses

Research and development expenses, excluding capitalized development costs and development costs reported as cost of sales, decreased by 4.9% from EUR527 million for the year ended December 31, 2016 to EUR501 million for the year ended December 31, 2017. As a percentage of revenues, the net cost of research and development decreased at 2.0% of revenues for the year ended December 31, 2017 (2.2% for the year ended December 31, 2016).

Total research and development expenses, including capitalized development costs and development costs reported as cost of sales (see note 4 to the consolidated financial statements) decreased by 2.2% from EUR1,209 million for the year ended December 31, 2016 to EUR1,183 million for the year ended December 31, 2017. As a percentage of revenues, total research and development expenses remained stable at 4.8% for the year ended December 31, 2017 (4.9% for the year ended December 31, 2016).

In 2017, the net effect of capitalized development costs and amortization of capitalized development costs amounted to EUR62 million on operating income *versus* EUR97 million in 2016.

Selling, general and administrative expenses increased by 0.2% from EUR5,333 million for the year ended December 31, 2016 to EUR5,346 million for the year ended December 31, 2017. As a percentage of revenues, selling, general and administrative expenses decreased from 21.8% in 2016 to 21.6% in 2017.

Combined total support function costs, that is, research and development expenses together with selling, general and administrative costs, totaled EUR5,847 million for the year ended December 31, 2017 compared to EUR5,860 million for the year ended December 31, 2016, a decrease of 0.2%. The support function costs to sales ratio decreased from 24.0% for the year ended December 31, 2016 to 23.6% for the year ended December 31, 2017.

2.5 Other operating income and expenses

For the year ended December 31, 2017, other operating income and expenses amounted to a net loss of EUR15 million, mainly due to the impairment losses on assets (EUR92 million), costs linked to acquisitions from previous years and disposals in the period (EUR75 million), a EUR103 million gain on the curtailment and settlement of employee benefit plans in the USA and in France, and a EUR 108 million gain on asset disposals (mainly the disposal of Telvent DTN).

For the year ended December 31, 2016, other operating income and expenses amounted to a net loss of EUR63 million, mainly due to the impairment losses on assets (EUR87 million), costs linked to acquisitions from previous years and disposals in the period (EUR36 million), a EUR31 million gain on the curtailment of employee benefit plans in the USA and in Switzerland, and provisions release following a transactional agreement.

2.6 Restructuring costs

For the year ended December 31, 2017, restructuring costs amounted to EUR286 million compared to EUR309 million for the year ended December 31, 2016.

2.7 EBITA and Adjusted EBITA

We define EBITA as earnings before interest, taxes and amortization of purchase accounting intangibles. EBITA comprises operating profit before amortization and impairment of purchase accounting intangible assets and before goodwill impairment.

We define adjusted EBITA as EBITA before restructuring costs and before other operating income and expenses, which includes acquisition, integration and separation costs.

Adjusted EBITA amounted to EUR3,651 million for the year ended December 31, 2017, compared to EUR3,498 million for the year ended December 31, 2016, representing an increase of 4.4%, with gross profit expansion combined with tight control of support function costs more than offsetting the negative impact from foreign exchange outlined in section 2.1. As a percentage of revenue, adjusted EBITA increased from 14.3% for the year ended December 31, 2016 to 14.8% for the year ended December 31, 2017.

EBITA increased by 7.1% from EUR3,126 million for the year ended December 31, 2016 to EUR3,350 million for the year ended December 31, 2017, mainly linked to the Adjusted EBITA improvement, combined with higher gains on employee benefit curtailments and settlements in 2017 and, higher restructuring expenses in 2016. As a percentage of revenue, EBITA increased to 13.5% in 2017 compared with 12.8% in 2016.

2.8 Adjusted EBITA by business segment

The following table sets out EBITA and adjusted EBITA by business segment:

Full year 2017

(in millions of euros)	Low Voltage (Building)	Industrial Automation (Industry)	Medium Voltage (Infrastructure)	Secure Power (IT)	Corporate costs	Total
Revenue	10,812	5,816	4,500	3,615	-	24,743
Adjusted EBITA*	2,232	1,021	449	600	(651)	3,651
Adjusted EBITA%	20.6%	17.6%	10.0%	16.6%	-	14.8%

* Adjusted EBITA: EBITA before restructuring costs and before other operating income and expenses (including acquisition, integration and separation costs).

Full year 2016*

(in millions of euros)	Low Voltage (Building)	Industrial Automation (Industry)	Medium Voltage (Infrastructure)	Secure Power (IT)	Corporate costs	Total
Revenue	10,466	5,485	4,919	3,589	-	24,459
Adjusted EBITA**	2,117	918	477	604	(618)	3,498
Adjusted EBITA%	20.2%	16.7%	9.7%	16.8%	-	14.3%

* 2016 figures were restated for discontinued operations, as noted in section 2.1.
** Adjusted EBITA: EBITA before restructuring costs and before other operating income and expenses (including acquisition, integration and separation costs).

Low Voltage (Building) business recorded an adjusted EBITA margin of 20.6% for the year ended December 31, 2017, up 0.4 pt compared to 20.2% for the year ended December 31, 2016, thanks to sales organic growth and strong productivity.

Industrial Automation (Industry) business recorded an adjusted EBITA margin of 17.6% for the year ended December 31, 2017, up 0.9 pt compared to 16.7% for the year ended December 31, 2016, benefiting from improved volumes.

Medium Voltage (Infrastructure) business recorded an adjusted EBITA margin of 10.0% for the year ended December 31, 2017, up 0.3 pt compared to 9.7% for the year ended December 31, 2016, thanks to higher system gross margin and strong cost control.

Secure Power (IT) business reported an adjusted EBITA margin of 16.6% for the year ended December 31, 2017, down 0.2 pt compared with 16.8% margin for the year ended December 31, 2016, resilient at high level.

Corporate costs amounted to EUR651 million for the year ended December 31, 2017 or 2.6% of Group revenues, a slight increase compared to the year ended December 31, 2016 (2.5% of Group revenues or EUR618 million).

2.9 Operating income (EBIT)

Operating income (EBIT) increased from EUR2,975 million for the year ended December 31, 2016 to EUR3,210 million for the year ended December 31, 2017. This 7.9% increase is explained mainly by the EBITA improvement.

2.10 Net financial income/loss

Net financial loss amounted to EUR367 million for the year ended December 31, 2017, compared to EUR462 million for the year ended December 31, 2016. The decrease in the net financial loss is mainly explained by the losses generated by the foreign exchange decreasing by EUR35 million, supplemented by a decrease in the cost of net financial debt from EUR272 million for year ended December 31, 2016 to EUR219 million for the year ended December 31, 2017.

2.11 Tax

The effective tax rate was 21.1% for the year ended December 31, 2017, a decrease compared to 28.6% for the year ended December 31, 2016. The corresponding tax expense decreased from EUR719 million for the year ended December 31, 2016 to EUR600 million for the year ended December 31, 2017.

In 2017, the tax reforms in the USA and in Belgium, as well as the additional reform in France, led together to a positive adjustment in the P&L for EUR12 million. This adjustment represents the Group's best estimate of the impact of those reforms.

In 2016, the planned reduction of the Corporate Income Tax rate in France from 34.43% to 28.92% following the passing of the Finance Bill 2017 ("Loi de finances 2017") leads to a negative adjustment of the P&L at the end of 2016 for EUR(119) million.

2.12 Share of profit/(losses) of associates

The share of profit of associates increased from EUR34 million for the year ended December 31, 2016 to EUR61 million for the year ended December 31, 2017 mainly due to an increase in net income attributable to Delixi.

2.13 Non-controlling interests

Non-controlling interests in net income for the year ended December 31, 2017 totaled EUR60 million, compared to EUR61 million for the year ended December 31, 2016. This represented the share in net income attributable, in large part, to the non-controlling interests of certain Chinese companies.

2.14 Profit for the period

Profit for the period attributable to the equity holders of the parent company amounted to EUR2,150 million for the year ended December 31, 2017, that is, a 22.9% increase over the EUR1,750 million profit for the year ended December 31, 2016, mainly due to the improvement in EBITA described in note 2.9.

2.15 Earnings per share

Earnings per share increased from EUR3.12 for the year ended December 31, 2016 to EUR3.85 for the year ended December 31, 2017.

2.16   Consolidated cash-flow

Operating Activities

Net cash provided by operating activities before changes in operating assets and liabilities amounted to EUR3,020 million for the year ended December 31, 2017, up 2.2% compared to EUR2,956 million for the year ended December 31, 2016, and represented 12.2% of revenue in 2017 compared with 12.1% in 2016.

The change in working capital used EUR79 million in cash in the year ended December 31, 2017, compared to EUR1 million generated in the year ended December 31, 2016.

In all, net cash provided by operating activities decreased by 0.5% from EUR2,957 million in the year ended December 31, 2016 to EUR2,941 million in the year ended December 31, 2017.

Investing Activities

Net capital expenditure, which included capitalized development projects, decreased by 7.2% to EUR688 million for the year ended December 31, 2017, compared to EUR741 million for the year ended December 31, 2016, and represented 2.8% of revenues in 2017 (3.0% in 2016).

Free cash-flow (cash provided by operating activities net of net capital expenditure) amounted to EUR2,253 million in 2017 *versus* EUR2,216 million in 2016.

Cash conversion rate (free cash-flow over net income attributable to the equity holders of the parent company on continuing operations) was 105% in 2017 versus 118% in 2016 (adjusted for the impact of tax adjustments described in note 2.11).

The effect of acquisitions and divestments during the year was a net cash outflow amounting to EUR416 million in 2017. Our acquisitions and divestments represented a net cash inflow of EUR47 million for the year ended December 31, 2016, corresponding mainly to the disposals described in note 2.1.

Financing Activities

In 2017, the Group reimbursed bonds for EUR1,025 million and issued a bond in euros for EUR740 million.

The net increase in other financial debts amounted to EUR111 million during the year ended December 31, 2017, compared to a net decrease in other financial debts amounting to EUR794 million during the year ended December 31, 2016. The dividend paid by Schneider Electric was EUR1,133 million in the year ended December 31, 2017, compared with EUR1,127 million in the year ended December 31, 2016.

The Group purchased minority interests for EUR 141 million in 2017.

3. Review of the parent company financial statements

Schneider Electric SE posted an operating loss of EUR14 million in 2017 compared with EUR16 million the previous year.

Interest expense net of interest income amounted to EUR106 million *versus* EUR128 million the previous year.

Current loss amounted to EUR28 million in 2017 compared to a current loss of EUR162 million in 2016.

The net profit stood at EUR121 million in 2017 compared with a net loss of EUR100 million in 2016.

Equity before appropriation of net profit amounted to EUR7,893 million at December 31, 2017 *versus* EUR8,745 million at the previous year-end, after taking into account 2017 loss, dividend payments of EUR1,133 million and share issues in an amount of EUR160 million.

4. Review of subsidiaries

Schneider Electric Industries SAS

Revenue totaled EUR3.5 billion in 2017 (EUR3.2 billion in 2016).

The subsidiary posted an operating gain of EUR94 million in 2017 compared with an operating gain of EUR115 million in 2016.

Net profit amounted to EUR1.2 billion in 2017 compared with EUR264 million of net profit in 2016.

5. Outlook

In a positive environment, the Group targets to deliver strong organic growth of adjusted EBITA in 2018, around the high-end of the +4% to +7% bracket earlier communicated as the average yearly objective for 2017-2019.

To deliver this strong performance the Group will balance both levers of organic top line growth and adj. EBITA margin expansion. Therefore, for 2018, the Group will target:

◆ an organic top line growth between +3% to +5%; and

◆ an organic adj. EBITA margin expansion towards the upper end of the +20bps to +50bps range targeted as yearly average improvement for 2017-2019.