

## > 2012 in brief

### Connect Company Program

On February 22, 2012, the Executive Committee presented the Group's strategic ambition, operational priorities and financial targets under the Connect program for the period 2012 – 2014. The new 3-year plan covering 2012 – 2014 includes four major initiatives: Connect to Customers, to further improve the performance of its business models and be a leader in products and in solutions; Connect Everywhere, to identify key investment areas in new economies and create new opportunities in mature

countries to be a leader in both mature and new economies; Connect People, to create a culture and an environment for the Group's employees' development and performance; Connect for Efficiency which is a new chapter in the Group's history of profitable and responsible growth.

### Acquisitions, disposals and financing

#### External Growth

On May 4, 2012, Schneider Electric announced the signing of an agreement to acquire M&C Energy Group ("M&C"), a fast-growing company specialized in energy procurement and sustainability services for both multinationals and small to medium sized enterprises. Headquartered in the United Kingdom, M&C provides its customers with energy procurement, compliance and performance optimization services mostly on recurring subscription basis. The company has more than 500 employees including 300 energy specialists and an international presence with 21 offices across 15 countries, particularly in Europe and Asia-Pacific.

#### Venture capital

On November 15, 2012, the European Investment Fund (EIF) has committed EUR20 million in Aster II, a venture capital fund managed by Aster Capital. Aster Capital is a Paris-based fund manager which focuses on early stage Cleantech investments. It specifically targets highly innovative enterprises developing ground-breaking technologies in the fields of energy, new materials and environment. Aster II has a distinctive set-up which involves three major industrial corporates acting as sponsors: Schneider Electric,

Alstom and Solvay. EIF's additional commitment brings Aster II's investment capacity to over EUR 105m to support innovation in the European Cleantech sector.

#### Bond issues and sale of treasury stock

On September 5, 2012, Schneider Electric announced that it proceeded with the sale of the stake it holds in AXA, or 10,612,659 shares representing approximately 0.45% of AXA's share capital. The proceeds from the sale of the shares amount to approximately EUR121 million. The disposal was decided following the joint announcement made with AXA on December 27, 2011 on the non-renewal of the shareholders' agreement, which terminated on May 15, 2012.

On September 21, 2012, Schneider Electric announced that it has successfully placed its first USD800 million bond issue due 2022 in the United States. This bond offering gives Schneider Electric access to the large US dollar funding sources and further extends its average debt maturity at favorable market conditions. The coupon rate for this bond is 2.95 percent.

### Innovation, partnerships and major contracts

On February 3, 2012, Energy Pool, Europe's leading demand response operator and Schneider Electric's subsidiary, released 600 MW of reserve capacity to help the French electricity grid cope with the surge in demand created by the plummeting temperatures of recent days. This reserve capacity corresponds to the power needed to guarantee the electricity supply for the equivalent of the cities of Nantes and Nice together at peak time.

On July 23, 2012, the Skolkovo Foundation and Schneider Electric signed an agreement to create a new R&D center in Russia's Skolkovo Innovation City. The in-house R&D center, with a workforce of more than 100 employees by 2016, will be working to create an advanced energy distribution management system for electricity networks, develop standalone generator control systems and other innovative solutions. Around 90% of the company's staff at the R&D center will be research personnel.

## Governance

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The Schneider Electric SA Supervisory Board, meeting on February 21, 2012, decided to propose to reappoint Messrs. Léo Apotheker, Jérôme Gallot, Willy Kissling, Henri Lachmann, and Richard Thoman, members of the Supervisory Board, and to ratify the cooptation of Mr. Xavier Fontanet at the next Annual Shareholder's Meeting.

The Schneider Electric SA Supervisory Board, meeting on May 4, 2012, reappointed Mr. Henri Lachmann as Chairman of the Supervisory Board and Mr. Léo Apotheker as Vice Chairman. The Supervisory Board also renewed Mr. Claude Bébear in his functions

as non-voting director. The Supervisory Board welcomed two new members nominated at the Annual Shareholders' Meeting of May 3, 2012, Mr. Antoine Gosset-Grainville, replacing Mr. Jérôme Gallot and Mrs Magali Herbault, replacing Mr. Claude Briquet.

On December 18, 2012, the Supervisory Board of Schneider Electric SA and its Chairman decided to propose a modification of the Group's governance structure at the Annual Shareholder's meeting to be held on April 25, 2013. The Group will adopt a single board structure with a Board of Directors (*Conseil d'Administration*), provided it is approved by shareholders.

## Employees

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On March 29, 2012, Schneider Electric announced the launch of a capital increase reserved for employees under the Group employee savings plan (*plan d'épargne salariale*). This offering, which is in line with the Group's policy to develop employee

shareholding, is proposed to Group employees in twenty-six countries, including France. This plan covers around 80% of the employees of the Group.

## Corporate Social Responsibility

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On January 17, 2012, Schneider Electric was recognised at the Zayed Future Energy Prize (ZFEP 2012) in the category of "Large Corporations" for leading efforts in renewable energy and sustainability. General Sheikh Mohamad Bin Zayed Al Nahyan, Abu Dhabi Crown Prince and Deputy Supreme Commander of the UAE Armed Forces, presented the award to Jean-Pascal Tricoire, President and CEO, Schneider Electric.

On January 31, 2012, Schneider Electric announced the launch of the second edition of Go Green in the City, its innovative competition open to students in nine countries all over the world. Finals of the challenge were held in Paris on June 20-23, 2012. More than 550 teams representing 1100 candidates from nine countries participated in this challenge.

On January 31, 2012, Schneider Electric was recognized for its commitment to sustainable development by directly integrating the 26th place of the "Global 100 Most Sustainable Corporations in the World" list, directed by Corporate Knights. Schneider Electric is positioning itself as the leading company in its sector and in the top three of the eight French companies in the Global 100.

On March 19, 2012, Schneider Electric ranked for the second year in a row in the Top 100 World's Most Ethical Companies. This designation awarded by Ethisphere Institute recognizes the Group's efforts to promote the highest standard of ethical behaviour in business.

On April 4, 2012, Schneider Electric and its Foundation announced the creation of Schneider Electric Teachers. This Non-Governmental Organization (NGO) aims to promote volunteering of current and retired Schneider Electric employees in partner organisations of the Schneider Electric Foundation, dedicated to teaching and professional training within the energy field.

Schneider Electric and Grameen Shakti announced the creation of Grameen Schneider Electric, a social business joint venture. Grameen Schneider Electric aims to provide access to electricity and develop associated services for disadvantaged people in Bangladesh. The official signature for the creation of the company took place June 19, 2012 in Rio de Janeiro (Brazil), on the fringes of the UN Conference on Sustainable Development ("Rio +20").



# Overview of the Group's strategy, markets and businesses

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## > 1. Our strategy and market opportunities

Schneider Electric, the global specialist in energy management with operations in over 100 countries, leverages its portfolio to make energy safe, reliable, efficient, productive and green.

While global energy demand is set to rise to support growing industrialization and urbanization and energy prices are escalating, carbon emissions must be cut drastically to protect the planet from irreversible climate change. Energy efficiency has been identified as an essential part of the solution to the energy challenge and is a key pillar of Schneider Electric's strategy.

### 1.1 Our mission

Schneider Electric manages energy in the space between producers and consumers. Its mission is to leverage its portfolio to make energy:

- **safe:** protecting people and assets;
- **reliable:** guaranteeing ultra-secure, ultra-pure and uninterrupted power especially for critical applications;
- **efficient:** delivering energy efficient solutions adapted to the specific needs of each market;
- **productive:** expanding the use of automation and connectivity, providing services throughout an installation's life cycle; and
- **green:** offering solutions that are environmentally friendly.

### 1.2 We see favourable trends in our environment creating opportunities

#### Energy efficiency

Energy Efficiency, meaning doing more with less, is an essential part of the solution to the global energy challenge.

In its latest World Energy Outlook, the International Energy Agency (IEA) estimates that the various energy efficiency policies that are being introduced in many countries across the world could account for about **70% of the reduction** in projected global energy demand in 2035, and **68%** of the cumulative global savings in CO<sub>2</sub> emissions. This compares with a **46% increase** in global energy demand by 2035 if nothing changes.

Boosting Energy Efficiency on the 3 major energy-consuming sectors (Industry, Buildings and Homes) could help a country reduce its overall energy use **by 15% to 25%** – in effect providing a very attractive business case in both mature and new economies. Energy Efficiency also offers an excellent payback: according to the IEA, every Euro invested, in particular in Buildings, would yield **EUR1.6** in energy savings.

Alongside traditional "passive" energy efficiency technologies such as building insulation and energy-efficient equipments, "active" energy efficiency has a big role to play. Active energy efficiency means optimizing a commercial & industrial building's performance and usage through the use of building automation. One simple example is to automatically adjust lighting and heating to room

occupancy – adapting to external conditions while ensuring users' comfort.

This helps to continuously optimize energy performance throughout the building's lifecycle - providing overall efficiency. Active energy efficiency can save up to **30%** of a building's energy needs, significantly improving a company's carbon footprint while delivering savings on its charges, with limited upfront investment. Building automation is also a key enabler of the Smart Grid, facilitating Demand side management by connecting buildings smartly to the grid.

#### Towards a smarter electricity grid

Today's electricity grid is very similar to what it was one century ago, carrying electricity from centralized generation plants to users in homes, buildings, and facilities. But the grid is now undergoing a revolution. Energy demand keeps increasing; carbon emissions need to come down, and electricity is a big carbon emitter; there are more and more renewable energy sources, which are by nature intermittent and by design distributed; and infrastructures are ageing, overloaded, or in need of heavy maintenance. The network must therefore become smarter to adapt to this changing and more complex environment.



A smarter grid combines smarter supply (the efficient integration of renewable energy sources, flexible distribution), smarter demand (energy-efficient sites and homes, connected to the grid), and demand response to balance the two.

Schneider Electric is active in five key domains of the smart grid: flexible distribution, renewable energy integration, efficient buildings, electric vehicle charging infrastructure and demand-response. Recent acquisitions have considerably strengthened our play – from Areva's Distribution business to Energy Pool and Vizelia in 2010 and Summit Energy and Telvent in 2011.

### Cities, at the heart of the sustainability battle

Cities today contain 50% of the world's population, consume 75% of global energy consumption and give off 80% of greenhouse gas emissions. And cities are growing: by 2050, they will be home to 70% of the people in the world. Cities face urban challenges of unprecedented scale: scarcity of resources such as energy and water; environmental pressure and pollution; aging and overloaded infrastructure; traffic congestion; crime, etc.

All over the world, cities need to become smarter: **more efficient, more liveable and more sustainable**. This means:

- improving the efficiency of the city's underlying urban infrastructures (electricity grid, gas distribution system, water distribution system, public transportation systems, public services, commercial buildings, hospitals, homes, etc);
- becoming a better place to live, work and play;
- reducing its environmental impact – lower carbon footprint, urban regeneration, parks and trees, etc.

So what cities need today are solutions to their most acute pain-points that: deliver the short-term results that constituents need; provide visible, measurable results that increase attractiveness; and have a low upfront investment, because cities across the world need to balance their budget.

Schneider Electric **delivers urban efficiency** by bringing in technology with tried and tested solutions and by working on the integration of operating systems and information systems. As cities involve many stakeholders – local and regional governments, private companies, utilities, real estate developers, investors, etc. – Schneider Electric drives collaboration to ensure buy-in of all these stakeholders.

Schneider Electric already works with more than 200 cities across the world, and helps provide visible benefits to cities and their constituents:

- up to **30%** energy savings;
- up to **15%** reduction of water losses;
- up to **20%** reduction of travel time and traffic delays;
- as well as environmental, social and economic benefits.

### Accelerated growth in new economies

Non-OECD economies represented about 35% of global GDP in 2011 and may reach close to 60% by 2030. Their share of global energy demand will continue to rise – from 55% in 2010 to close to 65% by 2035 – because of demographics, industrialisation, urbanisation, and growing affluence.

Millions of men, women and children will see their living standards rise: while today 1.3 billion people lack access to energy (20% of the world's population), this number will fall to 990 million in 2030, or 12% of global population.

These dramatic shifts will change our world. In economic terms, it means that new economies are the drivers of global growth – and this trend should continue for years to come.

In order to benefit from this growth lever, Schneider Electric has built a significant presence in these new economies, holding strong positions in Asia, Africa, the Middle East, Latin America, Eastern Europe and Russia.

## 1.3 Our strategy

### Leverage the world's new energy challenges

The world's energy challenges are many: growth in energy demand, energy price increases, scarcity of natural resources, CO<sub>2</sub> emissions reduction requirements, integration of unpredictable and intermittent renewable sources of energy, increases in peaks of consumption and others. We have developed a wide range of products and solutions that will provide managers of industrial plants, data centers, infrastructure, homes and buildings with significant levels of energy efficiency and savings. Our smart grid solutions help electricity producers and distributors to improve the efficiency of their assets and to offer a better service to their consumers. This also contributes to the improvement in the operation of the grid and the reduction in investment in new generation capacity.

### Build two complementary business models: Products and Solutions

Products and solutions are different and complementary business models and we aim to deliver profitable growth in both. In order to reinforce our leadership positions, we continue to target growth in our products business by creating new opportunities for distributors and direct partners in a win-win relationship. We are also focused on growing our solutions business by increasing our service revenues and reinforcing project execution. We have developed reference architectures for solutions in targeted end-markets in order to facilitate smooth integration of our products and speed up project design. We are also deploying a unified software suite to support the deployment of solutions.



## OVERVIEW OF THE GROUP'S STRATEGY, MARKETS AND BUSINESSES

### OUR STRATEGY AND MARKET OPPORTUNITIES

Products allow us to continue to achieve scale and pricing power in our end-markets, while providing differentiation through technologies that can be combined and integrated. The distinctive and ergonomic design attributes of our products also create new competitive advantages.

Solutions will allow us to generate additional growth and profits, lower capital intensity and help reduce cyclicality. They also provide significant opportunities for dialogue with our customers, which helps inform our quest for continuous innovation.

#### Leverage the opportunity arising from the accelerated expansion of certain economies

Certain countries in Asia (excluding Japan), Latin America (including Mexico), the Middle East, Africa and Eastern Europe (including Russia), which we refer to collectively as "new economies" have entered a prolonged period of accelerated development. As a result of the industrialization, urbanization, digitization and development processes that these countries are experiencing, we expect the markets of their economies to continue to have a pressing need for the products and solutions that we provide. Our goal is to leverage this opportunity by expanding our geographical coverage in these markets, by increasing our presence in new cities, and further penetrating these markets, with mid-market segment offerings that are supported by strong brands with wide local coverage. We have made a meaningful long-term commitment to, and investment in, these economies. As of December 31, 2012, we had over 70,000 employees in new economies and, during 2012, our new economies-based purchasing and manufacturing costs accounted for a significant percentage of our consolidated costs of sales. We believe the strength of our brands, our competitive local supply chains and our commitment to integrating into, and contributing

to, the local markets are our competitive advantages in these economies.

#### Invest in profitable and responsible growth while driving efficiency

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

In addition to generating strong organic growth, we have also continuously looked for and evaluated possible opportunistic acquisitions and intend to continue our strategy of selectively considering the acquisition of, and investment in, companies, joint ventures, strategic alliances and mergers that reinforce our global leadership, provide skills and services geared towards energy management, or relate to local businesses in new economies. Certain of our recent acquisitions have been of significant size and scope, such as our purchase of Telvent in 2011 and Areva D in 2010, while other acquisition targets have been more modest. We will continue to seek external growth opportunities by considering a range of prospects across geographies, segments, and target sizes.

In addition to the investments we make to foster growth, driving efficiency at all levels of our Company is an equally important focus of the Group. 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 Our competitive strengths

#### Technological leadership in energy management

We believe we have best-in-class technology in energy management to meet growing customer needs and challenges. We estimate that nearly 90% of our revenue is derived from sales in businesses where we enjoy a number one or two market position. We design products and solutions that we believe offer the best levels of safety, reliability and efficiency in our markets. This is achieved through consistently high investment in research and development, which supports our innovative product offerings and our ability to offer our customers market leading solutions that seamlessly integrate the different technologies in our portfolio. As a result, our products and solutions meet the needs of our customers for simplicity, connectivity, flexibility, productivity and efficiency. 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 technological leadership, our major brands are among the most recognised in our industry.

#### Multiple channels of access to 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. Schneider Electric has developed the widest network of distribution and direct partners in its industry. This provides us with many channels of access to a market comprised of a broad and diffuse

## OVERVIEW OF THE GROUP'S STRATEGY, MARKETS AND BUSINESSES

### OUR STRATEGY AND MARKET OPPORTUNITIES

user base. Our diverse market access channels, which require only minor capital investment, help to ensure that we are not dependent on a limited number of large customers.

Success in our industry requires strong, long-term relationships with our distribution partners and end customers and we are therefore constantly seeking to enhance value for them. For example, we provide training to our partners and participate in industry efforts to improve applicable regulations and safety certifications. These efforts and relationships also help to reinforce our reputation as a trusted partner and allow us to benefit from solid pricing power.

#### **A global and balanced presence with a strong ability to adapt to local needs**

We have operations in more than 100 countries, in a balanced geographical exposure on a worldwide basis. Due to our large footprint, we are one of the few partners of global companies that look for the highest standards of technology and quality for their energy management equipment in all their operations around the world. In addition, with 41% of our revenues in new economies in 2012, we believe we are positioned to capture the higher growth potential of these markets. Our presence in many diverse markets ensures that we understand local needs, which assists us to serve our customers in each country with dedicated products and solutions adapted to local requirements.





## > 2. Businesses, end-markets and customer channels

Schneider Electric operates in five principal markets: utilities and infrastructure, industry and machine manufacturers, data centres and networks, non-residential as well as residential buildings.

The Group enjoys leadership positions in its five business segments: 90% of its 2012 revenue was derived from revenues in businesses where the Group enjoyed a #1 or #2 market position, compared with 50% in 2000.

Schneider Electric manages multiple channels to markets built on strong partnerships.

### 2.1 Leadership positions in our businesses

Until end of 2012, Schneider Electric operations were organized in five businesses (Power, Infrastructure, Industry, IT and Buildings), built around key technologies. The Group has now regrouped its five historical businesses under the umbrella of the Partner business group and End User business group:

- the Partner business essentially comprises the former Power business, which has been renamed to highlight its focus on the business model dedicated to "Partners" customer channel;
- the End User business group focuses on the end-user led model. It regroupes all other businesses, namely Industry, IT, Infrastructure and Building.

As in the past, to support the Solution approach, each business bears the responsibility for targeted end-market segments.

#### Partner business

##### The *Partner* business: Number 1 Worldwide in Low Voltage

Partner provides low voltage ("LV") products and solutions in all end markets from buildings to industries and infrastructure to data centers, including protection functions (notably with circuit breakers), power monitoring and control, power meters, electrical enclosures, busways, power factor correction, LifeSpace products (including wiring devices, network connectivity, home and building controls and cable management systems), renewable energy conversion and connection, and electrical vehicle charging infrastructure.

Partner business is responsible for integrated solutions in following end-markets: Residential and Marine.

#### End User business group

##### The *Industry* business: Number 2 Worldwide in Industrial Automation and Control

Industry provides comprehensive products and solutions for the automation and control of machines, manufacturing plants and industrial sites. It includes hardware, such as motion control, variables speed drives, motor starters and contactors, human-machine interface ("HMI") terminals, programmable logic controllers ("PLC"), push buttons and signalling, temperature and pressure sensors, and customized sensors, as well as software applications for operations management and supervisory control.

Industry business is responsible for integrated solutions in following end-markets: Metal, Mineral & Mining ("MMM"), Water, Food & Beverage and OEM.

##### The *IT* business: Number 1 Worldwide in Critical Power

IT specializes in critical power products and solutions for data centers and other applications where power continuity and quality is essential, including single phase and three-phase uninterruptable power supplies ("UPS"), surge protection, racks, power distribution units, security, cooling systems, services and software management.

IT business is responsible for integrated solutions in following end-markets: IT industry, Banking/Insurance and Cloud & Telecom.

##### The *Infrastructure* business: Number 1 Worldwide in Medium Voltage and Automation

Infrastructure specializes in medium voltage ("MV") and grid automation products and solutions, especially for infrastructure and electrical utilities, including primary and secondary medium voltage switchgear, transformers, electrical networks protection, remote control, MV/LV substations, and Telvent software for the integrated



management of mission critical infrastructure (primarily Distribution Management Software, Operation Management Software, supervision control and data acquisition ("SCADA") software, pipeline management and traffic management).

Infrastructure business is responsible for integrated solutions in following end-markets: Electrical utilities, Oil & Gas and Transportation.

### **The Buildings business: Number 4 Worldwide in Building Automation and Video Security Systems**

Buildings 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.

Buildings business is responsible for integrated solutions in following end-markets: Hotels/Retail, Healthcare, Government/Educational, Life Sciences and Real Estate.



## **2.2 Serving five attractive end markets**

Schneider Electric serves customers in five principal markets:

- Non-residential Buildings;
- Utilities and Infrastructures;
- Industries and Machine manufacturers;
- Data Centres and Networks;
- Residential Buildings.

### **Non-residential buildings**

The non-residential buildings market includes public, commercial and industrial buildings such as offices, hotels, hospitals, shopping centers, schools and sports and cultural centers. Because this sector consumes significant amounts of energy, energy efficiency is essential and is subject to new and demanding regulations. Specified requirements have to be met in terms of comfort, security and environmental friendliness, as do the needs of owners and building managers seeking to reduce investment costs and optimize maintenance and operating costs.

Our customers in this sector include end-users, property developers, design firms, systems integrators, panel builders and installers, electrical equipment distributors and building management companies.

Within this market, targeted sub-segments include: Hotels/Retail, Healthcare, Government/Educational, Life Sciences and Real Estate.

### **Utilities and infrastructures**

The global challenges in the utilities and infrastructure market include increasing energy demand, the need for increased energy efficiency to reduce environmental impact, expansion of renewable energies, the evolution of regulations covering the energy market and in particular the emergence of demand response, and the growing need for real-time control of facilities, security and reliability. We believe that the challenges faced by our customers in this market offer long-term growth prospects. Our main customers in this market include energy operators, water

utilities, the owners and operators of oil, gas and transportation infrastructure, and municipalities.

Within this market, targeted sub-segments include: Electrical utilities, Oil & Gas, Transportation, Water and Marine.

### **Industries and machine manufacturers**

Our energy solutions enable us to serve almost all segments of the industries and machine manufacturers market, including mines, cement plants, the food-processing industry and material handling and packaging machines. Energy 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 companies, engineering firms, systems integrators, OEMs, electro-intensive industries, panel builders and electrical equipment distributors.

Within this market, targeted sub-segments include: Mining, Minerals & Metals ("MMM"), Food & Beverage and OEM.

### **Data centers and networks**

Data centers are sites containing servers that process and store billions of pieces of digital data in secure, air conditioned rooms. They constitute the central nervous systems of businesses and the public sector, and we believe they are a high-potential market thanks to the growing digitalization of professional and personal activities. The expansion of data centers involves a significant increase in electricity requirements to accommodate the servers' operation and cooling, and we expect that the cost of energy needed to cool server rooms will shortly exceed the cost of energy needed to operate the servers themselves.

Within this market, targeted sub-segments include: IT industry, Banking/Insurance and Cloud & Telecom.



## OVERVIEW OF THE GROUP'S STRATEGY, MARKETS AND BUSINESSES

### BUSINESSES, END-MARKETS AND CUSTOMER CHANNELS

#### Residential

Our market in the context of single-family homes and apartment buildings is driven, particularly in mature economies, by renovation and refurbishment needs, as well as by construction and upgrades, particularly in new economies. Whether used for renovation or construction, the underlying challenge is to reconcile technical constraints and local standards and regulations with customers' preferences. Consumers require comfort and aesthetics, but

increasingly desire energy efficiency, connectivity, security and monitoring services as well. Our main customers in this market include 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.

## 2.3 Products and Solutions, two complementary business models

The businesses in each of our five segments offer products and solutions. Solutions are comprised of systems, such as highly customized products or combinations of our products, and services. Our products and solutions businesses have different revenue growth and profitability profiles, with our solutions business complementing our products business by providing us with access to the less capital intensive service market.

#### Product business model

We believe our products offer best-in-class technology, strong channel access and optimal quality and cost, which allows us to achieve scale and pricing advantages in the markets in which

we operate. We market and sell our products principally through distributors and direct partners, such as contractors, system integrators and electricians, who provide us with the ability to reach large numbers of small- and medium-sized customers.

#### Solution business model

We believe our solutions offer leading technology, strong integration and service capabilities and segment-specific expertise. We market and sell our solutions principally through direct partners, such as contractors and system integrators, that provide us, our distributors and other partners with access to larger customers. We also distribute our solutions directly to existing customers.

## 2.4 Multiple accesses to market

A large portion of Group revenues are 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

Distributors account for approximately 50% of the Group's total revenues through an extensive network in 190 countries all over the world.

Schneider Electric works with many different types of distributors: local distributors, wholesalers and non-specialised professional distributors, large international groups such as Rexel, Sonepar, Graybar and Grainger, IT specialists such as Tech Data and Ingram Micro in the United States. In the residential renovation sector, Schneider Electric also sells products through large home improvement chains such as Home Depot and Lowes in the US, Kingfisher in the UK and Saint Gobain Distribution in France. In addition, the Group uses specialist distribution channels for highly technical products such as automation solutions and industrial software, as well as for Pelco's access control and security products.

Schneider Electric assists its distributors in advising their customers and helping them to benefit from technical innovations. To maintain a high performance network, the Group works hand in hand

with distributors on supply chain issues, technical training and marketing. Internet tools now occupy a dominant position for sales, and above all, provide up-to-date information. Through the eShop, distributors can link Schneider Electric's product database to their e-commerce sites so that customers have reliable 24/7 access to information. As part of a program to develop energy efficiency solutions with distributors, the Group has published a catalogue of energy efficiency solutions that suit the needs of different markets and customer segments.

#### Other intermediaries

##### Panel builders and systems integrators

The main objective for Schneider Electric is to help these professionals to extend their competencies by giving them the best level of service available anywhere in the world.

**Panel builders**, of which there are more than 20,000 throughout the world, make and sell electrical distribution or control/monitoring switchboards, primarily for the buildings, energy and electricity infrastructure markets. Their main customers are contractors. Panel builders mostly buy low and medium voltage devices, such as circuit breakers and contactors, and increasingly, prefabricated systems.

**Systems 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).

### Contractors

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

These partners bring value for end customers, first by advising them about the choice of solutions that best suits their needs, and then by installing efficient systems. 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 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.

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

### 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 many information and training tools for specialists, such as reserved exhibits, electrical installation guides, installation design software and training methods.

### End-users

#### Original Equipment Manufacturers

Original Equipment Manufacturers (OEMs) continuously seek to improve machine performance and optimise maintenance in areas ranging from packaging to textiles, elevators to conveyors, and materials handling and hoisting to HVAC.

Schneider Electric works closely with almost 30,000 OEMs. The Group leverages its expertise and know-how to nurture these special partnerships. This is mainly achieved through:

- an extensive knowledge of OEMs' applications;
- dedicated centres of excellence that offer the most competitive solutions for new machines, in particular, pre-tested, pre-developed and personalised solutions;
- an 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 level.

#### Other large end-users and global strategic accounts

Schneider Electric also addresses customers directly in a number of end-markets, including but not limited to: utilities, governments and local public authorities, etc.

The Group has established a dedicated organisation for global customers, so-called "global strategic accounts", with the purpose of developing privileged relationships with them. To meet these customer expectations, the Group offers "preferred supplier contracts" to ensure that they receive services of the highest quality.

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

91 global customers benefit from this organisation, including Air Liquide, GlaxoSmithKline, IBM, Lafarge, Marriott, Nestlé, Procter & Gamble, Total, Toyota, Veolia Environnement and Walmart.

### 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).





## 2.5 Competitive landscape

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

- **Low-voltage electrical distribution & Renewables:** ABB, Siemens, Eaton, Legrand;
- **Medium voltage distribution & Grid automation:** ABB, Siemens;
- **Industrial automation:** Siemens, Rockwell Automation;
- **Critical power & cooling for data centers:** Emerson, Eaton;
- **Building automation:** Siemens, Johnson Controls, Honeywell.

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

# > 3. Company history and development

## 3.1 History

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From its beginnings in steel during the Industrial Revolution over 175 years ago, to the progression into electricity and, more recently, into energy management, the Group has undertaken 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, two 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 and which had been involved in the electricity sector since the late 19th century.

### 1981-2001: The Schneider 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 Lexcel, one of Europe's largest suppliers of installation systems and control solutions. In May 1999 the Group is renamed to Schneider Electric, to clearly emphasise its expertise in the electrical field.

### Since 2002: A Strategic Transformation

At the turn of the 2000s, Schneider Electric radically rethinks its growth strategy, setting itself three 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 led Schneider Electric to conduct a number of strategic acquisitions both in mature countries and in new economies targeting companies offering complementary products and solutions.



## 3.2 From Power & Control to Energy Management

### Creating a major player in Building Automation & Security

- As the result of several acquisitions, 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 two pioneering French companies in December 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.

### Building a global leader in Critical Power

- We identified Critical Power as a key technology for our portfolio and regained majority control of MGE UPS in 2004.
- We became a global player with the acquisition of American Power Conversion (APC) in 2007, the US-based world leader in single-phase and three-phase UPS with operations on all continents and USD2.5 bn of 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 back-up power storage from Luminous.

### 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 equipments.
- With the acquisition of Areva D (Areva's medium voltage distribution division) in June 2010, we significantly improved our position in medium voltage and grid automation.
- In 2010, we acquired 50% of Electroschield Samara, a leading medium voltage company in Russia.
- With the acquisition of Telvent in 2011, a Spanish software company with a strong presence in North America, we became a global leader in medium voltage & grid automation.

### Reinforcing leadership in Low Voltage distribution and Industrial Automation & Control

- We 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 Delixi in China, Conzerv in India (2009) and Steck Group in Brazil (2011).
- We reinforced our Industrial Automation & Control portfolio with Citect in 2006, RAM Industries in 2008, Cimac and SCADA group in 2010 and Leader & Harvest in 2011.

## 3.3 Recent external growth

The Group was particularly active in 2011, acquiring, in line with its expansion strategy, several small- and medium-sized companies in three fields of opportunities:

- increasing its solution expertise;
- growing its presence in new economies;
- gaining market shares to reinforce its global leadership.

### Recent acquisitions in Solutions

We have recently made several acquisitions in our Solutions business, which focuses on technologies that can be combined and integrated with existing infrastructure to better manage our customers' energy requirements.

- In March 2011, we acquired Summit Energy, a leader in outsourced energy services and sustainable development services for industrial and commercial enterprises and institutions.
- In April 2011, we acquired Lee Technologies, a leading service provider for data centers in North America.
- In August 2011, we acquired Telvent, a leading provider of software and IT solutions with high added value for the real-time management of critical infrastructures in the electrical, oil and gas, and water treatment sectors, as well as for transport. This acquisition enabled us to offer a high added-value software platform complementary to our equipment control and software management offerings via a smart grid and efficient infrastructures.



### Recent acquisitions in new economies

- In January 2011, we acquired the majority of the share capital of APW President Systems Limited, a company specializing in the design and manufacture of standard or custom-built electric bays and cabinets for use by telecom and information technology end-users in India.
- In March 2011, we acquired the assets of DIGILINK, a leader in structured cabling system supply in India.
- In June 2011, we acquired Leader & Harvest, one of the leading suppliers of medium voltage variable-speed drives in the rapidly growing Chinese market.
- In July 2011, NVC Lighting, a Chinese company, and Schneider Electric entered into a partnership aimed at enabling us to increase our presence in small cities in China through the use of NVC Lighting's well-established and widespread distribution channels. During this same month, we also acquired the Steck Group, a key Brazilian player in the fast-growing final low-voltage segment serving residential and commercial buildings in Brazil as well as its industrial sectors.

## 3.4 Change management through company programs

We deployed our long-term strategy consistently in the past decade through a series of accretive company programs.

**2001-2008:** launch of change management program NEW2004, followed by new<sup>2</sup> in 2005, with the aim of formalising consistent and coordinated objectives for all employees.

**2009-2011:** a new company program called "One" introduced to support Schneider Electric's strategic goals. One, the successor to new<sup>2</sup>, continues the focus on customer satisfaction (Customer 1) and staff development (1 Team). The program also includes strategic initiatives to strengthen Schneider Electric's leading position on its market:

- becoming a solutions provider (1 Solution Provider);
- giving priority to new economies (1 Leader in New Economies);
- simplifying processes in order to act as a single, unified entity (1 Company).

One represented a significant step forward in our transformation. With One, we re-organized into five customer-focused businesses and strengthened our integrated portfolio to establish ourselves as

a global leader in energy management, becoming a leading provider of high value-added solutions. During the course of the program, solutions increased as a percentage of our revenues, accounting for 37% in 2011. Our position within new economies was also significantly strengthened. We believe we emerged from One leaner, simpler and more agile. Under One, we simplified our supply chain, reduced the number of our active brands to 10 (excluding brands from recent acquisitions and in the mid-market) from 120 such brands in 2008, generated almost EUR1 billion of productivity savings and increased operational efficiency by reducing our support functions costs to revenues ratio by 1.5 points.

### 2012: *Connect*, our new company program

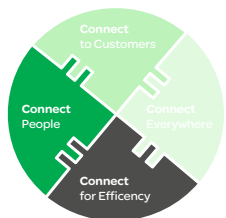
Following our successful strategic transformation, we designed and launched Connect, our new company program for the 2012-2014 period. Connect is another major step in the ongoing deployment of our strategy. With Connect, we intend to extend the strong foundation of One to all of our strategic levers: products and solutions, mature and new economies and people, while continuing to drive efficiency at all levels.

## Connect, Schneider Electric's new company program (2012-2014)



**Connect, Schneider Electric's company program for the 2012-2014 period, is another major step in the consistent deployment of the Group's strategy. With Connect, the Group will extend the strong foundation of One to all its strategic levers: products and solutions, mature and new economies, people, while continuing to drive efficiency at all levels.**

The new 3-year plan covering 2012-2014 includes four major initiatives:



- **Connect to Customers:** this initiative aims at further improving the performance of its business models in order to be a leader in products and in solutions, and to adapt the different dimensions of the customers and partners experience with Schneider Electric when they interact with the Group:
  - **Partner Excellence:** continue to grow in products by creating new opportunities for Distributors and Partners, in a win-win relationship leveraging the strength of One Schneider Electric and leading product innovation. This initiative will further reinforce the Group's **leadership** position in the Product Business.
  - **Solution Excellence:** leverage the Group's unique value proposition with its solution capabilities, improve equipment cost competitiveness, reinforce execution while being more selective on projects, and boost service sales. This initiative will temporarily impact the Solution Business's growth but will significantly raise its **profitability** and **return** profile.
  - **Tailored supply chain:** bring the supply chain to a new level of excellence by aligning organisation to customer needs and providing differentiated manufacturing and delivery models for each customer segment. This initiative should lead to higher **customer satisfaction** and **inventory efficiency**.
- **Connect Everywhere:** this initiative is designed to identify key investment areas in new economies and create new opportunities in mature countries to be a leader in both types of geographic areas.
  - **Grow in new economies:** expand geographical coverage by increasing the Group's presence in the fast-growing second-tier cities and further penetrate these markets with mid-market segment offerings supported by strong brands with wide local coverage. The initiative will continue to support the **long term growth potential** of new economies in Schneider Electric's portfolio.
  - **Grow in mature countries:** grow activities that develop independently from traditional capex trends with a focus on opex-driven opportunities and new businesses. This includes developing installed base and energy management services, capturing the smart grid opportunity while investing in new businesses in areas such as electric vehicle charging infrastructure, home automation and carbon management. With this initiative, the Group aims to **create its own growth momentum** in mature countries.
- **Connect People:** the target of this transformation is to create a culture and an environment for the Group's employees' development and performance.
  - **Engaging leaders:** train **leaders** with Schneider Electric University and promote Diversity.
  - **Engaged individuals:** support **employee development** via training, empowerment and cross-business mobility.
  - **Engaging workplace:** step-up **collaboration & communities**, regroup locations, ensure safety at work, develop the Schneider Way.
- **Connect for Efficiency:** this initiative includes the actions aiming at writing a new chapter in the Group's history of profitable and responsible growth.
  - **Industrial Productivity:** raise the bar with tailored supply chain and drive significant industrial productivity through purchasing, footprint optimisation, supply chain flow re-design and transportation rationalisation. This will be supported by a best-in-class planning process by customer segment and an IT system aligned with supply chain segmentation.
  - **Support Functions Efficiency:** leverage scale to drive **savings** on support functions, through non-production purchases rationalisation, more globalisation of corporate functions, simplification of business and country level set-up, and implementation of acquisition synergies. At the same time, the Company will continue to **invest** in commercial presence and research and development to support future growth. Total R&D expenses to revenues ratio is expected to move towards 5% of revenues going forward.
  - **Planet & Society Barometer:** maintain **best-in-class standard** in environmental sustainability and social responsibility. Management compensation is partly tied to barometer performance.





## Connect: Key financial targets for 2012-2014

With *Connect*, Schneider Electric expects Group performance to reach a new level of excellence by 2014.

Key targets		By 2014
Services growth	→	Outgrow the rest of Group by more than 5 points (on organic basis)
Solutions profitability	→	At least 2 points improvement on the adjusted EBITA margin
Industrial productivity	→	EUR0.9bn to EUR1.1bn of cumulated gross productivity
Support functions efficiency	→	At least 1 point decrease of support functions costs/revenues ratio* (excl. scope and currency, net of investments)
Inventory efficiency	→	Inventory / revenues ratio reduced by ~2 points

\* Assuming no severe disruption of the global economy.

During 2012, and despite difficult business conditions, these indicators have been showing progress on the whole:

- Services recorded a positive start with organic growth of 4%, or 5 points above the rest of the Group;
- Solutions saw their profitability improve by 1 point, to ~10% versus ~9% in 2011;

- Industrial productivity reached EUR289 million, a performance in line with expectations, taking into account the negative production volume recorded;
- the support functions costs/revenues ratio posted a decrease of 0.2 point, excluding scope and currency;
- Inventory efficiency improved with a 1 point drop in inventory to revenues ratio.

### Ambitious long term financial targets for attractive shareholder returns

Over the long term, the key Company priorities remain focused on profitable growth, cash conversion and capital efficiency. The management views the *Connect* program as another opportunity to improve the Group's through cycle performance on those metrics.

#### Across the business cycle <sup>(1)</sup> performance targets:

- **Revenues:** average organic growth of GDP + 3 points.  
By offer types, revenues growth will be driven by Solutions with a targeted profile at GDP + 3 to 5 points. The Group intends to maintain solid Products growth, at a rate of GDP + 1 to 3 points.  
By geographies, growth will continue to be driven by New Economies with a targeted growth profile at GDP + 6 to 8 points.

For each of these indicators, the reference basis is world GDP growth on a real basis and at market foreign exchange rates;

- **Adjusted EBITA:** margin between 13% and 17% of revenues;
- **Cash conversion:** ~100% of net profit converted into free cash flow.

#### Across the business cycle capital efficiency targets:

- **ROCE<sup>\*\*</sup>:** between 11% and 15%;
- **Dividend:** 50% payout of net income;
- **Capital structure:** retain a strong investment grade credit rating.

Capital Employed is defined as: shareholders' equity + Net financial debt + Adjustment for associates and financial assets.

(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 forecasted.

\*\* ROCE is defined as: adjusted EBITA after tax/Average Capital Employed.



## > 4. Research & development



The R&D strategy of Schneider Electric is designed to consolidate our global leadership in critical technologies of its businesses while supporting the specific needs of each market by the Group and the strategic development of solutions.

To support innovation, the Group invests nearly 5% of its revenue in R&D each year.

### 4.1 A global R&D organization

The R&D organization is structured around four global hubs (China, India, the Americas and France) and their satellite sites (in the countries) and a central function.

The central R&D function:

- coordinates innovation on the common technology platforms of the 5 Group businesses;
- defines and oversees the implementation of tools and design methods, with a particular focus on systems engineering (including StruxureWare).

The four global hubs:

- develop products/solutions for all Group businesses (global products);
- collaborate with the organization in each country to specify and develop specific offers;
- develop strategic expertise and innovative technologies for the entire Group, both internally and in partnership with research organizations. This will drive the development of the products of tomorrow.

Governance of all of these activities is ensured by a council of the Chief Technology Officers ("CTO") of each business and the CTO Group. The medium-term technology strategy is validated annually by the Executive Committee.

StruxureLabs:

To improve the effectiveness of solutions development projects, the Group has established global structures responsible for defining

pre-assembled solutions for the market segments targeted by Schneider Electric. These "StruxureLabs" both better meet all the market-specific needs of our customers (hospital, mines, utilities, etc.) as well as accelerate the adoption of the Group's technology platforms. These pre-assembled solutions are composed of predefined bricks assembled into a tested and validated architecture to ensure rapid deployment and risk control. This enables StruxureLabs to combine the power of global technology platforms and focus on the specific characteristics of each market segment.

#### Diversified partnerships

In addition to pursuing our own innovation and R&D initiatives, we pursue an active R&D partnership policy in collaboration with prestigious universities and institutions, such as Shanghai Jiao Tong University in China, the MIT Media Lab and Georgia Tech in the United States, the French Alternative Energies and Atomic Energy Commission (*Commissariat à l'énergie atomique et aux énergies alternatives*), INRIA (the National Institute for IT and Automation Research in France), *École des Mines ParisTech*, *Institut National Polytechnique de Grenoble* and *Université Joseph-Fourier* in France and the Monterrey Institute of Technology in Mexico.

We are also involved in numerous collaborative projects with academic and industrial partners in France and the rest of Europe, specifically in the areas of energy efficiency and environmental protection. Partnerships are also made possible by bilateral agreements or support for professorships.

### 4.2 Launch of an integrated software suite

StruxureWare is developed within the transverse program EcoStruxure, which defines a common architecture to efficiently and flawlessly integrate our various technologies. Integration enables us to provide transverse solutions combining energy management and process management in each market segment.

StruxureWare, launched late 2011, is an integrated software suite covering all operational management and global enterprise management needs: from process optimization to environmental reporting (from shop floor to top floor). The suite combines Schneider Electric's historical control solutions and complementary solutions from recent acquisitions.

In 2012, StruxureWare launch was extended to all of the market segments served by Schneider Electric. For each segment, a specific version of the suite was defined by combining standard or specific applications or specific extensions for each market segment. (The control application is usually very specific to each segment, while the resource management application is generic.)

Finally, each segment solution is developed in several reference architectures that address the main issues of each segment. These reference architectures offer customers implementation with controlled risk and accelerated achievement of targeted operational and financial results.



### 4.3 Achieving the platform strategy

The platform strategy initiated late 2011 defines, within targeted development areas, the core technologies that will be developed jointly (between all businesses) and the components that will remain under the responsibility of a single business. This approach seeks, in addition to efficiency gains, to increase Schneider Electric's capacity to innovate:

- better alignment of R&D resources and development programs;
- faster integration of acquisitions, as demonstrated by StruxureWare;
- increased ease of integrating third-party products into Schneider Electric solutions due to the definition of interoperability standards.

In 2012, our Innovation and Technology Board proposed the extension of the platform strategy to six major areas, which represent 80% of the technologies that are common to all businesses.

In addition to traditional areas such as embedded control or supervision control (SCADA), the platform strategy includes emerging domains such as "operational intelligence". A critical link between business systems and control systems, operational intelligence combines data from these two levels to optimize the operational performance of the Company.

### 4.4 Large scale collaborative projects

In parallel to major internal programs like EcoStruxure and the platform strategy, we are also involved in numerous collaborative projects with third parties.

#### Collaborative energy efficiency program

The **HOMES** program was completed at the end of 2012. HOMES is the largest European program addressing energy efficiency of buildings. Schneider Electric led the program for four years, with a budget of EUR88 million bringing together 13 academic, technology and usage specialist partners. The integration of the developed technology and prototypes began this year and will continue in 2013. The program has contributed a large number of results:

- standards and regulations: changes to EN15232 on technical building systems, labels, new construction regulations or administrative regulations for operational site;
- lobbying the directorate of the European Union and national governments to push SAEI (Site Actual Energy Index), the sites instrumentation plan and prioritization of energy efficiency investments;
- energy savings, return on investment, job creation and forecasting;
- training for engineering, technical, or primary schools with the "mini homes" model.

The program also opened new fields of investigation, which our teams are now preparing and which will enable new collaborative programs and partnerships.

#### Projects around Smart Cities

In 2011, three new Smart Grid projects were launched. In 2012, the theme was **Smart Cities**:

**AMBASSADOR**: European project led by Schneider Electric, with 15 partners over a period of four years. This project proposes a solution to define optimal energy management strategies in eco-districts. The project will be based on three test sites: Chambéry, Athens and London.

**ODYSSEUS**: European project led by Schneider Electric (Telvent), with nine partners over a period of three years. This project aims to develop a software system to support the overall management of the supply, demand and storage of energy in urban areas. The software will be based on the development of a dynamic energy profile card attached to each node of the network. Neighborhoods in Rome and Manchester will illustrate the results of the project.

#### Co-innovation with respect to electric vehicles

In terms of charging terminals, the important lines of research for us and our partners are:

- ease of charging, which is one of the key factors in the public's acceptance of electric vehicles;
- induction charging, a wireless solution, will make charging much easier for users. Studies and initial experiments carried out have resulted in an innovative prototype, which will be tested in a Renault vehicle in the months to come;
- development of standardized offers thanks to two collaborative projects, one French (CINELLI) and one European (WIC2IT).

#### Contribution to communication standards

We are one of the most active members of the ZigBee alliance and are particularly involved in the proposal of a protocol called Green Power, a radio communication standard with extremely low energy consumption that can be used in self-powered devices (e.g., by solar power).

In August 2012, the ZigBee alliance formally accepted the Green Power standard, and it is currently being integrated into the Home Automation and Building Automation applications. This will ensure broad adoption of this protocol and the interoperability of the network of diffused sensors.

### Supporting sustainable development

Thanks to funding from the French Environment and Energy Management Agency (ADEME), the thermodynamic solar power plant project for "off grid" villages has moved into its operational testing phase. The two sectors are very advanced from an engineering stand point: capturing solar energy, thermal

storage, thermodynamic generator, power electronics, controls, etc. Additional water purification functionality rounds out energy production. A full-scale installation is being built on the CEA site at Cadarache, which in 2013 will reinforce the expected performance. This will be done before the actual implementation expected in 2014, first in Africa.



## 4.5 Human capital

In 2011, we launched a program to develop our competence networks. More than 120 internal networks of expertise are in place. Each of the 11,000 employees who are directly involved in research and development or technical engineering operations in 26 countries and over more than 70 sites will benefit from collective approaches to sharing, nurturing and capitalizing on expertise.

This program is part of a long-term vision to increase our technological leadership. We built this program around areas of formally identified strategic competences, in order to:

- provide the men and women in R&D a motivating framework in terms of recognition and development in the Company;

- help improve the time-to-market of our programs by the injection of resources and core competences;
- better and more quickly anticipate our development in view of the trends and weak signals in the area;
- structure our internal and external competence plans (including through participation in structured research projects and partnerships).

## 4.6 Financing innovative startups

In 2000, Schneider Electric created an investment structure called Schneider Electric Ventures to invest in high-tech startups whose innovations fit with the Group's future development.

In 2010, Schneider Electric Ventures became Aster Capital with the launch of a new capital investment fund to finance innovative startups operating within the areas of energy, new materials and the environment. This new fund received a capital subscription of EUR105 million from Schneider Electric (EUR40 million), Alstom (EUR30 million), Solvay (EUR15 million) and in 2012 by the European Investment Fund (EUR20 million), a benchmark financial partner in Europe.

The mission of Aster Capital is to purchase minority interests in innovative startups in the fields of energy and the environment based in Europe, Israel, North America and Asia. These investment vehicles constitute a source of particularly productive partnerships and have forged contacts with more than a thousand small and mid-sized businesses around the world each year. In 2012, four new investments were realized, joining the three companies already in the portfolio: Optiréno, Ioxus and Avantium.

Aster currently still holds 11 equity interests in the companies Solaire Direct, Jet Metal Technologies, Tronics, Casanova, Tiempo, Ordinal Software, Teem Photonics, HBA, Fluidicon, Agilence and ConnectBlue.

### Lucibel – EUR1.5 million investment in June 2012

The French company Lucibel develops and markets innovative LED (Light Emitting Diode) lighting solutions combining energy savings, durability and quality of light, intended for communities, professionals and individuals. This company has already established a first partnership with the LifeSpace Asia Pacific division and initiated cooperation agreements with the Buildings organizations of different countries.

### EcoFactor – USD2 million investment in September 2012

EcoFactor has developed an intelligent solution to optimize energy consumption of residential buildings through dynamic management of heating and air conditioning while maintaining a level of comfort. The investment in this American company was supported by the interest of the LifeSpace North America division for their solution, particularly in the framework of the Efficient Home project.

### SolarFuel – EUR4 million investment in October 2012

The production of renewable energy varies depending on weather conditions, which can generate surplus electricity. The German company SolarFuel proposes to convert this energy into synthetic gas. Its technology is already being rolled out in partnership with Audi, which is launching a CO<sub>2</sub>-neutral car model powered by this "e-gas".

### BuildingIQ – USD2 million investment in November 2012

The system proposed by the American company BuildingIQ improves the energy performance of commercial buildings. This software is integrated into existing Building Management Systems and is capable of predicting needs and adjusting the parameters of heating, ventilation and air conditioning in real time in order to reduce energy bills by 15 to 40%. BuildingIQ has already concluded an initial trade agreement with the Buildings divisions in the United States and Australia.



## > 5. Organisational simplicity and efficiency

Schneider Electric's profile has undergone an unprecedented transformation in the past decade to become a global specialist in energy management.

Under the One company program (2009-2011), the organization was redesigned to better serve its customers. This transformation continues with the launch of Connect, the new company program for 2012 to 2014

### 5.1 A customer focused organization

#### Dual responsibility – technologies and end-markets

Schneider Electric is organized in five business segments. Each business segment is responsible for specific technologies as well as targeted end-market segments. This organization was designed in order to support our two business models: products and solutions. Selling products requires clear technological leadership, while selling solutions requires close customer relationships and a deep understanding of end users' needs.

- **Partner** (which was called Power until December 31, 2012 cf. page 18) business scope covers low voltage and renewable technologies. The business is in charge of integrated solutions for the residential and marine end-markets.
- **Infrastructure** business scope covers medium voltage and grid automation technologies. The business is in charge of integrated solutions for the oil & gas and utilities end-markets.
- **Industry** business scope covers industrial automation, control and sensors technologies. The business is in charge of integrated solutions for the OEMs, water treatment and mining, minerals & metals ("MMM") end-markets.
- **IT** business scope covers critical power and cooling technologies for data centers. The business is in charge of integrated solutions for the data centers and financial services end-markets.
- **Buildings** business covers building automation technologies. The business is in charge of integrated solutions for hotels, hospitals, office buildings and retail buildings.

Each of the five business segment manages its R&D, marketing and sales teams and is responsible for its global results.

A number of 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 three 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 six support functions, now known as Global Functions:

- Finance;
- Marketing;
- Supply chain;
- Human resources;
- Strategy & Innovation;
- Information systems.

A substantial portion of the Global Functions' costs is re-allocated to the businesses using distribution keys or application bases that are generally defined annually.

- **Specialization:** in each country, each business has its own sales force and local leader as soon as it reaches critical mass. It also has a specialized front office in each host country to respond more effectively to customer demand for specific expertise. Each business segment 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 solutions can consist of products coming from different business segments and in order to define a single point of contact for customers, each business segment is responsible for solutions in certain defined end-markets. Over the course of 2012, efforts continued to focus 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.

## OVERVIEW OF THE GROUP'S STRATEGY, MARKETS AND BUSINESSES

### ORGANISATIONAL SIMPLICITY AND EFFICIENCY

- **Mutualization:** The most significant organizational evolution in 2012 involved the creation of 3 Operational Regions: Global Operations, North America and China. These Regions are split into 17 zones with empowered Zone Presidents. These changes also strengthened the role of the Country Presidents, which are appointed in each country to oversee all delegated businesses (and associated income statements), monitor the full transversal P&L of the country, deploy Schneider Electric's strategy in the country (including all local cross-functional topics such as increasing cross-selling among businesses) and pooling of local back-office resources. These resources are gradually brought together in each country or region under the Country President's supervision and can include multiple local support functions ranging from administration to project execution, depending on the situation. In addition, the 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.

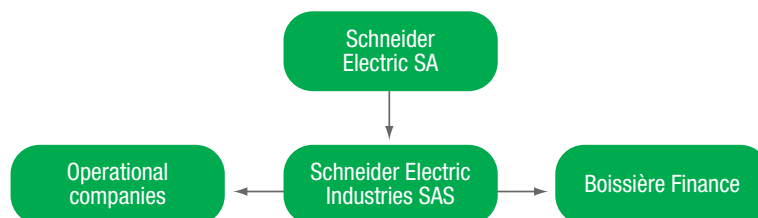
- **Globalization:** Major support functions that are not specific to a given country or business are gradually globalized to increase experience and leverage a significant scale effect around cost and service. Manufacturing and supply chain operations, areas of shared services or expertise (such as finance or human resources), information systems, strategy & innovation as well as certain marketing functions (e.g. web services) are now included within the Group's Global Functions. The various Global Functions have followed their structuring and rollout approach at a global level and since early 2011. Global Supply Chain was a key topic over the course of 2012, focusing on the areas of Global Productivity, Customer Differentiation and Customer Satisfaction.



### Geographic dimension and legal structure

The Group's goal is to establish, where ever 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 (see pages 219 and following).

Boissière Finance is the Group's centralized cash-management structure; it also centralizes hedging operations for all subsidiaries.

## 5.2 A more modular approach to information systems

In 2012, Schneider Electric launched a 3-year strategic IT plan in line with the Company strategy and Connect company program. The IT Strategy for Schneider Electric is comprised of four strategic directions:

- **Standardize where it creates value:** six IT domains as modular as possible and which can be easily integrated for agility and focused differentiation ;

- **Make Diversity Efficient:** ERP federation with coordinated data achieved by minimizing the number of ERP migrations by replacing only when necessary, ultimately aiming for a consistent ERP landscape per country ;

- **Working Smarter:** Leverage a global IT platform to provide an interface accessible anywhere and anytime by end users ;

- **Run IT as a Business:** Clear governance rules to run IT with efficiency, speed and security.



### 5.3 Worldwide redeployment of production and supply chain resources

Schneider Electric has more than 250 plants and 100 distribution centers around the world for whom customer satisfaction is the top priority.

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

- 1) achieve a level of quality and service that meets or exceeds customer expectations;
- 2) obtain cost competitive products while continuing to deliver strong and consistent productivity;
- 3) develop system speed and efficiency and limit production sites' risk exposure (currency parity, geopolitical risks and changes in cost factors);
- 4) optimize capital employed in manufacturing operations.

A 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 has re-balanced and optimized its manufacturing and supply chain resources.

In Western Europe, the United States, Japan and Australia, adaptation plans continued to be deployed with a focus on specializing production and supply chain units and reducing the number of sites.

#### Continuous improvement on a global scale

At the same time, an industrial excellence program called Schneider Production System (SPS) has been rolled out in all plants to substantially and continuously improve service quality and productivity. The program also takes environmental criteria into account. 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 lift the operational performance of all its plants to the same high standard.

Schneider Electric's plants and products comply with increasingly extensive and stringent European regulations and with international standards governing environmental protection in all host countries. In many cases, the Group anticipates future standards. In 1992, Schneider Electric defined a formal environmental policy, which was revised in 2004 to take account of changes both inside and outside the Group. This policy is designed to improve production processes, promote eco-design, integrate customer expectations into the

Group's environmental protection approach and raise awareness among all employees and partners about environmental protection and energy efficiency. In order to limit risks related to the environment generally, the Group has implemented an ISO 14001-compliant process to continuously improve the environmental performance of its plants and supply chain centers.

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 risks identified following audits led by an external firm of recognized 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 in another Schneider Electric site.

#### The segmented response to customer needs

In 2012, Schneider Electric launched the "Tailored Supply Chain" program as part of the Connect company program, 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.).

Six initiatives were defined to support the transformation of the supply chain:

- **purchasing:** step up purchasing to drive proactive planning of procurement;
- **footprint optimization:** manage critical component's footprint to improve lead-time to customers;
- **supply chain flow redesign:** reduce lead-time through optimization of plant and distribution center footprint and flow design;
- **transportation rationalization:** increase partnerships with selected carriers to improve customer service;
- **industrial planning:** build best-in-class planning process by customer segment;
- **IT capability:** align information systems strategy with this segmentation.

This approach required a more dynamic industrial strategy around how we serve our clients, how to configure our products, equipment and services for our customers and how to deliver to those customers, while at the same time, simplifying the way we work and therefore focus on creating value for our customers by streamlining our decision-making processes and organizational structure.

This led to the announcement of a new Industrial Organization for 2013, operating around eight regions (Europe, CIS, China, India, Pacific, Asia, North America, South America) which groups all of Schneider Electric Industrial activities together in these geographies. In addition, this also led to the verticalisation of all Purchasing activities to simplify and unify its contact with Suppliers.



## 5.4 Purchasing: selection and internationalization

Purchasing corresponds to around 50% of consolidated revenue and plays a crucial role in the Group's technical and business performance. As part of its program to optimize Purchasing, the Group has sought to source a significant portion of its purchases from the top-performing suppliers ("recommended" suppliers) and aims to increase local sourcing in the new economies to more than 50%.

Schneider Electric primarily purchases prefabricated components, raw materials (silver, copper, aluminum, steel and plastics), electronic and electrical products and services. The

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 expertise, their innovative capacity and their commitment to corporate social responsibility (CSR). As a signatory to the United Nations' Global Compact and in view of its recommendation of ISO 26000 to its principal suppliers, Schneider Electric encourages its suppliers to join this sustainable development process and its continuous improvement.

## > 6. Risk Factors

As described in Chapter 3.10 Corporate Governance, Schneider Electric regularly analyses the risks and threats it faces, which has revealed six 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.

### Risk factors related to the Group's business

#### 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 41% 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 it 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 the section entitled "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).

The protection provided by these measures may nevertheless prove to be inadequate.





## OVERVIEW OF THE GROUP'S STRATEGY, MARKETS AND BUSINESSES

### RISK FACTORS

#### **The growth and success of the Group's products depend on our ability to develop new products and solutions and adapt to market and customer needs**

The sectors in which Schneider Electric operates have experienced rapid and significant changes due to the introduction of innovative technologies. Introducing new products, systems and services, which Schneider Electric must do on an ongoing basis to meet customers' needs, requires a significant commitment to research and development, which may not always lead to successful results. The Group's revenue and margins may suffer if we invest in technologies that do not function as expected or are not accepted in the marketplace or if our products, systems or service offers are not brought to market in a timely manner, become obsolete or are not responsive to our customers' requirements.

To meet these challenges, the Group has an R&D budget which, at 4 to 5% of revenue, is among the highest in the industry. R&D and forward-looking engineering involves some 11,000 employees around the world, a number of them in development centers located in over 26 countries. This ongoing commitment has allowed Schneider Electric to accelerate time to market and leverage the technology of strategic partners with whom we have also forged alliances to expand our line up and geographic coverage. The Group has brought together all of its electrotechnical, electronic, electromechanical, software and other technical competencies by creating technology parks in China, the US, France and Japan.

Support centers have also been established in Mexico, India and China to provide the technology parks with additional skills and development capacity at a very competitive cost.

The Group's business growth depends on its ability to develop, deepen and enhance customer relationships. The Group must constantly offer customers innovative solutions built around high-quality products and solutions incorporating leading-edge technologies that are closely tailored to customer needs and expectations. However, the Group does not have any exposure to a particular customer. Our ten largest customers represent less than 25% of total revenue.

Increasing customer satisfaction rates represents an important source of competitive advantage for Schneider Electric. We closely track the results of the quarterly surveys conducted in more than 80 countries among all types of customers. Improvement targets are set for each country, backed by specific action plans and progress monitoring procedures.

#### **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 2012 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 Management Board and, in some cases, the Supervisory Board.

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 six 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 Management Board and Supervisory Board.

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 five 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 7.7% at December 31, 2012, slightly down compared to the 2011 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 in 2012 (CGU), i.e. the Power, Infrastructure, Industry, IT, Buildings and CST businesses. Details on asset impairment are provided in note 1.11 to the consolidated financial statements (Chapter 5).

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 is dependent upon hiring and retaining highly qualified management and technical personnel**

Competition for highly qualified management and technical personnel is intense in the Group's industry. Future success depends in part on the Group's ability to hire, assimilate and retain engineers, sales people and other qualified personnel, especially in the area of energy efficiency solutions.

In line with employee engagement and retention strategies, the Group put in place a structured onboarding program referred to as "Plug-In" which standardises best practice for orientating new employees as well as employees changing job roles. A HR digitization program encompassing unified e-learning management systems, global mobility through a liberated job market and performance management help keep employees engaged. A structured global mentoring program was launched to support current processes already in place to mentor employees.

New enhanced job roles and critical competencies definition for every employee were launched in alignment with the Group strategy to keep employees on the same page as the business. It allows managers to anticipate their needs for certain key

competences and to implement HR solutions to recruit or improve these competences. Group employees will also be able to benefit from this process by acquiring new knowledge, vital for the Company's success.

The Group's success also rests on a policy of actively promoting diversity, in terms of both gender and nationality with hiring practices and setting up of online communities for employee engagement, retention and collaboration.

The Group's human resources strategy is designed to create a motivating working environment. A "Cool Site" program was launched globally to promote engaging workplaces which support the work environment at the Group. Specific policies have also been developed covering international mobility, career development, training, compensation and managing talent.

The Group's expatriates help prepare the future of its business, build local teams and assemble the necessary skill sets in targeted regions. They are tasked with identifying and preparing local successors. The Group places considerable emphasis on training to expanding its skills base and retaining employees, thanks to the Schneider Electric University, its business academies and its leadership programs.

## **Industrial and environmental risks**

### **Defective products or design flaws may cause harm to persons and property and subject us 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 our 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 our products or harm our 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 equipment. At the end of 2009, the Group launched a broad recall campaign concerning a range of low voltage capacitors produced between 2004 and 2008. This campaign continued throughout 2010 and 2011 and was concluded in this first half of 2012 in accordance with schedule announced in the 2011 report. Another broad recall campaign that is still ongoing involves our global recall of Vigi Compact NS/NSX circuit breakers produced between 2009 and 2011, which began in 2011 and was continued in 2012. It is expected to be concluded in 2013. No broad product recall was begun in 2012.

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

Provisions for product risk totaled EUR410 million as of December 31, 2012 (see note 23 to the consolidated financial statements).

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

Our plants and products are subject to extensive and increasingly stringent environmental laws and regulations in the countries in which we operate.

To limit risks related to the environment in general, the Group is involved in a process to continuously improve the environmental performance of its plants and products. In 1992, Schneider Electric drafted a formal environmental policy. This policy is designed to improve production processes, promote eco-design, and integrate customer expectations into our environmental protection approach. This policy also aims to identify, assess and prevent environmental risks, in order to guarantee full compliance with all environmental laws and regulations applicable to the Group's businesses, particularly those in force in the European Union and considered more rigorous (notably the WEEE, RoHS directives and REACH Regulation). We record environmental provisions when the risks can be reliably measured or it is probable that clean-up work will be performed and the related costs can be reasonably estimated. Provisions for environmental risks totaled EUR70 million as of December 31, 2012. If no risk has been identified, Schneider Electric will not estimate the financial cost of environmental risks. We expect our spending on environmental compliance programs to increase as a result of changes to existing environmental regulations and the introduction of new regulations.

It is possible that Schneider Electric may 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 we are not responsible for the breaches, such as in



## OVERVIEW OF THE GROUP'S STRATEGY, MARKETS AND BUSINESSES

### RISK FACTORS

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, the judicial or regulatory authorities could require us 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.

### Information systems risk

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The Group operates, either directly or through service providers, a wide range of highly complex information systems, including servers, networks, applications and databases, that are essential to the efficiency of our sales and manufacturing processes. Failure of any of these hardware or software systems, a fulfillment 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 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 particular, in the last few years, the Group has developed an information system under SAP (bridge), which it started to roll out in 2008. This roll-out process was carried

out fully or partially in 17 countries in 2009 and 2010, and has continued in France and the United States since 2011, depending on the strategic, technical and economic priorities in those two countries. Brazil will be added to this list of countries in 2013.

In view of the project's complexity, extensive functionalities and its worldwide deployment, the Group has set up a dedicated governance and cost control structure to manage these issues and limit the related risks.

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.

### Market risks

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#### Interest rate risk

The Group is exposed to risks associated with the effect of changing interest rates. 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, 2012, 86% of the Group's gross debt was fixed rate.

Maturities of financial assets and liabilities are presented in note 26.4 to the consolidated financial statements.

A 1% increase in interest rates would have a positive impact of around EUR26 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, 2012.

#### The Group's international operations expose it to currency exchange risk

Due to the fact that a significant proportion of transactions of Schneider Electric are denominated in currencies other than the euro, the Group is exposed to currency risk. 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 all transactions denominated in a currency other than their functional currency. More than twenty currencies are involved, with the US dollar, Hong Kong dollar, British pound and Russian Rubles representing the most significant sources of risk. 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, 2012 (Chapter 5).

In 2012, revenue in foreign currencies amounted to EUR18.1 billion, including around USD6.1 billion 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% increase of the euro compared to the US dollar would have a negligible impact on operating margin and a translation effect of EUR40 million on EBITA.

### Equity risk

Exposure to equity risk primarily relates to treasury shares. 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, 2012.

In 2012, purchases of raw materials totaled around EUR1,900 million, including around EUR1,100 million for non-ferrous and precious metals, of which roughly 56% 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, 2012, the Group had hedged positions with a nominal value of EUR236 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, 2012, the Group had access to cash and cash equivalents totaling EUR3.7 billion. As of December 31, 2012, the Group had EUR2.4 billion in undrawn confirmed lines of credit, of which EUR2.3 billion matures after December 2013.

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 A3 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 and material adverse change clauses. As of December 31, 2012, Schneider Electric SA 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, 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, for the majority of contracts, and this event triggers a downgrading of the Company's rating. As of December 31, 2012, EUR5.7 billion of the Group's financing and lines of credit had these types of provisions.



## Legal risks

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### **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. Those regulations include trade restrictions, tariffs, tax regimes and product safety standards. 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. 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.

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

Our future success depends to a significant extent on the development, protection and maintenance of our intellectual property rights. Third parties may also infringe our intellectual property rights, and we may have to expend significant resources monitoring, protecting and enforcing our 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.

To mitigate this risk, the patents developed or purchased by the Group are tracked by the Industrial Property team within the Finance & Control - Legal Affairs Department. All intellectual property queries are centralized and managed by this team for the whole Group and in coordination with the other Finance & Control - Legal Affairs Departments it ensures the Group's interests are defended throughout the world. The same approach and organization applies for the Group's brand portfolio.

## Litigation

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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 the defendants were responsible for certain of the alleged offenses and that certain of the plaintiffs' claims were admissible. 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 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 legal expert in their entirety on the basis of such reports drawn up by Deloitte. Schneider Electric and its Belgian subsidiaries Cofibel and Cofimines were in turn held civilly liable for the actions of their senior executives who were found liable in these proceedings, with Schneider Electric paying the legal expenses of the former executives involved to the extent not covered by insurance. After a settlement agreement was signed with a group of plaintiffs, the case remains pending before the Brussels Appeals Court, due to appeals against parts of the March 2006 ruling as well as a ruling made in 2011 by the Court of First Instance regarding the admissibility of the plaintiffs' claims.

In connection with the divestment of Spie Batignolles, Schneider Electric booked provisions to cover the risks associated with certain major contracts and projects. Most of these provisions were made in 1997. Provisions were also booked for the remaining risks, based on management's best estimate of their expected financial impact.

Nevertheless, certain new files implicating the Group for Spie Batignolles' past activities could still arise and result in costs.

Schneider Electric, in addition to other companies operating in the same industry, has also been involved in legal proceedings initiated by the European Commission with regard to an alleged agreement concerning gas insulated switchgears ("GIS") resulting from the activities of two former subsidiaries operating in the high voltage segment which were sold in 2001. Schneider Electric did not appeal the decision made by the Commission with regard to this matter on January 24, 2007, and was fined EUR8.1 million for which two-thirds reimbursement from its two former subsidiaries was recovered in 2012 after multiple legal actions. However, this decision, although provisionally executed is subject to appeal.

Also, in relation to the GIS disputes, on May 21, 2010, British company Power networks (formerly EDF Energy UK) launched a claim against the same companies, including Schneider Electric, for damages of GBP15 million in the High Court in London, England. This claim is currently being investigated and there were no significant developments in 2012.

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. Schneider Electric was investigated by the French judiciary in 2010 in relation to this report, which stated that the Group had entered into agreements with the Iraqi government between 2000 and 2004 under which surcharge payments totaling approximately USD450,000 are alleged to have been made to the Iraqi government, thus violating the provisions of the embargo in force at that time. After several priority preliminary rulings on the question of constitutionality, to date all rejected, and other procedural remedies, the public prosecutor's department submitted its indictment to the examining magistrate on December 18, 2012. In this indictment, 14 French companies, including Schneider Electric Industries, were referred to the court. The examining magistrate's ruling is expected in 2013.



However, it should be noted that following a request for judicial review issued by the company ErDF against Schneider Electric in July 2012 regarding a potential defect designated soft button (non-reset) affecting connection breakers (DB90) produced between 1990 and 2010, reliability testing is underway in the framework of conventional mediation between Schneider Electric and ErDF. The purpose of this testing is the statistical determination of the number of DB90s affected by this potential defect, as well as the product failure rate. The results of the testing, expected at the start of 2013, will orient the decisions concerning the product recall and how the resulting costs will be assumed. These costs may have a significant impact on the Group.

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 products and work contracts.

Although it is impossible to forecast 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 earnings of the Company and/or the Group.

## Insurance

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

This strategy entails:

- identifying and analyzing the impact of the main risks;
- preventing risks and protecting industrial equipment; definition and dissemination of protection standards for sites against the risk of fire and malicious intent, audits of the main sites by an independent prevention company, roll-out of a self-assessment questionnaire for the other Group sites;
- drawing up business continuity, in particular for critical sites;
- 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;
- maintaining the necessary insurance cover for the main risks facing Group companies under global programs. The Group carefully screens insurance and reinsurance companies and evaluates their solvency;
- optimization of financing for high frequency, low amplitude risks through retentions managed either directly (deductibles) or through captive insurance companies.

### Liability insurance

A new insurance program offering coverage and limits in line with the current size of the Group and its evolving risks and commitments was established on January 1, 2012, for a period of three years.

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

### Property damage and business interruption insurance

The global insurance program put in place on July 1, 2010 for an initial duration of two years was renegotiated as of July 1, 2012. This is an "all risks except" contract 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. The limit of indemnity under the global program is capped at EUR350 million per claim and specific limits apply to certain risks, such as natural disasters and machinery breakdown. These limits were determined on the basis of loss scenarios established by specialists and available capacity in the insurance sector.

Assets are insured at replacement value.

### Shipping and transport insurance

The insurance program that has covered all goods shipments, including between Group facilities, since 2009 continued in 2012. Following a Request for Proposal made in late 2012, this program will continue in 2013 with the same insurer.

### Erection all risk insurance

An erection all risk insurance program was set up on April 1, 2011 in order to cover the development of our services and solutions. This program, which aims to provide cover for damages to work and equipment for projects taking place at our clients' premises, was renewed for one year on April 1, 2012.

### 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. To extend guarantees and reduce budgets, the Group coordinates purchasing of local cover.



## OVERVIEW OF THE GROUP'S STRATEGY, MARKETS AND BUSINESSES

### RISK FACTORS

#### Self insurance

To optimize costs, Schneider Electric self-insures certain frequent, low-amplitude risks through two insurance captive companies:

- outside North America, a reinsurance captive company based in Luxembourg offers damage and civil liability coverage capped at EUR19 million per year;
- in North America, a insurance captive company based in the US (Vermont) is used to standardize deductibles for civil liability, workers compensation and automobile liability policies. These retentions range from USD1 million to USD5 million per

claim, depending on the risk. The maximum annual retention is USD15 million for civil liability 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 insurance plans, excluding premium paid to captives, totaled around EUR22 million in 2012.



## Sustainable development

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## > 1. Sustainable development at the heart of our strategy

Social and environmental commitments, governance, reducing CO<sub>2</sub> emissions, launching solutions that respect the planet, social changes, local and regional positioning, corporate citizenship, ethics, business and poverty – the challenges of sustainable development have never been as significant to Schneider Electric's customers and stakeholders as they are today.

The Group is committed to meeting energy challenges while practicing responsible corporate citizenship at all its locations, with measured improvement plans based on international standards of corporate social responsibility, with audited results that are shared transparently both internally and externally.

### 1.1 Schneider Electric's approach to sustainable development

#### Concrete, innovative, human commitment

Responsibility has always been a part of Schneider Electric's culture. Since the Sustainable Development Department was founded 10 years ago, this commitment has evolved in line with the Group's continuing innovation. The Group's sustainable development policy initially focused on internal issues, plus initiatives for the professional integration of French youth; now it also includes solutions that help meet today's energy challenges (energy efficiency and access to energy) as well as global environmental and societal responsibility.

Schneider Electric's commitment to offering sustainable and responsible solutions for its customers aims to:

- bring products and solutions to the market that waste less energy and promote environmentally sound production and consumption;
- bring energy to the 1.3 billions <sup>(1)</sup> people who have no access to electricity and provide sustainable economic development.

Schneider Electric's corporate commitment means dynamic societal and environmental responsibility, based on the Group's employees:

- responsible, ethical governance;
- sites and products that respect the environment;
- employee development;
- policies that support and develop the communities in which Schneider Electric operates.

#### From commitment to action

Schneider Electric has set out four principles to put its commitment into action (details on following pages):

- a continuous improvement process driven by the dynamic Planet & Society Barometer;
- regular and transparent communication (quarterly Planet & Society Barometer newsletter);
- open dialogue with stakeholders;
- an approach based on international standards, codes and global policies.

Schneider Electric uses its global human resources policies (see pages 70-82), external commitments (see pages 47-48), ethical code of conduct and the associated professional alert program (see pages 57-59) to strive for respect of **human rights** in every aspect: non-discrimination, abolition of forced labor, prohibition of child labor, freedom of association and the right to collective bargaining, health and safety, training, remuneration, social coverage, etc.

Schneider Electric extends this commitment to civil society through its community support and development program (see pages 83-91): the right to decent living standards (access to energy program and Foundation emergency relief programs), the right to education and training (training program for the populations at the base of the pyramid and integration program in France), local economic development (social investment funds and entrepreneurship support).

Schneider Electric works to share this vision with its partners (see pages 56-57), starting with its suppliers by encouraging as many of them as possible to sign the United Nations Global Compact and adopt the guidelines of ISO 26000.

(1) Source: International Energy Agency – World Energy Outlook 2012.



## Open dialogue with stakeholders

The diagram below is an overview of sector stakeholders proposed by Gimélec <sup>(1)</sup>, the French industry association for electrical equipment, automation and related services.



Schneider Electric engages in an open and continuous dialogue with each of its stakeholders. In particular, the Sustainable Development Department takes into account the comments, ratings and evaluations from stakeholders on the Group's sustainable development policies and programs. This feedback is integrated

into new progress plans throughout the company program and during the establishment of the Planet & Society Barometer every three years.

Please see also the list of the Group's primary external sustainable development commitments on page 50.

(1) Source: CSR Sector Reporting Guide, 2013.

Stakeholder	Dialogue	Department
Customers	<ul style="list-style-type: none"> <li>Quarterly customer satisfaction surveys</li> <li>Online publication of environmental information on products</li> </ul>	Quality, Customer Satisfaction and Eco-design
Financial	<ul style="list-style-type: none"> <li>Quarterly telephone conferences to present financial results, meetings and plenary meetings</li> <li>Regular meetings with individual shareholders</li> <li>Quarterly newsletters to shareholders</li> <li>Quarterly telephone conferences to present extra-financial results</li> <li>Response to extra-financial ratings questionnaires</li> <li>Individual meetings with SRI analysts</li> <li>Response to SRI analysts' questions</li> </ul>	Investor Relations and sustainable development
Partners	<ul style="list-style-type: none"> <li>Purchaser/supplier meetings</li> <li>Supplier's day</li> <li>Supplier qualification process</li> <li>Raising awareness about the challenges of the Global Compact and ISO 26000</li> <li>EcoXperts Program</li> <li>Participation in the Working Commissions and Groups on sustainable development of professional groups</li> </ul>	Purchasing, Energy Efficiency & Solutions and sustainable development
Social	<ul style="list-style-type: none"> <li>Quarterly employee satisfaction surveys</li> <li>Social dialogue with employee representation bodies</li> </ul>	Human resources
Technical	<ul style="list-style-type: none"> <li>Collaborative approach, creation and participation in competitiveness cluster initiatives, R&amp;D programs, university chairs and professional associations</li> <li>Active participation in international standardization bodies</li> <li>PEP ecopassport program</li> </ul>	R&D and Activities and Environment
Institutional	<ul style="list-style-type: none"> <li>Adhesion to and promotion of the Global Compact</li> <li>Relationships with authorities, legislators and the European Commission, especially in the field of energy efficiency</li> </ul>	Sustainable development, Purchasing and Influence
Civil society	<ul style="list-style-type: none"> <li>Participation in working groups and local and international organizations on challenges within our industry</li> <li>Community programs</li> <li>Partnerships with local NGOs</li> </ul>	According to subject and audience, Foundation and BipBop program
All	<ul style="list-style-type: none"> <li>Quarterly Planet &amp; Society Barometer newsletter</li> </ul>	Sustainable development

## 1.2 Planet & Society Barometer, a regular and objective measure of the Group's actions

### Planet & Society Barometer

Stakes	Progress plans and targets at year-end 2014	2012	2011
Overall performance of the Barometer (score out of 10)		↗ 6.42	3.00
<b>Planet</b>			
<b>Carbon</b>	1. 10% CO <sub>2</sub> savings on transportation	↗ 14.8% ▲	-
<b>Products &amp; Solutions</b>	2. 75% of our product revenue achieved with Green Premium	↗ 65.5% ▲	63%
<b>Energy</b>	3. 10% energy consumption savings	↗ 6.1% ▲	-
<b>Profit</b>			
<b>Green Growth</b>	4. 7 points growth revenue with EcoXperts above total growth revenue	↗ 7.6 pts ▲	-
<b>Access to Energy</b>	5. 1 million households at the Base of the Pyramid have access to energy	↗ 344,441 ▲	-
<b>Suppliers</b>	6. 90% of our recommended suppliers embrace ISO 26000 guidelines	↗ 7.8% ▲	-
<b>Rating</b>	7. 3 major ethical stock market indices choose Schneider Electric	→ 3 ▲	3
<b>Best practices</b>	8. 300 sites recognized "Great place to work - Cool sites" *	-	-
<b>People</b>			
<b>Safety</b>	9. 30% reduction in the Medical Incident Rate (MIR)	↗ - 23% ▲	-
<b>Engagement</b>	10. 70% result in our Employee Engagement Index	↗ 55% ▲	-
<b>Diversity</b>	11. 30% women in our talent pool (~ 2,500 people)	↗ 27% ▲	23%
<b>Training</b>	12. 1 day of training for each employee every year	-	-
<b>Access to Energy</b>	13. 30,000 people at the BoP trained in energy management	↗ 10,517 ▲	-
<b>Communities</b>	14. 300 missions with the "Schneider Electric Teachers" NGO	↗ 66 ▲	-

The 2011 performance serves as a starting value for the Planet & Society Barometer of the Connect company program between 2012 and 2014

▲ 2012 audited indicators

\* This indicators will be followed from 2013

↗ The arrow shows if the indicator has risen, stayed the same or fallen compared to the previous year. The color shows if the indicator is above or below the objective of 8/10.

### Priority objectives in response to sustainable development stakes

Schneider Electric has used the Planet & Society Barometer as its sustainable development dashboard since 2005. The Barometer outlines the Group's sustainable development objectives for a three-year period and quarterly results for our key performance indicators.

There are no recognized standards that define an organization's sustainable development performance. The Planet & Society Barometer is Schneider Electric's response to this matter. It allows us to meet our sustainability challenges and advance the Group on the three pillars (Planet, Profit and People). The Barometer uses a scoring scale of 10 and provides an overall measure of Group improvement in sustainable development.

The aim of the Planet & Society Barometer is to:

- mobilize the corporate community around sustainable development objectives;
- share the Group's improvement plans with stakeholders.

Schneider Electric has permanently integrated objectives into its strategy to improve its economic, social and environmental performance and set up indicators to objectively measure progress made and what is still to be done. On a daily basis, the Group seeks to prove that economic, environmental, societal and social interests are convergent.

To have a significant impact and initiate lasting change, a performance measure is required. That is why Schneider Electric has defined specific objectives and measures its results each quarter using the Planet & Society Barometer. The Group undertakes corrective actions if necessary. These actions are carried out on an international scale.

For example, the action plans target the lower, optimized energy consumption, committing Schneider Electric for itself and its customers to significantly improve the energy efficiency of production processes, infrastructure and generally to reduce the environmental footprint, particularly CO<sub>2</sub> equivalent emissions caused by the Group's industrial and human activity.

## Planet & Society Barometer 2012-2014

The Planet & Society Barometer 2012-2014 is part of the Connect company program. It comprises 14 key performance indicators scored out of 10. These 14 indicators replace the 13 objectives for the 2009-2011 period. The average of the scores, with each indicator weighted equally, provides the global performance of the Barometer. Departments directly affected by the improvement plans (Human Resources, Environment, Access to Energy, etc.), each represented by a project leader, implement measures to achieve the objectives of the plans. This project leader works directly with local managers in their respective areas.

The table above shows Schneider Electric's sustainable development performance in 2012. When the barometer was launched on January 1, 2012 the global score was 3.00/10. At the end of 2012, the Company had exceeded its target of 3.85/10 and had attained 6.42.

For the 2009-2011 period, all the indicators achieved their target of 8/10. Seven indicators even achieved 10/10 (CO<sub>2</sub> emissions, ISO 14001 certification, energy efficiency, access to energy, accident rate, Company's employee recommendation score and energy management training).

For each company program, the Group defines a new Planet & Society Barometer. The improvement plans are elaborated following an internal exercise to identify sustainability issues based on external inputs, primarily the assessments and ratings received, and a consultation with the departments directly concerned by the improvement plans. The Sustainable Development Department presents the draft version of the Planet & Society Barometer to the Executive Sustainability Committee for approval before the launch of the company program.

Four cases may be included from one Barometer to the next:

- the improvement plans are maintained in the Barometer and their targets are renewed or increased. This is the case in 2012-2014 with Green Premium, with the number of households connected at the Base of the Pyramid (BoP) and with the number of people at the BoP trained in energy management;
- the improvement plans change. This is the case with indicators that have reached a threshold. They are replaced by more ambitious indicators and continue to be monitored internally: reductions in CO<sub>2</sub> emissions, for 2012-2014, are divided into two separate indicators (CO<sub>2</sub> in transport and energy consumption<sup>(1)</sup>); purchasing, with a change of benchmark (from the Global Compact to ISO 26000<sup>(2)</sup>); the security indicator with a passage from frequency of accidents to the Medical Incident Rate<sup>(3)</sup>; the Company's employee recommendation score, which is replaced by the employee engagement index, an international index<sup>(4)</sup>;

- the improvement plans are removed from the Barometer. This is also the case with indicators that have reached a threshold, they also continue to be monitored internally: the SF<sub>6</sub> leakage rate (which was included in the CO<sub>2</sub> emissions reduction indicator in 2009-2011); the rate of staff working on ISO 14001 sites<sup>(5)</sup>; the number of countries that have established an SF<sub>6</sub> gas recovery pathway<sup>(6)</sup>; employees trained in energy management solutions, and the number of entrepreneurs supported in the creation of their activities in the field of energy management;
- improvement plans that respond to new stakes are implemented. This is the case in 2012-2014 with the EcoXperts program, with the 300 sites recognized as "Cool Sites", with women making up 30% of the talent pool, with the annual training day for everyone, and with the 300 volunteering missions via the "Schneider Electric Teachers" NGO.

## Communicating the results of the Planet & Society Barometer

Since 2009, the Planet & Society Barometer has been published through the following channels:

- the website [www.schneider-electric.com/barometer](http://www.schneider-electric.com/barometer), expanded in 2011 to include an interactive tool;
- the Planet & Society Barometer newsletter, which informs the main Schneider Electric stakeholders about the previous quarter's performance and achievements. The newsletter is e-mailed to a continuously updated list;
- on the Group's Intranet, the performance of the Planet & Society Barometer, which reflects value creation for the stakeholders, is listed next to the Schneider Electric share price, which reflects value creation for shareholders.

Since 2012, quarterly conference calls have been organized to present the results of the Barometer to concerned investors and the specialized press. The extra-financial annual results are presented together with the Group's financial results in order to demonstrate our commitment to making sustainable development part of the Company's long-term strategy. In February 2013, Jean-Pascal Tricoire and Emmanuel Babeau presented Schneider Electric's 2012 financial and extra-financial results.

The publication of objectives and quarterly results is a way for Schneider Electric to engage with its internal and external stakeholders with regard to the objectives, to publicly disclose its sustainable development issues through the choice of indicators, and to share progress made or difficulties encountered in a transparent manner.

(1) In 2009-2011, the CO<sub>2</sub> emissions reduction indicator had exceeded its target. It included emissions reductions from transport, energy consumption and leakage of SF<sub>6</sub>. The SF<sub>6</sub> leakage rate, which had far exceeded its goal and reached a threshold, continues to be monitored internally with a goal of maintaining that level.

(2) The Global Compact will continue to be promoted within suppliers.

(3) The accident frequency rate had exceeded its 2009-2011 target and continues to be monitored internally below a more standard international indicator, the LTIR (Lost Time Injury Rate).

(4) The recommendation score (ENPS – Employee Net Promoter Score) continues to be monitored internally.

(5) The Group achieved its goal of gaining ISO 14001 certification for all industrial and logistics sites with more than 50 people and for the large services sites. This program continues to be monitored internally with the same objective.

(6) This program, launched with the Planet & Society Barometer 2009-2011, continues to be monitored internally with new objectives (10 countries in 2012 and 12 countries in 2013).

The Planet & Society Barometer is a tool that enables the Group to anticipate and effectively manage its sustainable development risks by mobilizing key stakeholders around specific, measured objectives and reliable results. Barometer indicators are audited annually by an external auditor (limited assurance).

- For more information, please visit: [www.schneider-electric.com/barometer](http://www.schneider-electric.com/barometer).

See also the **Planet & Society Barometer criteria in variable compensation pages 80-81**.

## 1.3 External and internal bases of preparation for a solid framework

### Our external bases of preparation

#### The United Nations Global Compact

The Global Compact was launched in 1999 by UN Secretary-General Kofi Annan. It brings companies and non-governmental organizations together under the aegis of the United Nations to "unite the power of markets with the authority of universal ideals".

Parties signing the Global Compact commit to 10 fundamental principles in four areas: human rights, labor rights, the environment and anti-corruption.

By signing the Global Compact in December 2002, Schneider Electric made a public commitment to these universal values. The Group has primarily worked to share this commitment with its partners since 2003 (see page 56 Relations with sub-contractors and suppliers).

In line with the requirements of the Global Compact, Schneider Electric publishes an annual progress report. This publication reports on the Group's action plans and monitoring indicators for the 10 principles of the Global Compact. Schneider Electric meets the requirements of the Advanced Level of the Global Compact with this report for COP.

#### ISO 26000

In 2010, the ISO (International Organization for Standardization) published guidelines on organizations' social responsibility (ISO standard 26000). ISO 26000 is a compromise that gets different players from the public, private and non-profit sectors, from around 100 countries, involved, and a vision of how an organization should view societal responsibility. Schneider Electric's actions towards sustainable development are completely in line with ISO 26000. This standard legitimizes the sustainable development actions undertaken by the Group since the early 2000s and provides an educational support and framework for its actions in the field.

#### The Global Reporting Initiative

The Global Reporting Initiative (GRI) was established in 1997 as a mission to develop globally applicable directives to report on economic, environmental and social performance; it was initially intended for companies and subsequently for any governmental or non-governmental organization.

Brought about by the Coalition for Environmentally Responsible Economies (CERES) in association with the United Nations

Environmental Program, the GRI integrates the active participation of companies, NGOs, accounting bodies, business associations and other stakeholders from across the globe.

Schneider Electric aligns its extra-financial reporting with the GRI and scores a B+ this year. A reference table with these indicators and the indicators proposed by the GRI is available on Schneider Electric website: [www.schneider-electric.com/sri](http://www.schneider-electric.com/sri).

### Our internal basis of preparation: the Responsibility & Ethics Dynamics program (R&ED) and Our Principles of Responsibility

#### The challenges

As a global corporation, Schneider Electric continuously interacts with local and international partners. The Group's borders are expanding, its environment is constantly changing, and its societal responsibilities and activities are growing. In this international context, reprehensible behavior may be seen when the ethics inspection and prevention processes are fragile. The Group is responsible for implementing its resources to support employees in the event of an ethical dilemma.

#### The aim of the program

In 2002, Schneider Electric published a set of guidelines entitled *Our Principles of Responsibility* to give all team members a common reference point. This document outlines the Group's commitments to all of its stakeholders: the Company's employees, its economic partners (mainly clients and suppliers), shareholders, the community and the planet.

In 2009, the Group updated *Our Principles of Responsibility* to set out standards on ethics. This document incorporates updated Group and employee commitments on the following:

- the respect of law, the limits established by each employee to ensure he or she entirely respects the laws of all the countries in which Schneider Electric is present;
- the code of ethics that all employees must follow in line with the professional regulations of the Group;
- Group social responsibility – what all employees must do to act responsibly towards society and the planet.



In 2010, the Responsibility & Ethics Dynamics program put these ambitions into practice by setting up an organization, procedures and tools for the Group, so that its employees could:

- provide team members with effective support in their daily actions and decision-making, primarily through access to the necessary resources (policies, procedures, tools & best practices);

- help team members identify the appropriate individuals to guide them in their eco-citizen approach and in each of the areas covered by the principles;
- know how to notify the authorities of breaches of ethics, with respect for current laws and regulations.

For more information: see *Our Principles of Responsibility* pages 57-59.

## 1.4 Global policies

Reference documents are distributed throughout the Group so that all team members can embrace Schneider Electric's eco-citizen approach and apply it in line with local culture and legislation.

### Ethics

The *Our Principles of Responsibility* document is not only Schneider Electric's ethics charter; it also constitutes a code of conduct. All of the Group's policies stem from it (environment, quality, purchases and the different social policies). The document is available in 30 languages and is distributed to all employees.

### Environment

The first version of Schneider Electric's environmental policy was published in 1992, changed in 2004 and confirmed in October 2007. It aims to improve industrial processes, reinforce product eco-design and incorporate Group customers' concerns for environmental protection, while providing product and service solutions. It applies to the Group and is accompanied by global action plans.

### Social

The Group's Human Resources policies cover the following: diversity, hiring, recruiting, international mobility, training, human capital development, talent identification, total remuneration, social benefits and health and safety. These apply to the Group and are accompanied by global processes.

## 1.5 An organization structured through networks

### Overall operation

#### The Sustainable Development Department

The Sustainable Development Department, created in 2002, has been part of the Strategy & Innovation Department since 2008. It has the following responsibilities:

- defining Schneider Electric's sustainable development strategy and rolling out action plans at Group level with the concerned entities;
- developing and managing Schneider Electric's innovative community projects to ensure continuing improvements in the Group's performance in this area.

In 2010, the Sustainable Development Department was adapted to better meet the Company's present and future challenges as well as the requirements of stakeholders. It is organized around four areas:

- ethics, steering the Responsibility & Ethics Dynamics program (see pages 57-60);
- social responsibility, with the Schneider Electric Foundation as well as employment opportunity and expansion programs (see pages 87-91);
- access to energy, responsibility for the BipBop program (see pages 83-87);

- supporting and developing the Group's performance, in particular by steering the Planet & Society Barometer and the strategy and sustainable development report (see pages 45-47).

#### Supervisory Board

Following James Ross, Cathy Kopp has been responsible for officially presenting the sustainable development issues to the Supervisory Board since 2010. She also acts as internal advisor for sustainable development: Cathy Kopp analyzed the Group's sustainable development policies and programs in 2011, interviewing various managers. The results were presented to the Supervisory Board in 2012.

In the new governance proposed for the Group in 2013, the Remuneration Committee's powers were formally extended to issues of corporate social responsibility (refer to p. 275).

#### SERE organization – *Safety, Environment & Real Estate*

(see page 61).

#### Human Resources organization

(see pages 70-71).

### **Energy Efficiency and Solutions Experts (for the offer)**

Within the Strategy and Innovation Department, the Energy Efficiency and Solutions team rolls out and supports the Company's and its employees' transition from a product-based approach to a solution-based approach.

To achieve this, Schneider Electric works with a network of 15,000 employees, comprised of certified solution sales and marketing teams and supported by technical experts and over 60 Solution Centers aligned to supporting customers in local geographies and key global end user segments, where our solution architects are developing the solutions its customers want today and designing the solutions of tomorrow.

### **Cross-functional committees**

Three bodies are made up of members from the Group's various entities that work directly or indirectly on sustainable development. These specific committees guide and monitor the action plans for their area of expertise.

### **The Executive Sustainability Committee**

Since 2010, the three members of the Executive Committee in charge of global Human Resources, Global Supply Chain Management and Strategy and Innovation have met every quarter with the Sustainable Development Director to monitor and steer the Group's action plans in this area.

### **The Strategic Sustainability Committee**

It was created in 2008 and is chaired by the Sustainable Development Director. Its representatives are from the following programs and functions: health and safety, diversity, societal innovation, environmental management, sustainable RoHS and REACH programs, purchasing, supply chain, ethics, access to energy program, communication and relations with stakeholders.

### **The Ethics Committees**

(see page 58).



## 1.6 Global and local external commitments to move forward collectively

### List of the Group's primary sustainable development commitments

Schneider Electric works with different local and international organizations on economic, social and environmental issues to foster sustainable development in cooperation with various players from society. Schneider Electric confirms its commitment and its participation in discussions on issues related to climate change.

Theme	Commitment
<b>Sustainable governance</b>	<b>International:</b> World Business Council for Sustainable Development (WBCSD), United Nations Global Compact. <b>France:</b> member of the Board of Directors of ORSE (French study center for corporate social responsibility) and of the French Global Compact network.
<b>Energy/Energy efficiency</b>	<b>International:</b> Alliance to Save Energy (Energy Efficiency), Clinton Climate Initiative (Buildings), Green Grid (Information Technology), The 2°C Challenge Communiqué (Corporate Leaders Network for Climate Action, CLN). <b>France:</b> EpE (Entreprises pour l'Environnement), IFPEB ( <i>Institut Français pour la Performance Énergétique du Bâtiment</i> ), <i>Pacte Écologique de Nicolas Hulot</i> , <i>Grenelle de l'Environnement</i> .
<b>Access to energy</b>	At the end of 2011 Jean-Pascal Tricoire, with the Chairmen of ERM and GDF SUEZ, co-signed a white paper for the WBCSD (World Business Council for Sustainable Development) on business solutions to enable energy access for all. This white paper is the first significant publication from the WBCSD and coincides with the launch of the International Year of Sustainable Energy for all in January 2012 by the United Nations.
<b>Diversity</b>	<b>France:</b> (see page 77).
<b>Social policy</b>	<i>Observatoire Social International</i>
<b>Standardization</b>	With more than 20 experts actively participating in international standardization bodies, Schneider Electric is making a decisive contribution to the elaboration of standards that ensure the reliability and transparency of the work on environmental issues of its offers (UTE, <i>Union technique de l'électricité et de la communication</i> ; CENELEC, European Committee for Electrotechnical Standardization; IEC, International Electrotechnical Commission; ISO, International Organization for Standardization). Schneider Electric plays an active role within AFNOR (French Standards Organization). It participates in the working group on sustainable development. Since February 2007, Schneider Electric has represented France on the IEC's Advisory Committee for Environmental Aspects (ACEA). The ACEA works to advise and coordinate the IEC's efforts to tackle environmental issues.
<b>Miscellaneous</b>	For many years, the Group has also actively supported the <i>Association pour le développement du mécénat industriel et commercial</i> (ADMICAL), a French not-for-profit organization involved in corporate sponsorship issues, and <i>IMS-Entreprendre pour la cité</i> , an association that helps companies implement their corporate social responsibility policies. Lastly, the Group participates in work conducted by CSR Europe, notably in the area of occupational health.

### Highlights of 2012

#### Livelihoods: Carbon offset fund for biodiversity and rural communities

Livelihoods is an investment fund whose objective is to contribute to the conservation of biodiversity and the improvement of the living conditions of rural populations in developing countries, thanks to the revenues of carbon finance for the financing of investments and the necessary support for the restoration of ecosystems. In Senegal, for example, 450 villages are already replanting 7,000 hectares of mangroves, thereby rebuilding their food-producing ecosystem (fish breeding and crop protection). This project allows 900,000 tons of carbon to be stored in 20 years. With a provision of EUR30 to 50 million, Livelihoods will mainly invest in three program types: restoration and preservation of natural ecosystems, agroforestry

and soil restoration for sustainable agricultural practices and rural energy access projects that avoid deforestation. Schneider Electric, CDC Climat and Le Crédit Agricole are the main investors joining Danone to create this fund. La Poste and Hermès joined them in 2012. Schneider Electric's team BipBop supports Livelihoods on project energy access issues.

#### Participation in Rio+20

Schneider Electric actively participated in the Rio+20, the United Nations Conference on Sustainable Development. The main partner of the France pavilion, the only multi-stakeholder pavilion of the event, the Group participated in many debates and conferences, including on the smart grid, smart mobility, smart cities, access to energy, innovation, renewable energy and energy efficiency. On this occasion, Jean-Pascal Tricoire, CEO of Schneider Electric, and



Professor Muhammad Yunus, winner of the 2006 Nobel Peace Prize and leader of Grameen, shared their views on access to energy and signed the creation of the Grameen-Schneider Electric joint venture, which aims to develop access to energy via clean energy in Bangladesh.

### World Future Energy Summit

For the third consecutive year, Schneider Electric was a platinum sponsor of the World Future Energy Summit in Abu Dhabi in January 2013.

## 1.7 Ratings and awards

The evaluations by the leading specialist ratings agencies and by a number of ethical fund managers indicate the Company's performance in its sector. The evaluations and awards underline external recognition of the Group's sustainable development programs.

### Ethical stock market indices

A key performance indicator was set in the Planet & Society Barometer for the duration of the 2012-2014 Connect program: to ensure Schneider Electric's presence in the three major SRI (Socially Responsible Investing) indices – the DJSI World, the DJSI Europe, and the ASPI Eurozone.

At the end of 2012, Schneider Electric is included in the three ethical stock market indices covered by the Barometer, and its rating in the DJSI indices is improving. The FTSE4Good Index is no longer covered by the Barometer because the Group does not qualify for it given that part of its activity is within the military sector (< 1%, mainly in electrical distribution).

### Dow Jones Sustainability (DJSI) indices

Schneider Electric is part of the 2012 edition of DJSI World and DJSI Europe. Evaluation for this family of indices is provided by Sustainable Asset Management (SAM), an independent asset manager headquartered in Switzerland.

### Carbon Performance Leadership Index (CPLI) – Global 500

Schneider Electric remains in the CPLI again this year as one of 33 companies chosen for their commitment and action plans to fight climate change. It is one of three French companies to be included.

### Carbon Disclosure Leadership Index (CDLI) – Global 500

Schneider Electric's Disclosure rating improved this year, rising to 92/100. However, Schneider Electric is no longer part of the CDLI in 2012 because the minimum rating is 94/100.

### ASPI Eurozone Index

The ASPI Eurozone (Advanced Sustainable Performance Indices) listing tracks the financial performance of 120 leading euro zone social and environmental performers from the DJ Euro Stoxx benchmark financial universe. Vigeo ratings are used to select the listed stocks, in keeping with ASPI Eurozone guidelines.

### Vigeo World, Europe and France

In November 2012, Vigeo launched a range of indices singling out the exchange-listed companies that have the best corporate social responsibility performance: Vigeo World 120, Vigeo Europe 120, Vigeo France 20 and Vigeo United Kingdom 20. These indices are updated every six months. As of November 1, 2012 Schneider Electric is included in the three indices Vigeo World 120, Vigeo Europe 120 and Vigeo France 20.

### Other indices

In 2012, Schneider Electric was part of the following indices in particular:

- Oekom Prime;
- MSCI ESG World and MSCI ESG Europe Indices (Morgan Stanley Capital International);
- STOXX Global ESG Leaders indices by Sustainalytics and STOXX Sustainability indices by Bank Sarasin;
- Ethibel Sustainability Index (ESI) Excellence Europe and Ethibel Sustainability Index (ESI) Excellence Global;
- ECPI Global Carbon Equity, ECPI Euro Ethical Equity, ECPI Global Ethical Equity, ECPI EMU Ethical Equity.

### Awards 2012

Among the recognitions for sustainable development received in 2011, the Group highlights the following:

- **CSR Innovation Award:** the Planet & Society Barometer won the CSR Innovation Award, awarded by Cercle Humania in France.
- **Global 100 most sustainable corporations:** Schneider Electric reached 13th place in the ranking by Corporate Knights Inc., versus 26th last year.
- **Ethisphere:** Schneider Electric was one of the 100 most ethical companies following ranking by Ethisphere, for the second consecutive year.
- **Universum rankings – Global top 50 World's Most Attractive Employers:** in 2012, Schneider Electric was one of 50 global companies in the engineering category rated most attractive to students. Schneider Electric France was named the "best climber" 2012, rising from 102nd place to 80th place.
- **Green Ranking:** in 2012, Schneider Electric was 133rd/500 (+71 places vs. 2011), sixth in its industry and eighth among French companies.
- **National prizes:** Prix RSE Golden Peacock 2012 in India, Top Employer 2012 in France, Prix RSE 2012 from the Mexican Center for Philanthropy (CEMEFI) in Mexico, Prix 51Job Inc. In China, Top three companies in Strategy, Leadership and Innovation in Sustainable Development in Brazil according to the American Chamber of Commerce.



## > 2. Green and responsible growth driving economic performance

This chapter covers two subjects:

- **products and solutions for fighting climate change:** energy efficiency, renewable energies, electric vehicles, smart grid, product end-of-life recovery services, etc.;
- **business ethics:** Group responsibility principles, fight against corruption, relations with suppliers and subcontractors.

**Corporate governance** is discussed in Chapter 3 "Corporate Governance" page 111: operations of the Supervisory Board, Management Board, Internal Control & Audit, shareholders' rights, remuneration of members of the Supervisory Board, Management Board and Executive Committee.

### 2.1 Overview

#### Context and aims

Climate change is one of the main challenges of the 21st century. Schneider Electric works for sectors that account for the majority of global energy consumption. Energy consumption is not always optimized, which makes it one of the largest sources of CO<sub>2</sub> emissions.

As a global specialist in energy management, Schneider Electric's products and solutions help reduce energy use and CO<sub>2</sub> emissions. The Group is therefore developing energy efficiency solutions to reduce energy bills by up to 30% for every type of building. The Group's solutions also target other areas related to smart grids and sustainable cities.

Moreover, the Group's products and solutions are sold worldwide, either directly to end customers or through networks of partners, therefore without any control over their final destination and end-of-life processing. To limit the impact of its end-of-life products, Schneider Electric has established a system to recover equipment containing SF<sub>6</sub>, a powerful greenhouse gas.

The Group works in more than 100 countries, with heterogeneous practices, standards and values. Schneider Electric is also committed to acting responsibly towards all of its stakeholders. Therefore, the Company has defined its Principles of Responsibility that apply to the entire Group and are based on dedicated organization and processes. In addition, Schneider Electric is committed to share its vision of sustainable development with the greatest possible number of its suppliers.

For this section, three key performance indicators were set in the **Planet & Society Barometer** for the duration of the Connect program (2012-2014):

Objectives for year end 2014	2012	2011
1. <b>+7 points</b> growth revenue with <b>EcoXperts</b> above total growth revenue	7.6 pts ▲	-
2. <b>90%</b> of our <b>recommended suppliers</b> embrace ISO 26000 guidelines	7.8% ▲	-
3. <b>3 major ethical stock market indices</b> choose Schneider Electric	3 ▲	3

The 2011 performance serves as a starting value for the Planet & Society Barometer of the Connect program between 2012 and 2014.

▲ 2012 audited indicators.

Please refer to pages 92 to 94 for the methodological presentation of indicators and the following pages for the analysis of the results (pages 55 for indicator 1, 56-57 for indicator 2 and 51 for indicator 3).

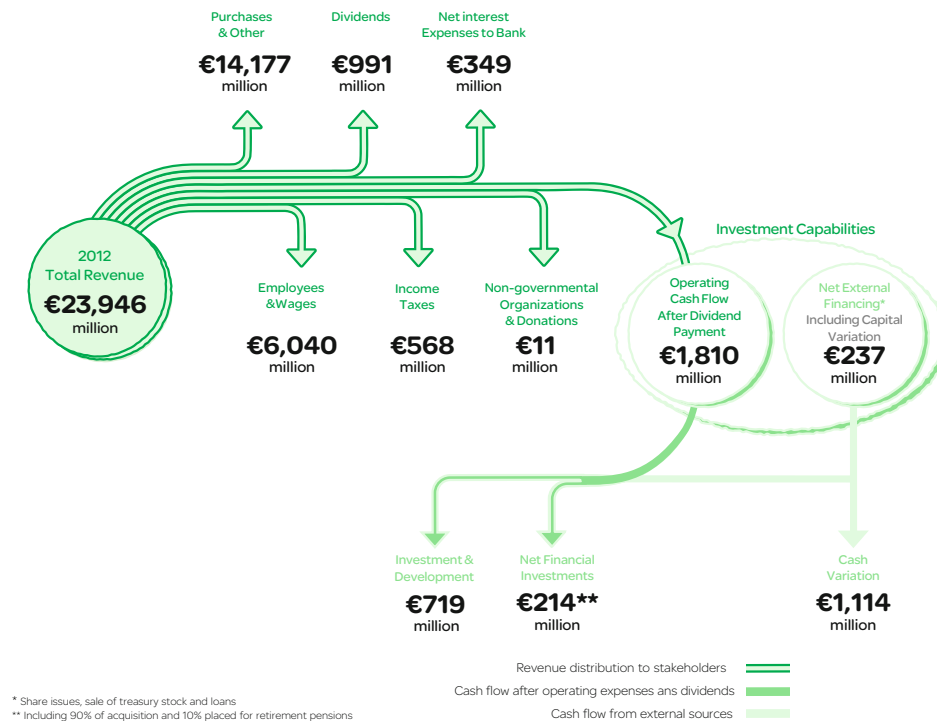
## Highlights of 2012

- Indexation of the performance incentives for the Executive Committee members to one or more components of the Planet & Society Barometer, chosen according to their field, (since 2011); expansion in 2012 to the Country Presidents of the five principal countries; especially the growth of the EcoXperts activity for Strategy and Innovation, the percentage of recommended suppliers in line with ISO 26000 for Global Supply Chain.
- Launch of a new Planet & Society Barometer for the 2012-2014 period, including a new indicator to measure the performance of the EcoXperts program and the Suppliers indicator, which is evolving, incorporating a change of benchmark (Global Compact to ISO 26000 <sup>(1)</sup>).

- The EcoXpert indicator, measured for the first time this year, reached its goal; the Suppliers indicator was launched in the last quarter of 2012, after working on the approach and the measurement method; Schneider Electric was confirmed in the three indices mentioned (DJSI World, DJSI Europe and ASPI Eurozone).

## Revenue breakdown

Every year for the last seven years, Schneider Electric has published a diagram showing its revenue distribution for its various stakeholders. This exercise allows the importance of each stakeholder to be highlighted from the point of view of financial flows and shows their share in this flow.



(1) The Global Compact will continue to be promoted with suppliers.

## 2.2 Smart energy management products and solutions to help fight climate change

Our planet is facing an unprecedented energy challenge.

Even assuming that all recently-introduced energy efficiency policies are implemented with full success, global primary energy demand is still expected to increase by 35% by 2035. This would dramatically impact energy costs and energy security, competition for resources, access to energy of societies' poorest people, economic growth – and of course climate change. The energy mix is planned to evolve, with the share of renewable energy going from 13% to 18% of the total.

The corresponding increase in energy-related greenhouse gas emissions would be 23% – when it should decrease by 27% for the world to achieve its environmental needs.

Contributing to solving this challenge lies at the heart of Schneider Electric's business strategy.

Our customers – companies, citizens, governments – all want to reduce their costs and environmental impact, constantly improving the reliability, safety and performance of their homes, buildings, sites and equipment.

Schneider Electric therefore provides an innovative and competitive portfolio of products, systems, services and software to help its customers further optimize their energy management.

### Energy efficiency

#### Context

Energy efficiency means using less energy for equivalent performance or service.

Energy efficiency saves energy, money and carbon emissions, while contributing to energy security and creating jobs.

According to the International Energy Agency's World Energy Outlook 2012, energy efficiency-related policies recently introduced could account for close to 70% of the reduction in energy demand that is required for the world to meet its environmental targets in 2035.

Schneider Electric is one of the first companies to have taken a strong position in support of energy efficiency by developing efficient and competitive offers for all its large end-markets.

#### Offers

Schneider Electric promotes "active" energy efficiency, which consists in optimising the entire energy cycle through active energy control products, systems, services and software.

These are mostly used to optimize the energy efficiency of industrial processes and to improve energy performance and comfort in industrial facilities, commercial buildings and homes – which together represent more than 60% of total energy demand. Since active energy controls can help reduce energy usage by up to 30%, the impact on a country's energy mix and energy bill is too significant to be ignored.

The Group's offer of products, systems, services and software consist in:

- products: dimmer switches, timers, heating and air-conditioning control, variable speed drives, etc;
- systems: building management systems, lighting control, process supervision;
- services: energy audits, optimisation of energy purchases, participation in demand reduction programs, etc;
- software: data analysis, remote monitoring, integrated management of energy flows over several sites, etc.

These solutions meet the standards and regulations in force in each country where they are sold.

In particular, Schneider Electric has expanded its **energy services** portfolio through strong organic and external growth.

The Group's large customers want to manage their energy better and therefore must better understand their energy flows. This involves energy efficiency audits, metering, monitoring and analysis services.

Then they want to optimise these flows, done using the best purchasing policies, in order to participate in demand reduction programs, implement energy performance contracts, and obtain certifications (e.g. the new ISO 50001 international standard). These are energy management services.

Finally, this energy management allows customers to reduce the environmental impact of their activities and to improve their carbon audit. This involves evaluation and carbon footprint management services, closely linked to energy management services.

The Company's **integrated energy management** solution is also experiencing strong growth.

It involves achieving a consolidated view of energy flows over various activity zones of a single site, several sites, or the whole of a company. Understanding the flows means they can be monitored and then optimised, thus improving the long-term energy performance of the site or company.

Schneider Electric has developed an integrated offer called EcoStruxure, combining products, systems, services and software within a single energy management architecture.

Schneider Electric has competitive offers for energy efficiency, as well as for energy flow management of industrial processes, security systems, data centers, and of course buildings. EcoStruxure combines these various offers to provide the customer with a single vision – complete supervision of their sites or their company – through its innovative software offer, StruxureWare. Launched in 2012, StruxureWare is a powerful array of software applications and suites that deliver energy management and process efficiency solutions, from the "shop" floor to the "top" floor. The software package offer provides tools at three layers to maximize customer efficiency: Enterprise, Operations and Control. Whether our customer is a senior executive seeking command of her company's carbon footprint or a grid operator working to ensure reliability, with

StruxureWare, Schneider Electric provides market leading software solutions.

Customers are now able to more effectively connect their sustainability goals to tangible actions, through streamlined software tools and interfaces. Customers have strongly validated the company's approach, and one recent independent analyst report identified StruxureWare software as a leader, with the strongest momentum among all competitors.

Finally, Schneider Electric is rolling out an **EcoXperts** network in many countries to provide its smaller customers with simple and competitive solutions for energy efficiency and energy source integration. These are specialised external partners trained and supported by the Group to develop close working relationships with their customers at a local level.

This network is already in place in France, Spain and Italy; it is developing in the United States and in about ten countries, in Europe and Latin America. A key performance indicator has been included in the Planet & Society Barometer 2012-2014: to exceed by 7 points the Group growth revenues with the EcoXperts activities. In 2012, the target has been achieved: the EcoXperts growth revenues are 7.6 points above the Group growth revenue in the countries where the program is deployed.

## The Smart Grid

### Context

The smart grid combines electricity and IT infrastructure to integrate and inter-connect all users (producers, operators, marketers, consumers etc.) in order to continue to efficiently balance demand and supply over an increasingly complex network.

Today's grid is undergoing rapid change: the Fukushima tragedy has led many countries to rethink their energy strategy and evolve their energy mix; renewable energy sources are enjoying a fast growth, although they remain a small share of total energy produced; electric vehicles are expecting stronger government support to their deployment.

This is making the smart grid more essential than ever, and boosting development of specific applications in every region.

### Offers

Schneider Electric supports and connects the key domains of a smarter grid: on the supply side, flexible distribution and smart generation, which covers bulk generation, distributed generation and renewable energy integration; on the demand side, efficient homes and efficient enterprise, which covers homes, buildings, industrial facilities & datacenters, as well as electric vehicles charging infrastructure; and finally, balancing supply and demand, through demand response.

Schneider Electric offers products and solutions in all these domains:

- flexible distribution: control and automation of sub-stations (between high and medium voltage and medium and low voltage

networks), SCADA (Supervisory Control And Data Acquisition), protection and metering systems, outage devices;

- smart generation: installation and equipping of solar, wind or hydroelectric plants, automation and control systems, SCADA, engineering and maintenance.

According to the International Energy Agency's World Energy Outlook 2012, renewable energy sources could grow from 13% of total energy production in 2010 to 18% in 2035 – representing an 83% increase.

Schneider Electric serves and connects power plants and large buildings to the electricity grid, provides equipment to turbine manufacturers and supplies the residential market through its network of partners and distributors;

- efficient homes and enterprise: energy efficiency products and solutions, complex solutions for integrated energy management, operational and financial project management.

Schneider Electric also offers safe recharging infrastructures for electric vehicles, as well as efficient energy management systems and high added value accompanying services.

The recharging infrastructure must be completely safe, for the user as well as for the vehicle, the building and the electricity grid. Our range of solutions covers residential or co-owned garages, public and private car parks or roadside parking as well as rapid recharging infrastructures.

However, for an electric vehicle to be "green", the electricity used for charging must also be green. Priority for charging must therefore be given to the periods in which energy sources with low CO<sub>2</sub> emissions are available. Peak periods must also be avoided as the electricity grid is already experiencing very high demand for all other uses. This is why Schneider Electric is developing energy management solutions adapted to grid cycles.

Finally, the variety of charging environments, whether public or private, single or collective, requires information and invoicing systems to be put in place for businesses and car service providers;

- demand-response: consultancy and implementation of software platforms to share data and for load shedding aimed at energy operators.

## Sustainable Cities

### Context

Cities are where the world's sustainability battle will be won – or lost. Cities need to ensure resource efficiency over the long-term as well as social inclusiveness, while providing more efficient urban services to their constituents.

As cities improve the efficiency of their underlying urban systems (electricity distribution, gas distribution, water distribution, public and private transportation, buildings and homes, waste management), they increase the performance of the public services they provide, thus improving their liveability and attractiveness to residents, commuters and visitors alike.



### Offers

Our hands-on, bottom-up approach to urban efficiency combines solutions to all key systems of a city, integration capabilities, innovative financing mechanisms such as performance contracting as well as a strong collaborative mindset, with both global players with complementary capabilities and local players with deep knowledge of each city's specifications.

Our technology offer comprises products, systems, services and software, backed by strong process expertise, to improve the efficiency of the operation and information architectures:

- solutions for smart energy: smart grid automation, flexible distribution, metering management systems, integration of renewable energy sources, real-time software suites;
- solutions for smart mobility: electric vehicles charging infrastructure and supervision services, traffic management systems, tolling and congestion charging systems, multi-modal transportation management system;
- solutions for smart water: distribution management system, leak detection, power, control and security systems integration, stormwater management, urban flooding management;
- solutions for smart buildings: energy efficiency and security solutions and services for high-performance buildings, home energy management systems;
- solutions for smart public services: public safety through video surveillance and emergency management system, digital city services platforms, street lighting management system;
- solutions for smart integration: EcoStruxure integrated architecture for power, security, IT, building and process management systems, integrated mobility management platform, security systems and management, intelligent weather forecasting, energy and environment management information system.

### Recovery service for equipment containing SF<sub>6</sub>

In the framework of its Planet & Society Barometer for the 2009-2011 period, Schneider Electric looked to create SF<sub>6</sub> gas recovery processes, for end-of-life products in 10 countries, in Europe and

in Asia. SF<sub>6</sub> is a gas used as an insulator and/or breaker in medium voltage devices. SF<sub>6</sub> is an extremely powerful greenhouse gas and therefore requires special treatment to prevent atmospheric emissions.

The first devices containing SF<sub>6</sub> gas sold by Schneider Electric reached their end-of-life at the start of 2000. The objective is to develop commercial offers that allow customers to dispose of their end-of-life, SF<sub>6</sub> containing devices, in order to completely extract the gas and recycle it.

At the end of 2011, eight countries had implemented a recovery process with a local service manager, a recovery solution (Schneider Electric or partner), and appropriate customer tariffs: Australia and France (since 2009), Sweden (since 2010), Germany, Austria, Belgium, Spain and the United Kingdom (since 2011).

In 2012, Schneider Electric structured this process around the "EoL6" program, which is intended to expand the SF<sub>6</sub> end-of-life product recovery offers. The indicator continues to be monitored and two new countries have joined the project and completed the implementation of a recovery process: Switzerland and New Zealand. For 2013, the goal is to reach a total of 12 countries.

Note that this year, in France, a new milestone in the development of the EoL6 program was reached after winning an important first contract with ErDF, the main French utility. This service will cover a wide range of SF<sub>6</sub> equipment, including Merlin Gerin, Schneider Electric and Areva. The contract will begin in January 2013 and will run for five years.

In several other countries, specific SF<sub>6</sub> gas recovery actions have been implemented: Hungary, Israel, Italy, Japan, Colombia, Costa Rica, Estonia, Ukraine, Ireland, South Africa, Turkey, Vietnam, Saudi Arabia, etc. However, these countries do not have a dedicated local system.

Norway implemented a recovery process. SF<sub>6</sub> recycling is a legal obligation and Schneider Electric's customers work with the public organizations in charge of electrical and electronic waste recycling. This country is not included in the indicator.

EoL6 is a service offer that can meet the need for timely recycling of old appliances (standalone mode) or be grouped with an offer to upgrade ECOFITM-type installations (replacing old appliances with new, higher performance appliances).

## 2.3 Relations with subcontractors and suppliers

### Approach

As a Global Compact signatory, Schneider Electric has been involved in an ambitious approach to include sustainable development challenges in the supplier selection and working processes. This approach is all the more important as Schneider Electric's purchases volume represents EUR11.650 billion.

Schneider Electric has published a charter for its suppliers, called the Supplier Guide Book, which includes a large section on expectations with regard to sustainable development in the following four areas: health and safety, human rights, ethics and the environment.

Since 2004, the Group has been encouraging its suppliers to commit to a sustainable development process. A key performance indicator was defined in the Planet & Society Barometer for the duration of the 2009-2011 One program: at the end of 2011, more than 50% of Schneider Electric purchases were from suppliers who had signed the 10 Principles of the Global Compact or the EICC. With the Connect program, Schneider Electric wants to place itself in a continuous improvement process as well as follow-up with its suppliers by encouraging them to make progress according to the guidelines of ISO 26000.



## Action plans

Schneider Electric's approach to its suppliers in the area of sustainable development centers around three main action plans.

### Integration of the sustainable purchases approach into the selection of new suppliers

Schneider Electric uses a qualification process called Schneider Supplier Quality Management to select new suppliers. It is based on an evaluation questionnaire combined with on-site audits by Schneider Electric quality specialists.

This process includes a specific section on the environment and sustainable development and aims to assess supplier suitability with regard to the Group's aims in three areas:

- social responsibility linked to the Global Compact principles;
- environment: ISO 14001, ISO 14062 on eco-design, REACH and RoHS;
- safety: health, safety standards, accidents and severity rate.

Sustainable development criteria account for nearly 15% of supplier evaluation. In addition, all these criteria have a minimum level, below which a supplier will not be retained to work with Schneider Electric. Schneider Electric carried out more than 252 audits of this type in 2012.

This qualification process applies to all new suppliers and to existing suppliers in certain cases. It is strengthened by the General Purchasing Conditions to which all suppliers must conform: OECD directives on sustainable development and regulations defined in the ISO 14001 standard. Suppliers also commit to respect all national legislation and regulations, the REACH regulation and the RoHS directives, and, more generally, the laws and regulations relating to prohibition or restriction of use of certain products or substances.

### Promotion of a continuous improvement process based on ISO 26000

A statement on the importance of sustainable development is made by the Group purchasing pilot to each major supplier of Schneider Electric after the supplier has been trained in the approach. For these suppliers, in 2012 Schneider Electric began an approach that is based on an evaluation carried out by a third party. This is to promote the commitment of the supplier to a process of continuous

improvement based on ISO 26000, through improvement plans supported by the provider.

The sustainable development goals have become one of the 7 pillars used to measure supplier performance since 2011; this has the particular advantage of allowing the highest-performing suppliers to become a 'recommended', or for the best suppliers, 'preferred' Group supplier. The performance resulting from the external evaluation is one of the key points of this pillar. The Group aims to engage 90% of its recommended suppliers in a process of continuous improvement on this pillar.

### Rollout of eco-responsible initiatives

Schneider Electric is rolling out several eco-responsible initiatives with its suppliers.

For example, Schneider Electric has chosen to go further than the European REACH and RoHS regulations. The approach is therefore rolled out in the Group over the whole product portfolio and all suppliers, regardless of their geographic origin.

Furthermore, Schneider Electric launched an update in 2011 to the carbon impact analysis of company purchases in terms of its carbon footprint. Schneider Electric has used this approach to raise awareness of the importance of this subject among purchasers and certain suppliers in the most relevant purchasing sectors.

Finally, by the very nature of its activity, the Group continually encourages its ecosystem (including customers and suppliers) to implement energy efficient solutions.

### Examples

A global workshop organized in 2012 for "preferred" suppliers emphasized the importance that Schneider Electric places on aspects linked to sustainable development. During this workshop, Schneider Electric wanted to reward the highest-performing suppliers, particularly in the Planet and Social Responsibility category for which a trophy was awarded.

Another example is Schneider Electric's commitment to support the small and medium enterprises network. This support is given through an approach to work adapted with certain suppliers. In France, Schneider Electric is a major player of the International SME Pact.



## 2.4 Our Principles of Responsibility

The Company is constantly interacting with all the stakeholders throughout the world: its borders are expanding, its environment is changing ever faster, its activities are becoming globalized and its social responsibilities are growing.

Schneider Electric wants to reaffirm its desire to respect the laws and regulations in all the countries in which it works.

The challenge is to gain and maintain the highest confidence of its customers and – in a wider sense – of its stakeholders. To support each employee in this approach, the Group emphasizes

the importance of placing responsibility at the heart of its corporate governance.

The Group currently has around 140,000 employees worldwide. Following the Group's various acquisitions, it has been able to integrate this exceptional professional and cultural diversity to its advantage. Driven by Group values, the Responsibility & Ethics Dynamics program forms the basis of common references. Schneider Electric's mission therefore takes its meaning from engaging with individuals and organizations in order to help them get the most from their energy.



### A common frame of reference: *Our Principles of Responsibility*

*Our Principles of Responsibility* is a 15-page document that is as pragmatic and realistic as possible, a synthesis of the Group's common commitments to employees, partners, shareholders, the planet and society. *Our Principles of Responsibility* do not claim to cover all ethical dilemmas, but rather serve as a general guideline. They are adapted locally to meet local practices or legal requirements.

*Our Principles of Responsibility* were prepared in compliance with the 10 principles of the Global Compact, the corporate governance principles, the Universal Declaration of Human Rights and the International Labor Standards. As a result, these principles comply with international standards such as the anti-corruption principles.

Today, *Our Principles of Responsibility* document has been translated into 30 languages and sent to all Group employees.

A clause was added to all employment contracts, specifying that new arrivals were aware of *Our Principles of Responsibility* when they joined Schneider Electric.

### Adapted processes

The Responsibility & Ethics Dynamics program provides each employee with a method for asking the right questions and seeking out the right people according to two approaches:

- a detailed questioning process to take the right steps in delicate situations. This may be broken down into three stages:
  1. consulting the program's Intranet site,
  2. contacting one's manager and/or a member of the concerned department (legal, financial, human resources (HR), environment, etc.),
  3. contacting the entity's *Principles of Responsibility* advisor;
- an alert process to guide employees step-by-step towards the right bodies:
  1. contact their line managers,
  2. use existing in-house outlets (legal, financial, HR, environment, etc.),
  3. contact the Group Compliance Committee.

### Three tools accessible to all employees for educational and prevention purposes

- An Intranet site accessible to all employees from the global Intranet home page, providing all information on the program and *Our Principles of Responsibility*, as well as news and progress in the field.
- Frequently Asked Questions – FAQs. This tool which is continually powered was introduced following a collection of reports written by the managers after the program and *Our Principles of Responsibility* were presented to their teams.
- An online e-learning module. The aim is that, at the end of the session, the trainee will be familiar with *Our Principles of Responsibility* and more comfortable using them in his or her job. At the end of 2012, more than 30,000 employees had participated in the module: 94% rated the module as good or excellent.

### A professional alert system

To allow each employee to exercise their right to report a problem, a professional alert system has been deployed over the past two years. At the end of 2012, it is 96% deployed; the goal is to cover all employees.

In compliance with local legislations, this market solution is provided by an independent company and proposes alert categories, a questionnaire, and information exchange protocol between the person issuing the alert and the person responsible for investigating it. The main players in this process are the Compliance Officers (see "Dedicated teams and organization").

Implementation for the whole Group is accompanied by an internal communication plan that identifies the persons responsible for investigating alerts received.

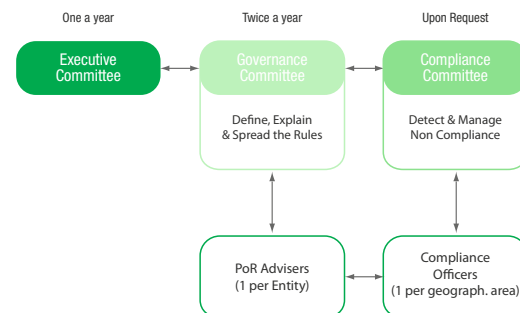
### Dedicated teams and organization

The program requires implementation of an organization including the following:

- a Governance Committee and a network of *Principles of Responsibility* Advisors. They are responsible for the implementation and roll out of the Responsibility & Ethics Dynamics program ;
- a Compliance Committee and a network of Compliance Officers. They are responsible for detecting and managing cases of non-compliance with the processes defined, in line with local laws and regulations and *Our Principles of Responsibility*.

Stakeholders and committees exercise their authority within activities of influence and control.

In particular, the Governance Committee must ensure coherence with the Group's strategic plans. It provides Executive Committee members with information on trends that, for example, implement the company change program.



### Measuring rollout and effectiveness

The Responsibility & Ethics Dynamics program is primarily the subject of regular internal communication. The objective is to inform all the employees and remind the management teams of the priority actions that they must drive forward, dependent on the risks to which they are exposed in their countries of operation.

In addition and since the program was launched in 2010, it has been the subject of an assessment conducted by Internal Audit.

Our *Principles of Responsibility* were rolled out in all the Group's entities in 2010. The results of the Internal Audit, including the findings of a survey of 10,000 employees and an audit that includes Argentina, China, the United Arab Emirates, the United States, France, India, Indonesia, Italy and Russia were:

- 73% of employees questioned said they were familiar with *Our Principles of Responsibility*;
- 84% of survey participants stated that the information given was useful and comprehensive.

After a measure in 2010 for the deployment of the benchmark, *Our Principles of Responsibility*, the 2011 assessment focused on the Responsibility & Ethics Dynamics program as a whole, with a particular focus on the 19 most exposed countries in which the Group works, according to the corruption perception index of Transparency International.

The audit shows the level of knowledge of *Our Principles of Responsibility* stands at 75% (83% if a recently acquired entity is excluded). Beyond the figures, the audit revealed two very important points:

- on the one hand, regarding the means of communication judged the most effective;
- and on the other, on the level of perception of *Our Principles of Responsibility* by position within the Company.

Since 2012, these lessons are driving us to integrate communication into the Schneider Electric University training programs and to use supplementary action for the job posts where the result is weakest.

### Personal data protection

Building a global organization requires the pooling of our information systems (human resources, customer relationship management, suppliers, etc.) and globally sharing our databases among all entities. However, personal data protection regulations restrict cross-border flows of personal data by subjecting them to strict constraints requiring the signing of contractual agreements between the entities concerned.

Schneider Electric chooses to provide legal certainty for cross-border flows by developing a code of conduct for the protection of personal data (Binding Corporate Rules), an option proposed to multinationals by the personal data protection authorities in Europe.

Schneider Electric's Binding Corporate Rules were approved on November 27, 2012 by the personal data protection authorities in 26 Member States of the European Union.

These data protection rules will be applicable to all Schneider Electric subsidiaries worldwide. The communication plan, e-learning module and practical guides will be available to allow for harmonized deployment of the Binding Corporate Rules, which will be binding on all employees. Their implementation will be subject to an annual audit, whose report will be available to the personal data protection authorities.

This code of conduct publicly affirms Schneider Electric's commitment to protect the personal data of its employees but also of its customers, which is a measure of a digital strategy that reconciles economic business objectives and respect for the fundamental right of people to protect their data and their privacy.



### Award for excellence 2012

The Group is proud of having been included in The Ethisphere Institute's World's Most Ethical Companies indicator for the second year in a row.

Schneider Electric is among 100 international companies recognized for their ethical commitment and behavior. The performance measure looks at the existence and consistency of governance, the reputation and influence of the Company, the quality of actions promoting citizenship and social responsibility, and the culture and actions promoting ethics. This recognition is reassuring for the Group as it implements the Responsibility & Ethics Dynamics program.

### Outlook for 2013

Program rollout will continue in 2013 along various axes:

- continuing communication actions and training for employees in countries most susceptible to breaches of ethics;
- continuation of implementing simple measures to enable employees to understand ethical dilemmas in an operational context and to help them place themselves above the risk level to which they may be exposed; this action, which was decided in 2012, will build up a corpus of training kits in 2013 that will be available to all Group managers. Each kit, for use at team meetings, includes an ethical dilemma placed in a real-life context, three examples of typical behaviors and an explanation of the behavior recommended by the Group ;
- working with the *Principles of Responsibility* Advisors to forge closer ties between the principles and the operational procedures and directives that should be readily available to all Group employees.



## 2.5 Fight against corruption

### Approach and action plans

Schneider Electric is subject to investigation, controlled by rating agencies and investors on sustainable development practices, which often include questions on very specific subjects, such as our anti-corruption policies. The Group makes an effort to respond to all questions with full transparency.

The Governance Committee, presided over by the Strategy & Innovation Function, applies a seven-point progress plan based on the Responsibility & Ethics Dynamics program:

1. identify high level employees to monitor the rollout of the Responsibility & Ethics Dynamics program;
2. define best practices to prevent illegal actions, strengthen management's major role and promote use of the professional alert system;
3. ensure that all policies comply with *Our Principles of Responsibility*;
4. inform employees of standards and procedures;
5. implement monitoring, audit and reporting systems;
6. establish a discipline for the practical implementation of standards and procedures;

7. in the event of a breach of the ethics principles, take the corrective measures necessary, including the consolidation of procedures.

### Examples

In full coordination with the Responsibility & Ethics Dynamics program, the awareness-raising actions, linking the Sustainable Development, Legal, Security and Internal Audit functions, have been led by the line managers in 2012.

Various other anti-corruption initiatives have been implemented, at the national or regional level:

- in France, Schneider Electric is involved in defining ethical standards as part of the Business Ethics Commission of the Gimélec, a grouping of manufacturers of electrical equipment, control systems and related services;
- in Russia, Schneider Electric signed an ethics charter with the Association of European Businesses;
- Schneider Electric Egypt obtained specific anti-corruption certification for its work with the National Electricity Corporation in Sudan.

## > 3. Schneider Electric's Commitment to Environmental Performance

This chapter deals with the environmental impact of the Group's industrial activities. The products and solutions offered by Schneider Electric which help reduce the environmental impacts of our customers' activities are described in part 2 (page 52).

### 3.1 Overview

#### Context and aims

Schneider Electric does not produce nor distribute energy. It conceives and builds electrical products and proposes integral solutions for a number of market segments. The great majority of these products are installation components for energy management. They consume little energy compared with the devices they control, and the losses through dissipation are negligible compared with the energy in transit. Production activities, for their part, mainly call on assembly and control techniques and only minimally integrate procedures with a significant environmental impact, such as the transformation and treatment of metals.

With a company presence in more than 100 countries resulting from a continual rhythm of acquisitions, Schneider Electric applies a common environmental policy to all its entities and rolls out the same programs for certification, reporting and performance objective throughout all its geographical locations.

Schneider Electric commits to protecting the environment and health through the following objectives contained in the Connect company program:

- to roll out ISO 14001 certification and the Group's environmental reporting to 100% of the industrial sites and logistics centers (more than 50 people) within two years after their creation or acquisition, and to the large tertiary sites (more than 500 people);

- to roll out energy efficiency monitoring solutions to sites larger than 5,000 m<sup>2</sup> and to several strategic sites (*i.e.*, a total of more than 300) covering 90% of the Group's total consumption, and reduce the energy consumption at these sites by 10% in three years (Energy Action program);
- limit leaks of SF<sub>6</sub> to 0.95% of the consumption of that gas on those sites;
- reduce the emissions associated with transportation paid by the Group by 10%;
- reduce the Group's water consumption with specific objectives and action plans for the sites with the highest water consumption

- and those located in areas of water stress, and control the deviations (+/-10%) of all sites that report water consumption;
- monitor VOC emissions (Volatile Organic Compounds) for all ISO 14001 sites holding emissions permits or emitting more than one ton per year;
- achieve an 85% waste recycling rate;
- achieve 75% of product revenue from products that have a life-cycle analysis and controlled and limited chemical substance usage (Green Premium).



For this section, three key performance indicators were set in the **Planet & Society Barometer** for the duration of the Connect program (2012-2014):

Objectives for year end 2014	2012	2011
1. <b>10% CO<sub>2</sub> savings on transportation</b>	14.8% ▲	-
2. <b>75% of our product revenues achieved with Green Premium</b>	65.5% ▲	63%
3. <b>10% energy consumption savings</b>	6.1% ▲	-

*The 2011 performance serves as a starting value for the Planet & Society Barometer Connect program between 2012 and 2014.*

▲ 2012 Audited Indicators.

*Please refer to pages 92 to 94 for the methodological presentation of indicators and the following pages for the analysis of the results (pages 65 for indicator 1, 65-67 for indicator 2 and 63-64 for indicator 3).*

## Organization

At the corporate level, Sustainable Development Department establishes the Group's environmental strategy and leads the corporate environmental players, jointly with the Global Supply Chain Management. The Sustainable Development Director is ranked below the Executive Vice President of Strategy and Innovation (member of the Group's Executive Committee).

The Environment Director, ranked below the Senior Vice President of the Global Supply Chain Management (member of the Group's Executive Committee), defines and rolls out the environmental policies and programs; he reports the results and leads the environmental manager network comprising:

- for product management: environmental managers in each business who are responsible for integrating environmental concerns in line-up management, environmental representatives who are responsible for assessing the impact on marketing, and environmental specialists with expertise in integrating environmental aspects into product design;
- for site management: environmental managers in each major region, environmental managers in each large region with significant business volume, and environmental managers in each plant or supply chain center.

In 2010, the organization within Global Supply Chain Management changed from a corporate-only leadership to a regional organization (North America; Asia-Pacific; Europe, Middle-East, Africa and South America). Three SERE (Safety, Environment and Real Estate) directors were appointed; each one is responsible for implementing the Group's policies in these fields for all sites within their geographical area and for reporting on progress plans. There is a meeting of the three directors every quarter to ensure coherence

in the Security, Environment and Real-Estate policies for the entire Group. To implement this policy, the SERE directors lead a network of more than 200 managers responsible for the environmental management of industrial, logistic and administrative sites.

These networks have access to a wide range of management and experience sharing resources including directives, application guides, an intranet site and databases.

The Transport Director, within Global Supply Chain Management, is in charge of measuring and reducing freight CO<sub>2</sub> emissions at Group level.

To educate all employees on environmental issues, e-learning modules have been developed, including the eco-responsible management of energy and environment; these modules complement the existing technical training. In addition, an Intranet environment is accessible by all employees and expanded continuously to inform everyone about the levels of our programs and the contribution of each one.

## Highlights of 2012

- Indexation of the performance incentives for the Executive Committee members to one or more components of the Planet & Society Barometer, chosen according to their field, (since 2011); expansion in 2012 to the Country Presidents of the five principal countries; especially Green Premium for Global Supply Chain Management and Activities, reductions in CO<sub>2</sub>, ISO 14001 and energy efficiency for Global Supply Chain.
- Launch of a new Planet & Society Barometer for the 2012-2014 period: the CO<sub>2</sub> emissions reduction indicator for 2009-2011, whose target of 90,000 tons was exceeded, was extended to

two distinct indicators - reduction of CO<sub>2</sub> emissions in transport and reduction of energy consumption; the Green Premium indicator target was raised from 2/3 to 75%.

- Two indicators had a very strong start in 2012: reduction of CO<sub>2</sub> emissions in transport with 14.8% reduction, and reduction of energy consumption with 6.1% reduction; this was the result of efforts undertaken over the past several years in these areas.

### 3.2 Reduction of CO<sub>2</sub> Emissions

#### Approach

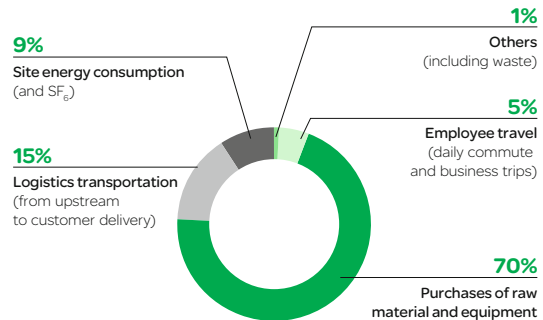
Schneider Electric is not subject to European quotas on carbon emissions since it is an industrial business that globally produces few emissions in comparison to energy intensive industries. Schneider Electric is therefore classified in the low emissions sector by the Carbon Disclosure Project <sup>(1)</sup>. However, the Group has defined measures to reduce its carbon emissions.

With the support of the Carbon 4 consultancy firm, in 2011-2012 Schneider Electric updated the carbon footprint performed in 2007 (from 2006 data), from its upstream suppliers to its downstream distribution chain. The main sources of emissions remain the same: purchase of raw materials (steel, plastic and metal) and equipment represents around 70% of the total. The logistics involving upstream and downstream supply from and to suppliers and first tier customers represents 15%, of which the main part comes from road freight. Schneider Electric is aiming to reduce emissions related to transport paid by the Group by 10% over the next three years (see p. 65). Direct emissions (scope 1 and 2) in Group buildings represent around 9%. Schneider Electric is committed to reducing its energy emissions by 10% over the 2012-2014 period (see p. 63-64). More modest items – employees' travels and waste – represent 5% and 1% respectively.

This emissions split is representative of a second transformation activity.

Compared to emissions evaluated in 2006, carbon intensity of the Group fell and certain sources were the subject of specific work in which the results are very visible: SF<sub>6</sub> emissions for example were significantly reduced.

Finally, the structure of emissions has changed: freight emissions as a percentage have decreased following a correction of the method used for 2006 figures.



For the 2009-2011 period, Schneider Electric set itself the following objectives:

- reduce CO<sub>2</sub> equivalent emissions of 30,000 tons per year for all scopes 1 and 2 as defined in the GHG Protocol <sup>(2)</sup> (emissions of SF<sub>6</sub> gas in the industrial sites concerned, and energy consumption of the industrial and logistics sites and some tertiary sites) as well as a part of scope 3 as defined in the GHG Protocol (air cargo in the long distance freight transport mix <sup>(3)</sup>); the objective was to reduce CO<sub>2</sub> emissions by approximately 15% over three years on a constant basis compared to 2008;
- implement a recovery process for SF<sub>6</sub> gas in 10 countries. The first devices containing SF<sub>6</sub> gas sold by Schneider Electric reached their end-of-life at the start of 2000. The objective was to develop commercial offers that allow customers to dispose of their end-of-life, SF<sub>6</sub> containing devices, in order to completely extract the gas and recycle it.

(1) Source: Carbon Disclosure Project 2008, Survey of the SBF120 French companies.

(2) The Greenhouse Gas Protocol (GHG Protocol) is the most widely-used international accounting tool for CO<sub>2</sub>-equivalent emissions. Scope 1 corresponds to greenhouse gas emissions from sources held or controlled by the Company. Scope 2 corresponds to emissions for the generation of electricity consumed by the Company. Scope 3 corresponds to all other indirect emissions of the Company from sources that it does not hold or control (transport, use of products and services, etc.).

(3) Long-distance freight includes air freight and maritime freight.

At the end of the One program (2009-2011), Schneider Electric had saved nearly 162,000 tons of CO<sub>2</sub> equivalent. The reduction target of 30,000 tons per year (*i.e.*, 90,000 tons over the three-year period of the program) was exceeded. In addition, eight countries had established an SF<sub>6</sub> gas recovery pathway.

The following actions were undertaken to achieve the target:

- the carbon footprint of scopes 1 and 2, as defined in the GHG Protocol, is calculated monthly, as is the performance of each site concerned;
- since 2010, the carbon performance has been presented monthly to the Management Committee of the Global Supply Chain Management by the Group's Environmental Director and the three SERE Directors (Safety, Environment and Real Estate);
- since 2010, the carbon footprint reduction target has been taken into account for the performance incentives of all Global Supply Chain Management personnel who receive a bonus;
- since 2011, the reduction of the carbon footprint and the energy efficiency programs were included in the performance incentives of the Executive Committee member in charge of Global Supply Chain.

In 2011, Schneider Electric worked on defining its new carbon emission reduction targets for the 2012-2014 period within the scope of the company program. The Group's approach is based on measuring, controlling and reducing CO<sub>2</sub> emissions, starting with the most direct ones upon which the Group has most impact and greater reliability in terms of metering (these correspond to scopes 1 and 2 defined in the GHG Protocol) followed by more indirect emissions (corresponding to scope 3 of the GHG Protocol). Consequently, for the 2012-2014 period, Schneider Electric:

- set an objective to limit leaks of SF<sub>6</sub> to 0.95% of the consumption of that gas on those sites. As a reminder, over the 2009-2011 period, the Group reduced this rate from 4% to 0.95% (the goal was to reach 1%);
- included on the Planet & Society Barometer the objective of achieving 10% savings on its energy consumption;
- expanded its ambition on measuring and reducing its scope 3 by integrating into the Planet & Society Barometer a specific objective of a 10% reduction in CO<sub>2</sub> in transportation paid by the Group.

## Action plans

### Actions to reduce SF<sub>6</sub> emissions

The CO<sub>2</sub> savings realized by Schneider Electric over the 2009-2011 period was mainly due to the reduction of SF<sub>6</sub> leaks in the production processes, resulting from:

- mandatory monthly reporting since 2010 rather than twice yearly in 2009;
- a Failure Modes, Effects and Criticality Analysis (FMECA) deployed for manufacturing processes that involve SF<sub>6</sub> gas since 2010;
- improvements in processes and measurement on certain high emission sites, particularly the SCFME Libourne site (France), the largest European site, and the SBLMV Peking site (China), the Asian site with the highest SF<sub>6</sub> consumption.

Industrial leakage of SF<sub>6</sub> gas had to be reduced from a rate of 4% at the end of 2008 to a rate of 0.95% by the end of 2011 for gas consumed during production. The investments made to achieve this performance continue to bear fruit and the Group has set the objective of maintaining this rate at a maximum of 0.95% of SF<sub>6</sub> leakage. Since this objective is no longer a goal of company change, it is no longer included in the Planet & Society Barometer over the 2012-2014 period, but continues to be followed in the dashboard of the Group's internal control.

In 2012, the Group exceeded its objective with an SF<sub>6</sub> leakage rate of 0.75%, equivalent to about 10,400 tons of CO<sub>2</sub> emissions avoided compared to 2011 (data corrected for production level).



### Energy savings

In general, Schneider Electric sites are low consumers of energy, compared with more energy intensive industries. However, Schneider Electric wishes to set an example in the reduction of energy consumption by applying its own solutions.

## Energy Action program

### Approach

Schneider Energy Action is a program for the continual reduction in energy consumption in all of the Group's sites. The objectives are:

- cutting out waste of electricity, natural gas and oil, and thereby reducing costs;
- deploying Schneider Electric's energy efficiency solutions at its own sites;
- demonstrating Schneider Electric's expertise to its customers;
- raising employees' awareness about new energy efficiency solutions and their own contribution to product development.

Around 9% of total Group emissions come from energy consumption at its sites (according to the carbon footprint of 2012). Since 2005, Schneider Electric has fixed annual objectives for reduction and publishes (internally) the energy consumption of each of its production and logistics sites each year, as part of the Schneider Energy Action program. The Group met and in some cases exceeded its objective of reducing energy consumption per production site employee by 10% between 2005 and 2008. The 2009-2011 objective of -4% per year and per employee was also achieved overall at the end of 2011.

The Planet & Society Barometer for the One program (2009-2011) extended the monitoring of energy consumption to major tertiary sites, including these in the objectives for ISO 14001 certification of sites. The Group's head office in France was therefore certified according to the ISO 14001 environmental management standard, the EN 16001 energy management standard in 2010 and was the first building to receive the new ISO 50001 certification in 2011. The sites' energy consumption is monitored on a monthly basis by the Management Board of Global Supply Chain Management since 2010. Global Supply Chain Management is responsible for all of the Group's sites.





## SUSTAINABLE DEVELOPMENT

### SCHNEIDER ELECTRIC'S COMMITMENT TO ENVIRONMENTAL PERFORMANCE

#### Action plans

The 2012-2014 company program includes the following objectives:

- reduction of energy consumption by 10% over three years compared to 2011;
- reporting of energy bills and roll-out of the StruxureWare Resource Advisor software for all sites with more than 5,000 m<sup>2</sup>;
- roll-out of StruxureWare Energy Operation at those sites for real-time monitoring;
- certification of energy management systems pursuant to the ISO 50001 standard for 20 sites;
- identification of opportunities to reduce energy consumption over all sites as a result of the Energy Action audits.

The Schneider Energy Action program uses Schneider Electric energy service activities to identify opportunities in key areas which are HVAC (Heating, Ventilation, and Air Conditioning), certain equipment (such as air compressors), lighting and specific industrial processes.

Many initiatives and awareness campaigns are implemented internally to improve understanding of the short and long term benefits of energy efficiency. There is also a dedicated Intranet site that provides information on progress and the results obtained as part of Schneider Energy Action.

The program resulted in the following achievements in 2012:

- adjusted energy savings of 6.1% compared to 2011 (climate and industrial businesses) for the 100 highest-consumption sites;
- connection of 148 sites to Struxureware Energy Operation;
- connection of 202 sites to Struxureware Resource Advisor;
- ISO 50001 certification of 36 sites;
- at the 100 highest-consumption sites, an energy manager and an energy reduction action plan;
- around EUR3 million invested in energy efficiency projects, generally with a return on investment of less than three years.

Energy Operation and Resource Advisor are software suites that are part of the Schneider Electric StruxureWare platform, which helps customers in any market segment and across all geographic areas to maximize their business performance while conserving their resources, including energy. Energy Operation is applied at the operations level and Resource Advisor is applied at the company level.

Resource Advisor is Schneider Electric's enterprise-level StruxureWare software application and part of the EcoStruxure architecture. Resource Advisor provides secure access to data, reports and summaries to drive energy and sustainability programs.

Energy Operation is Schneider Electric's operations-level StruxureWare software application, part of EcoStruxure. Energy Operation provides a data visualization and analysis application that aggregates volumes of raw energy data into actionable information. As a cloud-based software as a service (SaaS) model, it gives reduced solution cost, increased data storage capacity, and a very

flexible and mobile energy solution enhanced by Schneider Electric expert services.

#### Examples

Implementing our own solutions, we have transformed our Pisek manufacturing plant in the Czech Republic into an energy efficiency showroom, demonstrating our core strategy to customers and employees. Thanks to Energy Action, the plant reached 24.5% reduction in energy consumption in 2012 vs. 2008.

#### The Green IT program

Green IT is a program to reduce the electrical consumption of Schneider Electric's IT infrastructure (data centers, servers and IT devices). It addresses all phases of the life cycle of IT devices and involves a close partnership with our equipment and services suppliers to reduce their carbon footprint.

The main objectives are:

- to optimize the number of data centers and their energy management using Schneider Electric products and solutions;
- to ensure the continuous training of our IT teams, implementation of continuous improvement plans and best practices to reduce the use of electricity of all IT devices from the data centers to the end user.

The following measures were implemented in 2012:

- roll out of a Green IT configuration for more than 15,000 PCs, providing a 20% reduction in power consumption and saving more than 850 MW per year;
- improvement of the PUE (Power Usage Effectiveness) from 1.2 to 1.08 for the Swindon (UK) data center, which hosts three of our SAP platforms;
- consolidation in North America of 400 servers in the Lexington data center to the St. Louis data center on a Vblock virtual farm, optimized infrastructure for the consolidation of data centers and cloud computing, allowing for storage savings of more than 830 MW per year; this experience will allow for significant further consolidation and virtualization in 2013, in order to go from 80 sites to 8 sites with more than 30% reduction in power consumption;
- major infrastructure study in the Asia-Pacific region targeting the consolidation of more than 200 sites into 28 sites, and 78% virtualization in 2013;
- major infrastructure study in China with the construction of a "green" data center for a reduction of 70% in the number of physical servers and energy savings of 40%; the project was launched in 2012 with plans for completion in 2014;
- launch of Green IT awards in the Asia-Pacific region; roll-out of the "my carbon footprint awareness" and "going lean and optimization practical classes" programs in order to implement Wake-on-LAN (WoL, an Ethernet network standard that allows a computer to be booted from a distance), optimize the power of PCs and screens and increase the ambient temperature of the server rooms.



## Actions to reduce emissions linked to freight

### A goal of reducing emissions linked to freight applies to the entire Group

In the framework of the three-year Connect company program and the Planet & Society Barometer, reducing emissions in freight transport has been the subject of particular monitoring and was applied to the entire Group in 2012. A goal of a relative reduction in emissions of 3.5% during the first year was validated, with the target of achieving a reduction of 10% over three years.

Thanks to the good results obtained on long distance freight, reductions in CO<sub>2</sub> emissions exceeded the target by reaching 14.80%, covering 81% of paid transportation.

### Long distance freight

In 2012, the major players in the supply chain and logistics have increased their efforts to reduce air freight in favor of sea transport for long distance freight. In 2012, air freight tonnage represented 13.3% of joint air and sea tonnage, as against 17.9% in 2011 and 20% in 2010. The relative reduction in CO<sub>2</sub> emissions in this area was 28%.

### Short distance freight

In 2012, the performance was more mixed on the road carrier portion and will require more targeted actions in 2013. Total CO<sub>2</sub> emissions on road increased by 4.7%.

However, several initiatives have emerged. Of special note are:

- the consolidation of shipments between the two warehouses in England in November which – by reducing the number of shipments by 13% – will generate a reduction in CO<sub>2</sub> emissions of 157 tons per year;
- a reduction in empty miles in the provision of trailers at the distribution center in Leeds after optimizing loads allowed the number of trailers used daily to be reduced from four to three, saving 14 tons of CO<sub>2</sub> per year;
- the use of the Alpine rolling highway from our warehouses at Evreux (France) and Venaria (Italy) since June 2012, which has already reduced CO<sub>2</sub> emissions by 13 tons over the last six months of 2012.

## Participation in several key initiatives

In road transport, which produces the most significant portion of Schneider Electric's emissions, the Group continues to play an active role in the Green Freight Europe initiative. Today, more than 70 supply chain and some shipping multinationals are involved in this initiative that aims to promote a European framework to address the issue of CO<sub>2</sub> transport emissions. Schneider Electric is particularly involved in the working groups in charge of the development of a tool for reporting carbon dioxide emissions on a simple shared basis. Schneider Electric is also involved in Green Freight Asia, which also promotes good practices in terms of sustainable development in transport. Finally, Schneider Electric is now in charge of the Transport & Environment Commission of the AUTF (*Association des Utilisateurs de Transport de Fret*), marking its strong involvement in France on the subject of sustainable development in transport.

### Special training on CO<sub>2</sub> emissions in transport

In 2012, two distance-training modules (e-learning) were prepared. The first deals with climate warming in general and the harmful effects of greenhouse gas emissions.

The second addresses the problem of CO<sub>2</sub> emissions in transport and explains the actions Schneider Electric is taking in this area. This module also explains the methodology used to measure our CO<sub>2</sub> emissions in transport.

Finally, a third module consisting of an on-site training day was designed to help managers of the transport activity to establish action plans, mainly in the area of road transport.



## 3.3 Eco-Design

### Approach

While there is no general legal obligation on eco-design, the pressure on the use of natural resources, climate change and respect for biodiversity encourages the public and private players to mobilize around these questions.

It is unusual for customers to explicitly specify environmental criteria for a product, but having a "green supplier" is becoming a prerequisite.

Global customers, particularly in the green construction or transport sectors or the authorities, need support to implement their environmental policies, especially to:

- calculate and reduce their carbon footprint;
- anticipate and ensure conformity with statutory provisions, especially with regard to chemical products;
- facilitate eco-design of their products and services by supplying all the appropriate information;

- reduce management costs of end-of-working-life installations for the customer by optimizing recycling.

In order to continue and strengthen its commitment to sustainable development and to be the first to supply its customers with all the environmental information that they need, Schneider Electric developed Green Premium – a unique eco-brand based on criteria clearly defined either by law or by international standards. These criteria include easily and globally accessible *ad hoc* environmental information on its products.

A solution falls under the Green Premium branding if it satisfies the four following criteria:

- complies with the RoHS European directive, *i.e.*, it does not include one of the six substances stated in this directive;
- contains information relating to the presence of Substances of Very High Concern (SVHC) within the scope of the REACH European regulation;



## SUSTAINABLE DEVELOPMENT

### SCHNEIDER ELECTRIC'S COMMITMENT TO ENVIRONMENTAL PERFORMANCE

- has a Product Environmental Profile (PEP) providing a list of materials, a recycling rate and a calculation of eleven environmental impacts such as raw material and energy consumption, carbon footprint and damage to the ozone layer; this environmental profile is established over the whole product life cycle, from manufacture to end of working life;
- contains a guide identifying and locating the subsets or components required for a particular recycling process, called the End-of-Life Instruction (EoLI).

As part of its new Connect business program, Schneider Electric is strengthening its eco-brand Green Premium and renewing its communication through the Planet & Society Barometer.

Green Premium is the foundation of Schneider Electric's Eco-design approach. Through knowledge of the substances in its offerings and evaluation of environmental impacts, Green Premium allows Schneider Electric to target and engage improvements in the environmental footprint of its future offerings. Compliance to Green Premium criteria also contribute to the conservation of biodiversity.

## Action plans

### Green Premium Eco-brand

The Schneider Electric Environment Marketing campaign was rolled out during 2012, promoting the Green Premium eco-brand through:

- the Schneider Electric electronic catalogue: the Green Premium offerings are clearly identified and environmental information is collected appropriately;
- direct access from the Schneider Electric web portal: the Green Premium web pages explain in detail Schneider Electric's approach and each environmental criterion addressed by Green Premium;
- a single "Check a Green Premium Product" web portal: RoHS compliance information, REACH content (SVHC - "Substance of Very High Concern"), Product Environmental Profile and End-of-Life Instruction are available on simple request regarding the trade references of Schneider Electric. This information can also be downloaded;
- publication of the Green Premium white paper.

In 2012, more than 230 Product Environmental Profile (PEP) documents and more than 130 End-Of-Life Instructions (EoLI) were generated in addition to the hundreds of documents already available.

Linked to more than 75% of revenue taken for the RoHS compliant offers and with the REACH information available, Schneider Electric's target was to consolidate this in 2012 with 65.5% of global product sales made through Green Premium offers, based on 2011 sales.

The Check a Product website was checked worldwide on average more than 3,000 times per month and more than 6,000 reference products were checked monthly for their RoHS and REACH environmental status and their PEP and EoLI environmental information.

As part of the development of new Schneider Electric offerings, Green Premium is an integral part of the creation and development process for Schneider Electric's offers as a critical deliverable for marketing product offers.

### Substance Management

Schneider Electric is subject to European environmental regulation, with particular emphasis on the use of toxic substances.

The REACH regulation requires traceability of dangerous substances and the RoHS directive requires elimination of six substances: lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls (PBBs) and polybrominated diphenyl ethers (PBDE).

Schneider Electric has implemented the RoHS and REACH programs by applying these European regulations.

**The RoHS program**, started in 2006, aims to eliminate the six substances from all products. By deciding to eliminate these substances from all its products, whether or not affected by the directive or sold on the European market or worldwide, Schneider Electric has gone far beyond the directive's requirements.

Efforts to bring products into compliance continued in 2012, particularly for the new entities to have recently joined Schneider Electric. For specific offers that have little to do with the scope of the RoHS directive, such as the medium voltage equipment of Areva Distribution activities, RoHS compliance will be continued during the years to come. Any new offer is developed in compliance with the RoHS directive.

Directives similar to the RoHS European directive are now in force or being discussed in several countries. Schneider Electric's decision to generalize the application of the RoHS to all its products has helped anticipate developments in regulations all over the world and Schneider Electric is able to offer products which comply with the RoHS directives on all its markets (China, India, South Korea, Japan, etc.).

**The REACH program**, initiated in 2008, aims not only to ensure that substances used by Schneider Electric and its subsidiaries are registered and authorized for the applications in question, in accordance with regulations, but also to specify the information to be provided to customers about the presence and level of Substances of Very High Concern in Schneider Electric products.

In 2012, the REACH program continued to take into consideration the updates to the list of Substances of Very High Concern published by the European Chemicals Agency (ECHA). At the end of November 2012, the communication of the presence and content of these substances included 84 hazardous substances.

**The CRESCENDO project**, initiated in 2011, which aims to integrate substance management within our information systems, was finalized in 2012 for implementation in 2013. The automation of REACH and RoHS reports will accelerate the dissemination of information to our customers while anticipating the impact of obsolescence on our offerings.

### Environmental information

The Green Premium eco-brand guarantees customers the availability of environmental information relating to Schneider Electric product offers such as the Product Environmental Profile (PEP) or the End-of-Life Instruction (EoLI).

As an integral part of the eco-design approach, the **PEP program** provides customers with the environmental impact of products during their life cycle according to the ISO 14040 standard. This program applies to all offers developed by Schneider Electric.

This is an independent certification by the association PEPecopassport, based on ISO 14025, and it provides an additional level of rigor, reliability and transparency.

The **EoLI program** integrates the idea of recycling into the design of products in order to promote recovery of end-of-life materials. Schneider Electric has developed a design rules guide in order to optimize end-of-life costs and the potential recycling rate of its products.

These practices result in the publication of information and recommendations to facilitate recycling of subsets or components stated in the WEEE (Waste Electrical and Electronic Equipment) European directive. Even though the vast majority of Schneider Electric product offers do not fall under this directive, Schneider Electric makes the End-Of-Life Instructions information sheets available to its customers. This allows customers to identify and locate the subsets or components so that they are able to recycle them using suitable processes that are environmentally friendly.

### Eco-Design Strategy

By focusing its efforts to improve the environmental footprint of its offerings on the protection of people and the environment, climate change and resource scarcity while addressing environmental issues with its suppliers and its manufacturing processes and logistics, in 2012 Schneider Electric consolidated its Eco-design strategy in line with its Environment policy, its commitment to sustainable development and the evolution of international directives and standards.

### Compliance with WEEE and equivalent legislation

A number of political commitments and regulations address the issue of waste from electrical products. One example is the European Waste Electrical and Electronic Equipment directive (WEEE), which has been transposed into law in each Member State. Similar regulations have been adopted or initiated in Japan, China, India and the United States.

The WEEE directive's main objective is to increase the recovery rate for the largest types of electrical waste, such as televisions, refrigerators and lighting systems, as well as for short-lived IT and telecommunication equipment. Industrial electrical and electronic devices and electrical distribution equipment are only very marginally concerned as of now. Under the directive, the equipment manufacturer is responsible for setting up and financing dedicated solutions to collect and process discarded equipment. The directive sets minimum rates for recovery and recycling.

Schneider Electric is actively involved in a responsible approach even though virtually none of its products are covered by the directive.

As a responsible company, Schneider Electric must be able to prove the existence of established end-of-life solutions. These must be financed and certified for collecting, processing and recycling end-of-life products in a way that respects both human health and the environment.

Carried out in close cooperation with all Group partners, the approach is deployed at the national level in each host country. This involves identifying, certifying and in some cases organizing solutions for processing waste from electrical equipment, with the application of the appropriate indicators.

### Green Plastic Program

This technological innovation program aims to make plastic parts less hazardous to health and the environment in order to offer products and solutions today in accordance with the principles of sustainable development. In effect, plastic is present in almost all Schneider Electric products and the amount of CO<sub>2</sub> equivalents needed to produce the plastic is estimated at 550,000 tons per year. The Green Plastic program is carried out in collaboration with the businesses and the teams in charge of material purchasing and design, and is part of the Group's actions for sustainable development.

The program follows a unique strategy for each type of plastic focusing around three successive progress plans. A "green" plastic must therefore:

1. be exempt from potentially toxic substances and have an end-of-life evaluation scenario that respects the environment (material or energy);
2. come from a production sector that has low CO<sub>2</sub> use (recycled plastic or plastic from renewable sources) and be capable of limiting fossil fuel demand as well as energy and water;
3. come from a resource that does not compete with the food sector either directly or indirectly, in the case that the Green Plastic solution makes good use of a raw material from a renewable source.

The added value that customers expect from "green" plastics lies in two major areas:

- applications exempt from substances of very high concern, particularly including non-PVC and non-halogen flame retardant plastics product ranges;
- energy efficient or electric vehicle offers that use plastics with a very low environmental impact.

Schneider Electric uses a partnership approach in order to make progress in research in this area. The Group therefore participates in collaborative platforms such as the Paristech Mines Bioplastics Chair or the Axelera competitive clusters initiative (in sustainable chemistry) and Plastipolis (in plastics engineering).

By actively participating in the Polywood project, Schneider Electric has solidified its commitment to bio-plastics from non-food resources. Under the acronym Polywood, this collaborative project encompasses the development of a bio-refinery fueled by wood by-products provided by the paper industry.



## 3.4 Eco-Production

### Approach

Schneider Electric has rolled out the ISO 14001 certification for all its manufacturing sites with more than 50 people and large tertiary sites. All these sites contribute to reporting, and therefore to the Group targets. The certification objective helps focus continuous efforts to reduce the main environmental impacts of the sites, shown in the table on pages 99-100:

- energy consumption;
- CO<sub>2</sub> emissions;
- amount of waste produced;
- percentage of waste recovered;
- consumption of water;
- VOC emissions (Volatile Organic Compounds).

### Action plans

#### ISO 14001 certification of Group sites

As soon as the ISO 14001 environmental management standard was published in 1996, Schneider Electric decided to certify its sites. For several years the Group has demanded that all industrial and logistic sites with more than 50 people be ISO 14001 certified within two years of their acquisition or creation.

The extension of this internal directive to the major tertiary sites was launched in 2010. The headquarters of the Group in France, in Rueil-Malmaison, was certified in 2010. This extension was reaffirmed for the 2012-2014 period for all tertiary sites with more than 500 people.

At the Group level, the scope of certification covers about 70% of employees.

The challenge for the coming years is to maintain this performance level by certifying all the new industrial sites within two years of their acquisition or creation and to continue the new certifications of large tertiary sites.

#### Management of industrial consumption

##### Water consumption

The Group provides a detailed breakdown of water consumption that takes into account groundwater and water from the public network. Water drawn for the sole purpose of cooling and immediately released without alteration are also monitored and are subject to separate accounting from 2012, starting in 2012 by the sites Carros (Nice) and TEC38 (Grenoble) and all relevant sites from 2013.

Schneider Electric reports on the quantities of water consumed by its sites on a six-monthly basis and monitors the per capita consumption of water on a like-for-like basis in order to evaluate its performance from one year to the next. From 2013, this reporting will be monthly.

In 2012, the overall eco-production approach allowed the Group to reduce its per capita consumption of water by 4.1% by the end of 2012 in relation to 2011 on a like-for-like basis. The target of

3.3% has been exceeded. Water used for cooling at the Carros (Nice) and 38TEC (Grenoble) sites is not included in this calculation for 2012.

Water is not generally a critical resource in Schneider Electric's industrial processes.

Water is essentially used for sanitary purposes, sometimes for cooling and in certain sites for surface treatment. In the latter case, industrial water discharge is subject to treatment that is suitable in terms of its pollutant potential and discharge into the natural environment or in a plant subject to a monitoring plan.

As Schneider Electric industrial production is mainly based on manual assembly processes or automatic processes for electrical components and subsets, it has low water consumption and a negligible impact on water quality.

Nevertheless, in 2011 the Group initiated an analysis of industrial site positions relative to water stress in different regions throughout the world using the WBCSD tool (World Business Council for Sustainable Development).

The "Everblue" project was launched in 2012. This project aims to better understand the uses of water within the Group, and therefore its exposure to water-related risks, and to reduce consumption. Particular attention is paid to the highest-consumption sites and those located in areas of water stress, where the objectives of reducing water consumption accompanied by specific action plans are reviewed, site by site.

##### Energy consumption

See the Group's energy consumption action plans on pages 63-64.

##### Raw material consumption

Schneider Electric focuses on making its devices more compact to conserve natural resources so that customers have more environmentally friendly products to choose from. The Group has developed design tools for managing thermal and electrical constraints so that it can optimize the amount of materials required in production. Each device's Product Environmental Profile (PEP) lists the materials used. To facilitate end-of-life processing, Schneider Electric chooses materials that are easy to recycle and clip-together components that are easy to disassemble. Life cycle analyses and recyclability assessments also help the Group identify areas for improvement.

For more information on the Schneider Electric global action plan relating to PEP and to end-of-life instructions, see the Green Premium chapter on pages 65-67. Also see the Green Plastic program on page 67.

Schneider Electric's desire to reduce its environmental impact has driven its focus towards the use of recycled raw materials. For example, about 85% of cardboard used in Europe, 100% in Asia and 60% in North America comes from recycled material. With regard to metals that Schneider Electric purchases on global markets, these include recycled material from recovered waste. A UNEP (United Nations Environment Program) report was published in 2011 addressing the situation with regard to metal recycling rates. On a global level, 18 metals have a recycling rate of over 50%, among which are lead, gold, silver, aluminum, tin, nickel, zinc, copper and

iron, and 34 elements have a recovery rate below 1%, including rare earth elements. The UNEP recommends that priority be given to product design in order to facilitate disassembly and recovery of metals at end of life and to emphasize recycling electrical and electronic equipment (WEEE). Schneider Electric participates in the recycling systems via the recovery of its own waste, with a target of 85% in 2012, and the End-of-Life Instructions for its products.

### **Management of waste, emissions and industrial pollution**

#### **Waste**

Because waste is a major source of pollution but also a potential source of raw materials, waste management is a priority in environmental protection.

Most of Schneider Electric's waste is solid waste. Continuous improvement plans have been deployed to manage this waste. This approach is fully in line with the framework of ISO 14001 certification that all Schneider Electric production and logistics sites worldwide are required to follow.

The target of the One program 2009-2011 was to recover 85% of hazardous and non-hazardous waste. In 2012, Schneider Electric confirmed this objective. Because classification systems vary widely from country to country, the Group does not consolidate global data by category (hazardous and non-hazardous). Data is processed to ensure local traceability. All waste is channeled to the appropriate treatment facility.

Schneider Electric notes the quantities of waste produced and recycled on a six monthly basis and monitors this production per capita, on a like-for-like basis in order to evaluate its performance from one year to the next.

The overall eco-production approach helped stabilize our production of waste per capita in 2012 compared with 2011 on a comparable basis and to increase the proportion of waste recycled from 83% at the end of 2011 to 85.7% at the end of 2012 on a comparable basis. This target of 85% was exceeded.

#### **Conditions of use and contamination of soils**

Virtually all Schneider Electric sites are located in urban or industrial areas and do not affect any notable biotopes. None of the Group's businesses involve extraction or landfarming.

No substances are purposely released into the soil in the course of site operation. Workshop flooring at risk is given a waterproof seal using a suitable treatment (resin retention). Hazardous substances are systematically stored and handled in areas equipped with retention tanks in compliance with regulations. As a result of developments in legislation, retention systems are being designed more and more to compensate in the event of malfunctions or emergencies, such as fires.

In 2012 Schneider Electric conducted its annual review of pollution risks at all manufacturing sites as part of ISO 14001 tracking. No major incidents were reported in 2012.

#### **Discharge into the water and air**

Because Schneider Electric is mainly an assembler, its discharge into the air and water is very limited. Mechanical component

production workshops are carefully monitored, in keeping with their ISO 14001 certification. Their releases are tracked locally as required by current legislation. No major spills or discharges were reported in 2012.

Emissions of NOx and SOx and particles into the air are monitored site by site according to their heating activity; monitoring of these emissions is verified via ISO 14001 audits. Emissions are then monitored by the site managers with respect to the thresholds defined in local legislation and monitored by the heads of the geographical areas (see SERE organization page 61). These emissions are not subject to consolidation at Group level.

The COV emissions have been identified as representative of Group levels and are therefore included in Group reporting.

Finally, the CFC and HCFC emissions are monitored through our air conditioners in accordance with legislation. They are not linked to our industrial activities.

#### **Noise and odors**

All Schneider Electric sites comply with noise and odor limits.

### **Environmental risk management and prevention**

The ISO 14001 environmental management system covers management of environmental risks. No Schneider Electric sites are Seveso classified. The Group has continued to improve its knowledge of its sites, mainly certain sites with a long industrial history, by carrying out detailed analyses of their subsoils. On a permanent basis, Schneider Electric also carries out voluntary transactions to prevent discharges into the soil. As a result of all of these actions, no compensation has been paid out in application of the legal ruling in 2012.

In 2011-2012, a particular effort was dedicated to an independent ground analysis of our oldest industrialized sites. No clean-up action or rehabilitation has been identified as needing to be carried out in the short term.

All of the Group's industrial sites, which are ISO 14001 certified, have procedures in place to prevent emergencies and respond effectively if necessary. Preventive and corrective action plans are based on an analysis of non-standard situations and their potential impact. This analysis draws in part on hazard reviews for classified installations.

In France, for example, certain sites that handle large amounts of chemical compounds, such as Le Vaudreuil, MGA and 38 TEC, are equipped with balloon-type containment systems to avoid any pollution through the water systems; others, located next to a river, have floating beams.

Drills are held regularly throughout the year to ensure that supporting procedures are ready and effective.

A national organization has been set up to track sensitive sites. Their managers systematically receive training in environmental crisis management. Directives, procedures and national guidelines concerning environmental crisis management, historical and current operations management, pollution risk prevention and other topics are available on the intranet. Internal audits verify that these procedures are applied correctly.

See also p. 35-36 for the industrial and environmental risk factors.



## > 4. Committed to and on behalf of employees

### 4.1 Overview

#### Context and aims

Schneider Electric's people are critical to its success. The Group motivates its employees and promotes involvement by making the most of diversity, supporting professional development, and ensuring safe, healthy working conditions.

Human Resources play a key role to support the development of Schneider Electric in the changing context of its activity. This growth is characterized by a sustained internationalization, numerous acquisitions, the increase of headcounts dedicated to selling solutions and services, while maintaining a share of blue collars close to 45%.

Schneider Electric's HR policy is founded on a strong sense of commitment and shared services:

- all of the Group entities participate in the drawing up of HR policies and in their application. This guarantees coherence and facilitates consideration for local economic, legislative and cultural realities;

- all employees are treated equally on the basis of their skills, notably with regard to employment, recruitment, talent identification, mobility, training, remuneration, health and safety (common processes and policies);
- particular emphasis is placed on communicating the Group's broad strategic plans to the employees in order to enhance individual participation;
- training is also a priority so that employees have the opportunity to adapt to developments within the Company.

Schneider Electric encourages each employee to actively manage their own career in collaboration with their line manager, their HR manager and using the tools provided, particularly on the Group's intranet. This allows each employee to play a key role in their own performance and in their advancement.

Three key performance indicators were set in the Planet and Society Barometer for the duration of the Connect program (2012-2014):

Objectives for Year-End-2014	2012	2011
1. <b>30%</b> reduction in the <b>Medical Incident Rate (MIR)</b>	-23% ▲	-
2. <b>70%</b> result in our <b>Employee Engagement Index</b>	55% ▲	-
3. <b>30% women</b> in our talent pool (~2,500 people)	27% ▲	23%
4. <b>1 day of training</b> for each employee every year	-*	-
5. <b>300 sites</b> recognized " <b>Great place to work – Cool sites</b> "	-*	-

The 2011 performance serves as a starting value for the Planet & Society Barometer of the Connect program between 2012 and 2014.

▲ 2012 audited indicators.

\* Ces indicateurs seront reportés à partir de 2013. Les outils nécessaires pour les mesurer sont mis en place en 2012.

Please refer to pages 92 to 94 for the methodological presentation of indicators and the following pages for the analysis of the results (pages 71-72 for indicator 1, 73 for indicator 2, 78 for indicator 3, 75 for indicator 4 and 73 for indicator 5).

#### Organisation

Since 2009, the Human Resources Department has been structured around three principal roles to better respond to their missions:

- HR Business Partner assists managers on a day-to-day basis in setting out their business strategies and in assessing the human resource requirements needed to meet their business targets. HR Business Partner also plays a pivotal role in anticipating skill requirements and employee development, and in the management of employee relations;

- HR Solutions creates and develops comprehensive solutions to the organization's strategic challenges in key areas, such as compensation, benefits, human capital development, training and performance management. Regional teams are leveraged to effectively shadow the Group's globalised operations;
- HR Operations handles the logistics and administrative responsibilities relating to payroll, sourcing, mobility and training programs, mainly through shared service centres designed to optimize efficiency and costs.



In 2012, the Group created a more coherent HR Business Partner (HRBP) structure for front offices at a country level. With this step, all HRBPs supporting front office businesses reported to the Country HR. The Group put this structure in place for improved coverage and consistency and for access to a broader local job market. These HRBPs will have a dotted line to their business (line or HR) to respect and represent what is specific about that business. The same model has been applied to Finance Business partners.

Business Partners remain attached to the relevant Finance and HR SVP/VP or Line Manager for:

- Supply Chain;
- R&D;
- Global Functions;
- Lines of business.

Regional roles have not been immediately impacted but will be reviewed by the Group to see if adaptation is necessary.

#### HR Goes digital

In 2012, The Group has deployed a robust, fully integrated, and global set of HR Information Systems to more efficiently and effectively deliver the Total Employee Experience to our global workforce. HR is going digital to better deliver a consistent and high quality set of HR Offers to our employees regardless of where they operate around the globe.

Collectively, our HR digital platform provides a set of best in class tools combined with state of the art analytics and a highly user friendly experience so that we can fully empower and leverage more efficient and effective decision-making at all levels within the organization. Our HR digital platform includes the following systems:

- TalentLink Recruitment: is the new best-in-class Recruitment Solution enabling us to better attract world class talent and also provide employees with a single platform to access new job opportunities around the world so that they can grow their careers;

- TalentLink Performance: is our new best-in-class Human Capital Management Solution enabling us to better achieve and realize a high performing organization through a robust set of Goal, Performance and Talent Management, Compensation and other Workforce Administration applications;
- My LearningLink: is our best-in-class Learning Management System enabling us to better develop our talent and easily provide employees with access to thousands of eLearning and other training courses so they can further their own individual career development.

#### Highlights of 2012

- Implementation of a company-wide digitization program which included Human Resources Department globally, thus digitizing the scope of HR offerings and creating efficiencies for the department.
- Indexation of the performance incentives for Executive Committee members to sustainable development targets, chosen according to their field of work (since 2011), particularly the implementation of social policies by Human Resources; extension in 2012 to the Country Presidents of the five major countries.
- Launch of a new Planet & Society Barometer over the period 2012-2014: the Frequency Rate of accidents, which had exceeded its target in 2011, is still tracked internally and has been replaced in the Barometer by the Medical Incident Rate; same approach with the Employee Engagements Index, a global standard index on employee engagement, replacing the employee recommendation score, which will still be tracked internally; three new HR indicators are added: addressing diversity, with the percentage of women in our talent pool, training for all, with the ambition to achieve one day of training for every employee every year, and engaging workplaces with the launch of a program called "Cool sites" worldwide.
- A strong decrease of the Medical Incident Rate (MIR), due to OHSAS new certifications, training and protection measures.



## 4.2 Employee health and safety

### Approach

Schneider Electric sets high standards for the management of the occupational Health & Safety (H&S) of our employees. We have not only established safe working conditions but utilize our programs and processes, such as our Schneider Production System, to improve upon our workplace safety and lead the way for safe work practices and directives on a global basis. Our guiding principles include the following:

- recognize workplace hazards to employee H&S and either eliminate each hazard or implement a hierarchy of controls to protect employees from each hazard;
- standardize on and communicate a set of global directives for the safe manufacture, assembly, and distribution of our products;
- share best Health & Safety practices throughout all Schneider Electric locations, our business partners, and those interested in improving the quality of life at their workplace.

### Action plans

2012 has been a focal year for strengthening our Health & Safety commitment under a global structure. The first and foremost action for the H&S team was the implementation of a process for program standardization and communication, the results of which include the launch of a new global H&S employee handbook, global H&S directives, global H&S training courses and a global Safety, Environmental & Real Estate (SERE) website. Additional actions included:

- a major revision of the Schneider Production System with input from the Schneider Electric H&S team, with the emphasis on the standardization of the best H&S practices and continuous improvement;
- continuing emphasis on the implementation of occupational H&S management systems and certifications such as OHSAS 18001 certification;



- selection and implementation of a new data collection and management system for the collection and analysis of workplace occupational health, safety & environmental metrics and events. The system has been selected (named "GlobES") and the metrics and events modules are scheduled to debut in 2013.

### Objectives

Schneider Electric is using three primary indicators to measure their occupational health & safety performance. The first of these indicators is the Medical Incident Rate (MIR) which measures the number of medical cases per million of hours worked. This measure allows for a deep evaluation of workplace hazards, and the resulting corrective actions assist in the elimination of recurring incidents and the prevention of injury. Schneider Electric has used the MIR as a key performance indicator on a global basis since 2010 with a target to reduce the MIR by 10% year over year.

The second and third indicators are the Lost-time Incident Rate (LTIR) and the Lost-time Day Rate (LTDR) respectively. These two indicators are globally standardized versions of the Frequency Rate (FR) and Seriousness Rate (SR) used in the past. By standardizing on the two terms it allows for consistent definitions that can be implemented on a global basis. The LTIR measures the number of medical cases that incur lost-time work days per million hours worked. These lost-time cases are indicators of a more serious type of medical case. The seriousness of these cases is indicated by the LTDR which measures the number of days lost due to the lost-time medical cases per million hours worked. Both the LTIR and LTDR are presented this year in place of the FR and SR. Both indicators also have a target reduction of 10% year over year.

The FR and SR reported in 2011 have been reworked to the current LTIR and LTDR definitions for use in comparing the results for 2012. Beginning of 2013, a downward restatement of the MIR has been done, taking into account errors that have been revealed thanks to the audit work of extra-financial data 2012. The MIR 2011 is not 4.77 as stated in the Registration Document 2011, but 4.49. Therefore the 2012 results for MIR, LTIR and LTDR are as follows:

- MIR 2011 = 4.49; MIR 2012 = 3.44; net reduction of 23%;
- LTIR 2011 = 2.06; LTIR 2012 = 1.42; net reduction of 31%;
- LTDR 2011 = 56.00; LTDR 2012 = 47.98; net reduction of 14%.

### Certifications

In 2009, Schneider Electric began the implementation of occupational health and safety management systems that meet or exceed the requirements of ISO/OHSAS 18001 standards. In 2011, the Group revised the requirement to specifically include certification to OHSAS 18001 (or equivalent) at 100% of its manufacturing and logistics sites (sites with more than 50 people and within two years of creation or acquisition). The deployment of this program is tracked at regional level through the SERE organisation and is 74% complete at end of 2012.

### Training and Communication

Training and communication continue to be key components of the Health & Safety program at Schneider Electric. We are committed to providing awareness level and task specific training for our employees and contractors to ensure a strong knowledge base to work safely. In 2012, additional global safety courses were added to the safety training program housed first in the GSC Academy and then moved to the new global training database, My Learning Link, which tracks course requirements and course completions.

Communications have expanded on a global basis with the implementation of the new Safety, Environmental & Real Estate (SERE) global website. This website has become the main access point for all H&S material. Regional newsletters, global performance results, SERE alerts, training material and more can be found on the website, strengthening the H&S ties between countries and regions.

### Focus on stress management

Stress at work is managed by the Human Resources organisation within the Group. Effective measures are in place locally to address stress reduction in the workplace. In North America for example, Human Resources promote stress reduction via incentives and communications on the healthy lifestyle program in place (exercise, proper diet, smoking cessation, stress management, preventative medicine, etc.) which is encouraged both on and off the job. In Asia Pacific, Human Resources promote stress reduction via health lecture, yoga class, sport club, stretching program and annual health welfare.

In France, a special program is in place regarding psychosocial risks induced by stress at work, with the identification and the address of risk factors. Schneider Electric has developed and deployed a management tool to prevent psychosocial risks. It includes a training module, a collection of indicator and a reading guide to identify factors contributing to psychosocial risks in a work organisation. So far, 39 sites have received training, 28 are under diagnoses, and 25 are implementing corrective action plans. A second management tool is deployed to maintain employment for people with occupational health problems and prevent the sources of work stress that may impact physical and mental health. An agreement on the prevention of the psychosocial risks has been signed by the management and unions and defines a framework for the action plans to deploy within Schneider Electric Industries and Schneider Electric France. The awareness of employees, managers and RH is a priority of the training plan 2013. Training paths were create and adapted according to the needs of the businesses.

### Accomplishments

Schneider Electric continues to receive high recognition both externally and internally for its strong Health & Safety program. Recognition for 2012 included more than 200 awards from the National Safety Council for Schneider Electric sites around the globe.

## 4.3 Employee engagement and talent attraction

### Approach

Schneider Electric is working to become the “best company” to work for, as rated by its employees, and conducts a survey of employee satisfaction every quarter.

The Group also is looking to establish a strong name as an employer and is communicating around its Employer Value Proposition, which are closely aligned with the values of the Schneider Electric brand.

#### *Total Employee Experience*

The Total Employee Experience program is a collaborative approach that empowers all employees at every stage of their careers. The Group's employees have the power to influence their own success, and the Total Employee Experience program allows them to take ownership of their direction. Total Employee Experience provides managers with the tools to manage motivated employees and provides Human Resources to play a strategic role in building a thriving global organisation, in the spirit of the Group.

### Action plans

#### Employee satisfaction

Set up in 2009, the One Voice internal satisfaction survey is carried out on a quarterly basis to take the organization's pulse worldwide. The survey methodology used is similar to that used to measure the Group's customer satisfaction.

Specifically, all employees are asked to fill out a short questionnaire evaluating their engagement and their willingness to recommend Schneider Electric as a model employer. This process helps the Group identify key avenues for improving major employee engagement factors.

Analyzed by country and by unit, the survey results help to steadily improve employees' commitment to processes and projects, whose proper execution is crucial to both successfully implementing the Group's strategy and satisfying its customers.

A key performance indicator for the Group, registered in the Planet & Society Barometer, was to increase by 14 points the Company's employee recommendation score between 2009 and 2011. At the end of 2011, the goal was exceeded with 32 points of increase.

In 2012, new questions have been added to the survey that gives the Group a detailed Employee Engagement Index. This new index, based on six standard questions, enables us to compare ourselves with the best employers in our industry and with the best employers in key regions of the world. In 2012, the Employee Engagement Index at Group level is 55%, above the industry average (53%). The Employee Engagement Index has been included in the Planet & Society Barometer 2012-2014.

The One voice survey is now part of the culture of the Company and gives the opportunity to all employees to send regular feedback to the organisation and their managers. That is why one of the key results is the percentage of our employees aware of an action plan

after the survey. In 2012, we improved by 24 points the number of our employees aware of an action plan from 44% at end of 2011 (for email population) to 68% at end of 2012, the most significant result for the year. A lot of efforts have been done to educate entities and managers to organize focus groups and feedback sessions. For instance, the Women Initiative (structured action plan to develop and support women and educate leaders on gender diversity) started with a focus group with a clear objective: understand how to better engage talented women. The impact of this initiative on engagement measured was huge, increasing from 53% to 61%.

One of the key initiatives launched this year to improve employee engagement was the “Cool Site” program, a program to push innovative and distinctive actions for employees at site level.

#### Cool sites program

The Cool Sites program, which helps the Group's offices develop workplaces (sites) that are attractive, inspiring, and energizing for employees, is supported under the “Connect People”, “Engaging Workplace” program. A first measure of the number of cool sites has been done at end of 2012: the Cool Sites target of 60 sites (representing 20,500 employees) has been exceeded, with 82 Cool Sites in 25 countries representing a headcount of 33,600 employees. This indicator has been included in the Planet & Society Barometer, with the first measures published and audited from 2013.

#### Employer Value Proposition

After launch in 2008 as part of the One program, the drive to deploy a strong employer brand was stepped up from 2009. Schneider Electric becomes a distinctive employer of choice. It is recognized as a highly attractive global company offering a friendly, flexible, creative and dynamic work environment, ensuring the development of its people and the sustainable development of the Planet and Society. Schneider Electric's Employer Value Proposition creates the emotional link with Schneider brand value which enables to attract diverse young potentials and professionals.

#### Universum rankings – Global top 50 World's Most Attractive Employers

Universum is a research company that helps global corporations understand their employer branding positioning in each country they are operating. Universum annually surveys over 300,000 students regarding their career preferences, career goals and image perception of their ideal employers. The study is conducted in 27 countries and involves more than 1,500 universities. In 2011, Schneider Electric participated for the first time in Universum ranking survey in business and engineering schools. In 2012, Schneider Electric has entered into the top 50 “World's Most Attractive Employers” by Universum (engineering category).

In March 2012, Universum announced its 2012 “Best Climber”: Schneider Electric France was rewarded for quickly moving from the 102nd position in 2011 to the 80th in 2012 in business schools ranking in France.



### Top Employers 2012 certification seal

The Group is one of the 39 French companies awarded the Top Employers 2012 certification seal by the Corporate Research Foundation Institute.

The Corporate Research Foundation Institute defines the qualitative criteria used to qualify employers of choice, and identifies and awards the certification seal to leading organizations in the areas of HR, leadership and strategy. The main qualitative criteria are:

- remuneration practices (primary benefits);
- secondary benefits and working conditions;
- training and development;
- talent management and career development;
- company culture.

### 51Job Inc. awards in China

In 2012, the Group recorded two HR awards in China: it has been selected as a winner of both the 2012 Best Training and Best HR Strategy categories of a program sponsored by 51job Inc., the leading integrated human resources service provider in China.

### Partnerships with universities

Since 2011, multiple partnerships have been set up with the world's largest universities, including Moscow Power Engineering University, Cairo University, INSEAD, HEC, ParisTech, Supélec, BMS College of Engineering (Bangalore), Shanghai JiaoTong University, Peking TsingHua University, University of Toronto, University of California Berkeley and Northwestern University Kellogg. In 2012, more joint effort with global target schools were made, business and HR leaders were actively involved in students visits, campus promotion was done in the area of energy management.

### Go Green in the City

Launched in 2011 by Schneider Electric, Go Green in the City is an international case challenge for university business and engineering students around the world to find clever solutions for energy management. It is well-recognized as a global employer branding initiative to attract female graduates for internship or recruitment in 9 strategic countries: Brazil, Russia, India, China, France, USA, Germany, Turkey and Poland; and in more than 90 targeted schools.

As in its first year, in 2012 candidates were asked to present a case study on the subject of energy solutions in the city. In pairs, with at least one woman, students must propose viable solutions of energy management in five key areas of a city: residential areas, universities, trade, water and hospitals. The best proposals will reconcile increased demand for energy, social progress and environmental protection.

### Schneider Electric Career Portal – TalentLink Recruitment

As part of the project to centralize the Group's existing websites and portals, Schneider Electric Career Portal has been updated in the form of TalentLink Recruitment to more effectively attract all categories of potential candidates including the internal job market amongst current employees. Particular emphasis is placed on the Group's specialization in energy management. Promoting a strong employer brand in this way has helped to position Schneider Electric as a globally recognized benchmark employer, capable of both attracting the best talent and mobilizing all employees around a set of shared values that are aligned with the Group's strategic development.

## 4.4 Fostering talent and competence

Connect company program initiatives such as digitization, simplification, growing services business or customized supply chain, etc., demand ongoing adaptation and skills enhancement. Training, therefore, is at the heart of Schneider Electric's Human Resources policy.

### Approach

Schneider Electric global Talent Acceleration program is designed to increase the Group's talent pool and develop diversity, in accordance with the Connect company program.

In 2012, this program continued to focus primarily on new economies but also on enhancing managerial ability to identify and mentor employees that show exceptional potential.

To this end, performance management tools were deployed at all levels of the Group's organization. These include individual skill reviews, annual performance appraisals, mid-year reviews to assess progress and adjust targets, and "people reviews". All of these resources help the Group continuously monitor and accurately evaluate individual as well as collective performance, and identify high potentials. The use of these tools has made for more

objective and individualized decision-making in the area of career management, remuneration and recognition.

Furthermore, Learning Strategy Consulting Process was deployed in 2012, which help all major business units and functions to create learning strategies aligned with the strategic workforce plans and Connect program. These strategies link business priorities to required learning solutions for critical competencies.

### Action plans

#### 3E Program

Schneider Electric implemented the "3E" program to foster optimal skills development. It involves relevant work experience (Experience), managerial coaching and feedback structures (Exposure) and appropriate training investment (Education).

The Group's aim is to give all employees the opportunity to draw up a personalized skills and career development plan in collaboration with their managers with career and competencies reviews. A 3E tool which guides employees & managers in selecting 3E activities was also deployed to some countries.

### Schneider Electric University

Schneider Electric University offers courses that build knowledge and skills across the organization in technical, solutions, supply chain, and leadership competencies. All of this training is offered through a blended learning of class room and e-learning facilities. All training modules are assessed by the participants on the quality of the content, the teachers, the format and related logistics.

Eight Group campuses worldwide are dedicated to employee training: the US (Chicago and Boston), France (Rueil-Malmaison and Grenoble), China (Beijing), India (Bangalore), Brazil (Sao Paulo), and Russia (Moscow).

#### "One Champion" e-learning portal and "My Learning Link"

The One Champion e-learning portal was launched in 2009 to ensure that all Schneider Electric employees have access to the same e-learning programs. It has served this objective well through the years: In 2012, around 30,300 employees consulted One champion, compared to 14,000 in 2011, a 117% increase. But the time has come for it to be replaced by a global cloud computing platform covering all our employees and training contents.

#### My Learning Link

In 2012 we purchased and installed a global platform so that Schneider Electric employees all over the world can have access to learning. My Learning Link is not only a direct replacement to One Champion, but also integrate e-learning, webinars, social learning & classroom learning under one platform. This will bring the standardization of all entitles, functions and geographies under one learning platform, replacing more than 14 different systems in use. Plans are also being worked on to extend this platform to our partners and customers.

The deployment will happen in phases until end 2013:

- since September 2012, 120,000 employees can access more than 500 e-learning modules;
- since December 2012, our North America Operations, IT Business (globally) also successfully migrated their classroom and webinars management onto My Learning Link;
- China Operations in the same context goes live on January 1<sup>st</sup> 2013.

We aim to complete the full global deployment of these functionalities by the end of 2013.

From September to December 2012, 11,000 people have already connected to this new My Learning Link platform and completed 28,000 training modules representing more than 24,000 hours of on-line learning.

In line with our Connect initiative to lower our carbon footprint, a number of programs were launched in 2012 to increase adoption of e-learning. More than 80 learning paths have been created from these courses to develop soft skills in different fields.

This platform will progressively become the single global Schneider learning offer repository and will give, besides e-learning, access as well to in-class and web-based instructor led training sessions. In 2012, My Learning Link is already covering all learning types of training in North America as well as global certification paths.

This new platform is instrumental to develop the skills of our workforce at all levels, supporting business strategies by targeted learning activities as well as enabling them to become a stronger actor in their own development.

### Engaged Individuals

As a part of Connect program, Engaged Individuals program was launched. The objective of the program was to create an environment where individuals take charge of their own career. As a part of the program, a global Mentoring program was launched in October 2012. Mentoring philosophy, tools and training have been launched and are being implemented globally.

In Connect program, a specific initiative has also been launched to foster internal mobility. Schneider Electric has made its internal job postings visible to most of the employees through the TalentLink recruitment tool. This tool is planned to be fully deployed in 2013. The mobility guidelines have been communicated to accelerate the cross entity mobility which is measured by a yearly KPI. To encourage mobility at different levels, several mobility committees have been set up at country levels. The Group has also started to design career paths for some key functions to give visibility to the employees.

### Engaging Leaders

Another key component of Connect is the Engaging Leaders program. In order to help foster more employee engagement, Schneider Electric is focusing on helping leaders become more "engaging leaders" and drive employee engagement. With this program, we launched the "8 Schneider Electric Leadership Habits". These leadership habits are focused on managing people to create high performing teams. In addition to the leadership habits, the Group launched two programs, one focusing on creating a stronger feedback culture, and the second on redesigning our Leadership Competencies.

### Energy & Solutions University

The HR organization in charge of Learning & Development partnered with the Solutions & Strategic Customers Department and the business leaders to develop the Energy & Solutions University, in order to accelerate the development of strategic skills in solutions and services. Certifying career paths are offered to employees (account managers, sales representatives, solutions architects, projects and services teams, etc.). At end of 2012, 3,501 people in 60 countries have received a certification and more than 10,000 people are enrolled in the certification path.

#### Leadership Development

"One Leadership", a suite of programs addressing the learning needs of managers and regional talents, was deployed on a global level by the Leadership Academy. During 2012, about 3,300 managers from all countries participated in the different offers for managers and senior managers.



"LEAP", the entity and regional high potential program of One Leadership, has received great feedback from participants and business leaders, in particular on the 3E approach (Experience, Exposure and Education) and on the real business problem solving. About 300 participants joined these regional cross-entity programs.

During 2012, we launched a newly redesigned executive development program, "Lead to Achieve, Impact and Inspire." Combining our previously three separate programs for emerging leaders, mid-level high potentials, and senior high potentials, we developed 260 of our top high-potential talents. The new program focuses on the development leaders need at each of the three levels with a focus on people leadership skills. As part of the program, the participants work on cross-functional and cross-generational teams to address business challenges faced by Schneider Electric as part of the Connect transformation.

#### Other functional skills development

Our global training offers are designed by the "Academies" in close cooperation with business leaders. In addition to Solutions & Leadership skills development, Schneider Electric has initiatives in key functional areas such as:

- **Global Supply Chain (GSC):** The Global Supply Chain Academy was set up to provide every supply chain professional the opportunity to learn and develop their functional knowledge, capability and competencies in the six domains of Customer Satisfaction & Quality, Manufacturing, Purchasing, Logistics, Safety, Environment, and Industrialization. In 2012, the Group strengthened the Supply chain academy which has now members in each geography in order to better design an offer adapted to local constraints and present it to local entities. 5,500 GSC employees have been trained, a 120% increase from 2011. Each white collar employee spent an average of 2.7 hours on e-learning;

- **research & development:** The Offer Creation Academy addresses the competency needs of the Offer Creation Process (OCP) to ensure the right competency levels of R&D employees globally. Our range of learning offers cover the entire OCP lifecycle, addressing skills such as project management, design & testing, R&D processes, software tools, etc. The Group is also increasingly focusing on building learning offers around software development competencies. Around 3,500 people have been trained during the year 2012 with the Offer Creation Academy learning solutions with a high level of satisfaction;
- **transactional sales:** The Sales Excellence Academy focuses on the sales competencies needed to support transactional business, which is also undergoing transformational changes driven for example by EcoStruxure. The Professional Sales Leadership program, targeting more than 2,000 sales managers addressing their roles as strategist, coach and communicator, was piloted and deployed in 2012. Another new instructor led course, which addresses negotiation skills and targeting 16,000 sales people, was piloted in 2012 and is ready for deployment in 2013. In addition, with the deployment in 2013 of the new global learning management system, My Learning Link, a large variety of e-learning on sales related topics will now be available.

#### Innovation in training

**Collaborative Learning:** A number of learning communities were launched in 2012 utilizing web social media tools to build collaborative learning groups as part of a learning program. These groups were centered on communities such as New Hires, Action Learning Project Teams, etc. The learning the Group has derived will be used to build upon further iterations in 2013.

## 4.5 Anticipating workforce needs

The business growth of Schneider Electric, its ever expanding locations, and the shortage of critical skills available on the market inspired the Group to create a small team dedicated to Strategic Workforce Planning in 2011. This team's mission is to create a practical framework which flows from the organizational strategy and links operational HR execution to the medium and long term business needs.

The aim is to enhance management practices so that leaders have a practice of anticipating their workforce needs and develop their employees to address the future business challenges.

The solution transformation and geographic expansion created a sense of urgency around creating an HR practice comfortable with anticipating the future competency and headcount gaps needed to capture the market of tomorrow. With that in mind, the Strategic Workforce Planning team has a responsibility to build skills and confidence in this methodology with strategic planners, business leaders, financial controllers and HR staff.

In 2012 we have extended and made our approach more systematic to help more leaders anticipate the workforce and competencies

needed to support business evolutions. We did it at global level for the Executive Committee and also in 15 countries across most businesses and Functions. In the frame of Connect company program, leaders have been made in charge of anticipating the evolution of their workforce and preparing their people to these changes.

#### Approach

The changing economic conditions around the world have caused Schneider Electric to develop a workforce planning methodology which is agile enough to adjust based on today's results while maintaining alignment with the organization's long-term strategic direction.

Strategic Workforce Planning provides a framework to help the businesses manage change and risk through simulating factors out of their control and developing strategies and responses to mitigate that risk. It helps the leaders deal with the unknown and rehearse how they might adapt to future events through decisions they make today.

The availability of talent globally is vital to the execution of the Group's medium and long term strategy. As the business of Schneider Electric evolves, the talent needs become increasingly complex. With workforce planning, Schneider Electric is able to segment talents and focus on the building of new, critical competencies which will be the core competencies of tomorrow. Schneider Electric is also able to focus on critical roles for the medium and long term and ensure that it has a process to develop, hire and retain talent in those key areas.

The stakes for new and mature economies are different, but the approach to strategic workforce planning is dynamic enough to handle both situations.

In mature economies, the strategic workforce planning challenges come in different forms: ageing workforce, need for new competencies in renewable energy, energy management services... These challenges give Schneider Electric the opportunity to deliver on strategic moves by building the key competencies to anticipate the workforce of tomorrow.

In new economies, rapid inflation means Schneider Electric has to be deliberate about how much space it makes available for hiring and it has to be agile enough to develop new talents.

The Group also zooms on key competencies and new regions which are requiring fast development.

### Action plans

The Strategic Workforce Planning approach is based on the principle that Schneider Electric must translate various financial, strategic and human capital factors into a coherent and sustainable workforce plan. To accomplish this goal, business leader, financial and HR partners have to work together.

The starting point for workforce planning is the business' strategic plan. Strategic Workforce Planning identifies the key elements of the business plan which impact the workforce in the medium and long term. It analyses planned strategic initiatives and makes scenarios based on the expected revenue changes. Finally, it looks at financial constraints.

In 2011, Strategic Workforce Planning has developed a robust method and tools that have been well received from business units managers, finance as well as HR. It also launched pilots around the world.



## 4.6 Diversity

### Approach

Since 2002, diversity and equal employment opportunity have been an integral part of *Our Principles of Responsibility*, and have been inspired by the Company's vision:

- talented and diverse workforce is a key competitive advantage;
- the wide array of perspectives that results from such diversity promotes innovation and business success;
- in treating all people with respect and dignity, we strive to create and foster a supportive and understanding environment in which all individuals realize their maximum potential within the Company, regardless of their differences.

By promoting the integration of new talents and a wide range of skills, diversity represents a source of innovation, performance and competitiveness: over and above this observation, Schneider Electric intends to move beyond its simple promotion to take a pragmatic approach to the management of diversity day by day.

Diversity and equal employment opportunity are enshrined in the Connect company program, with two primary objectives:

- strengthen the role of managers in rolling out the Group's diversity strategy;
- consolidate the place of equal employment opportunity in HR management practices.

### Agreements in France

In 2004, Schneider Electric France formalized its commitments to equal employment opportunity in a first company agreement, renewed and signed the Diversity Charter.

In 2007, Schneider Electric was awarded France's Equality Label and signed the Parenthood Charter the following year.

### Gender diversity

- Equal Employment Opportunity Agreement (since 2004 and renewed in 2012);
- Equality Label (since 2007 and renewed in 2010);
- Parenthood Charter (launched in 2008).

### Disability

- Disability Agreement (since 1987 and renewed end 2012 for the 2013-2015 period).

### Age diversity

- Senior Agreement (since 2010);
- Apprenticeship Agreement;

### Diversity of origin (social, cultural, nationality, backgrounds, etc.)

- *Espoir banlieue* plan (promotion of employment opportunities for young people from underprivileged areas);
- Partnership with the *Nos Quartiers ont du Talent* association ("Our neighborhoods have talent");
- *100 chances – 100 emplois* program for professional integration of youth suffering from discrimination (see page 91).

### Action plans

Several global processes have been developed to support Schneider Electric's diversity policy:

- People Review process to detect talent and promote equality and diversity at all levels of the Company, ensuring that professional development is based on equality. In 2011, the people review process was extended to all Schneider Electric entities, including latest acquisitions, enabling the Company to use a single process



and ensuring, by this way, that all employees have the same means to manage their development and career;

- talent pool to foster talent development throughout the world and the access of women to key positions;
- recruitment policies, succession planning, access to training, talent and promotion management, which pay particular attention to gender balance and new economies representation;
- trainings leading to diplomas and qualifications for OATAM employee categories (Manual Workers, Administrative Employees, Technicians and Foremen), which impact is major on promotion and remuneration of women, particularly manual workers and assistants;
- working session trainings on diversity for members of the Executive Committee and their management teams;
- on-line training program dedicated to the promotion of diversity, launched globally in 2009.

### Gender balance

In its diversity policy, Schneider Electric lays particular emphasis on equal career management for men and women as the best means to develop the values and skills required to meet the economic and societal challenges of the 21st Century. Schneider Electric shares the conviction that gender differences in the workplace (leadership style and personality among others) complement each other, foster innovation and provide a wealth of benefits to its customers.

From an operational point of view, the strategy consists of:

- promoting women in the talent pool and in positions of key responsibility;
- ensuring equal access to training and developing the conditions for genuine diversity in the workplace;
- curtailing average wage differentials by allocating a specific annual budget (in France – see below);
- creating favourable working conditions for both men and women by adopting measures designed to enhance work-life balance.

At global level, The Women Initiative has been launched with four main pillars:

- ensuring that our HR processes and KPIs are aligned with our gender balance policy: for example, succession planning for key positions in the Company must include at least one woman. Along the same line, the promotion of women is monitored, as is their participation in leadership development programs;
- the development of women potential: A specific program, "Women in leadership", has been launched and deployed in three regions (Asia, Europe and North America) with 108 women in total; A partnership with European Professional Women Network has been launched offering 60 women in six cities in Europe the opportunity to be member of this organisation. Internal networks have been encouraged: set-up of new women networks in Brazil and France ("Women's Energy");
- leaders commitment:
  - to cascade the Gender balance Executive Workshops (half day seminars focusing on gender balance launched in 2010 with the Executive Committee members and their teams), we have launched a new wave with the Gender Workshop for leaders targeting the Management Committees of the main entities

and main countries; this cascading process has started in Asia end of 2012 with 150 leaders,

- in addition, we have launched the Mentoring for leaders program involving all Executive Committee members and key leaders: 52 key potential women have been mentored during 10 months;
- sourcing and attractiveness: "Go Green in the City" international case challenge for students (see page 74) is a Schneider Electric initiative that helps attract female graduates for internship or recruitment.

In 2012, within the 2,650 talented employees identified across the Group, 27% are women (up 4 points compared to 2011).

In Connect People program, through 2012-2014, the percentages of women in key positions and in the talent pool are key performance indicators. The Planet & Society Barometer sets to have 30% of women in the talent pool by the end of 2014.

### Equal pay for women (France)

Salary equality is fundamental to the equality of treatment that Schneider Electric is committed to guaranteeing for all its employees, both male and female.

In France, this commitment has been put into action each year since 2006 by allocating a budget (0.1% of the salary total) dedicated to reducing male/female salary inequality. In 2011, Schneider Electric decided to strengthen this and launched a large campaign to analyze all remuneration by looking at competencies, responsibilities and the professional pathway of each male and female employee. This campaign has been renewed in 2012. In 2011 and 2012, 536 salaries have been increased (357 women and 179 men).

### Nationalities

Schneider Electric has always promoted cultural diversity and inclusion as a key enabler of the strategy.

In 2012:

- six nationalities are represented within the Executive Committee (French, American, German, British, Spanish, Chinese);
- 25% of Country Presidents are French, against 50% in 2003;
- 31% of Country Presidents based in Asia are French, against 60% in 2003;
- 23% of the expatriates are French, against 55% in 2003;
- the number of nationalities has increased considerably, from 48 in 2003 to 93 in 2012.

These developments are a result of the Group's careful and committed policy. In addition, Schneider Electric received the Human Capital Award in 2011 within the Internationalization of Management category, from among the CAC 40 companies.

Emphasis is also placed on representation of new economies within the Group's talent pool: among the 2,650 high potential employees identified at the end of the 2012 People Review process, 36% are located within the new economies (up 6 points compared to 2010). The share of talent coming from the new economies is a key performance indicator established in the new company program for the 2012-2014 period.



## Disability (France)

Schneider Electric focuses on training and adapting workstations to foster the independence of employees with a disability and to ensure that all are accorded the same opportunities to succeed. Schneider Electric is committed to ensuring maximum independence for employees by adapting the organisation and workstations and providing access to the best technologies available to compensate for their disabilities. Schneider Electric also works on preventing disabling situations.

All its teams cooperate to change behavior, improve practices, and involve all personnel in actively providing equal opportunities for the disabled:

- the Recruitment and Mobility Unit utilizes partner firms and monitors compliance with equal treatment at all stages of the recruitment process;
- the Occupational Health Department is responsible for preventing individual and group disabling situations (ergonomics, desktop adaptation, musculoskeletal risks...), retaining disabled employees and disability compensation;
- the Purchasing Department specifies its requirements to temporary employment agencies and ensures compliance with commitments in terms of subcontracting to the protected employment sector.

Schneider Electric subcontracts to the *Établissements et Services d'Aide par le Travail* (ESAT – Assistance through Employment Entities and Services) for industrial work, landscaping services, catering and seminars. In Europe, the amount subcontracted to the protected employment sector represents EUR40 million in 2012, including: EUR16 million in France, EUR10.5 million in Spain, EUR4 million in other Western Europe countries and EUR9.5 million in Eastern Europe (Czech Republic and Hungary).

Schneider Electric signed its ninth Disability Agreement in France in December 2012. The three-year Agreement is directed and promoted globally and throughout the country through a network of internal and external members (Purchasing Department, Employment Management Department, Occupational Health Department, Communication Department, corporate partners and specialist agencies) with local rollout by "Disability Officers".

In France, Schneider Electric recruits through work-study programs for positions that are predominantly technical, and also for service sector positions ranging from the Certificat d'Aptitude Professionnelle (skills training certificate) to engineering degree level. The Company aims at recruiting 20 persons with disabilities each year: 15 on work-study contracts (learning and/or professional development) and five persons on a fixed-term contract.

In 2012, 14 people with disabilities were recruited on work-study contracts and 3 on permanent contracts. In all, employees with disabilities accounted for 6.05% of employment at Schneider Electric in France in 2012, 2.89% of these in indirect employment (subcontracting to the protected sector) and 3.16% in direct employment. The mobilization of internal actors and the co-creation of projects led to an improvement of practices; thus, the objective of 6% set by the law was reached for the third year in a row.

Schneider Electric in 2012 committed to a voluntary approach within the scope of the disability agreement to improve all of its industrial and tertiary establishments in France and make them accessible. In compliance with the French law of 2005 promoting the principal of equal access to all and for all, the program anticipates:

- carrying out an assessment of the situation on existing sites;
- ensuring compliance with legislation and going beyond;
- anticipating future construction and renovation projects;
- making expert occupations more professional in terms of disability access;
- constantly working for improvement using a measurement indicator: the accessibility index.

This project covered 25 establishments in 2011 and 32 entered the program in 2012.

## Generational diversity (France)

Within the scope of the agreement on seniors, Schneider Electric has implemented an interview for the second half of a career called: "The Outlook Meeting".

This is a voluntary meeting for employees on their 45th birthday.

The Outlook Meeting takes place in two stages:

- an outlook stage with an Apec consultant (Management Employment Agency) that aims to help the employee to plan for the second half of their career;
- a consolidation stage with their manager to validate the professional development pathways they have taken and to implement an individual action plan.

More than 450 employees have had an Outlook Meeting, 73% would recommend the meeting to their colleagues.

In addition to this action plan dedicated to employability development, Schneider Electric decided to strengthen its recruitment of young people after their Apprenticeship. This strategy aims to match with two ambitions: balance our age pyramid to better face the coming challenges and create efficient collaboration between generations by sharing knowledge, skills and experiences.



## 4.7 Employee share ownership

Schneider Electric is convinced that employee share ownership is instrumental in strengthening companies' capital (both financial and human), and that employee shareholders are long-term partners.

### Approach

The Group has been building an international employee shareholder base since 1995 that is representative of the Group's diversity. Employees should hold around 5% of the capital in 2015.

### Action plans

#### Employee share ownership plan 2012

Schneider Electric has ramped up its in-house communication to employees to ensure that they have a clear understanding of the challenges facing the Company, its policy and its financial results. The "2012 Plan" was enlarged and proposed in 26 countries. More than 28,000 employees subscribed shares for a total of EUR123 million.

The employee shareholding at December 31, 2012 represented:

- 4.44% of Schneider Electric SA's capital and 6.77% of the voting rights;
- over 35% of the employees worldwide.

In 2013, the Group is already expected to launch a new global Plan. This 2013 Plan will cover 120,000 employees in 34 countries.

#### Socially responsible investment fund

In November 2009, Schneider Electric created the Fund Schneider énergie Solidaire (a dedicated mutual fund). A number of information sessions are held regularly on this special purpose fund providing the opportunity for employees in France to share in the ideas and actions of Schneider Electric outlined in its access to energy program called BipBop (see pages 83-87).

Investment in this fund totaled in excess of EUR4.65 million as of December 31, 2012, thus enabling 2,666 of the employees to take part in social welfare projects in France and abroad developed as part of the BipBop program.

## 4.8 Compensation and Benefits

### Approach

Schneider Electric is committed to providing a comprehensive compensation and benefits offering that is competitive and cost effective in each market and country in which the Group operates in order to attract, motivate and retain talent.

Schneider Electric ensures that all compensation and benefits decisions and policies are based on the principles of fairness, equity and non discrimination.

### Action plans

#### Compensation

Schneider Electric rewards employees' contributions based on a pay-for-performance principle, competitive market positioning and scarcity of skills. Industry market data is gathered on a country basis via third-party surveys to support compensation decisions.

Schneider Electric has built and implemented a global job architecture to support and align Rewards and Human Resources programs so that Schneider Electric can develop and move talent across different businesses and geographies.

In line with our pay-for-performance philosophy, our compensation structure can include fixed and variable elements. The short-term variable element is made up of individual and collective performance criteria and is designed to foster a sense of belonging and collaboration. The long-term variable component is discretionary and is designed to motivate and retain specific groups of targeted employees who demonstrate potential and possess critical skills.

### Benefits

Benefits are an essential component of our reward offering and reflect the diverse needs of our employees.

Since employee benefit plans can vary significantly between countries due to different levels of social benefits provisions and diverse tax and legal regulations, Schneider Electric's benefits approach is primarily country-driven.

Schneider Electric has a Benefits and Pension Funds Corporate Committee whose responsibilities are to review Benefits Policy Principles compliance and evolution and to monitor asset return and validate investments long term strategy both at a corporate and country level. This Committee meets twice a year.

All compensation and benefits policies follow local statutory and collective agreements.

#### Sustainable development criteria in performance incentives

Sustainable development components were added to the personal performance incentives of all members of the Executive Committee in 2011. These components are directly linked to the Planet & Society Barometer targets. They are personalized according to the areas of involvement for each (e.g., Green Premium: production of Environmental Product Profiles for the members of the Executive Committee in charge of the activities).

In 2012, the criteria for sustainable development in the personal performance incentives were extended to the Country Presidents of the five principal countries of Schneider Electric.

Since 2010, the CO<sub>2</sub> reduction target has been taken into account for the performance incentives of all Global Supply Chain Management personnel who receive a bonus.

The reduction in the occupational accidents Severity Rate and in the Medical Incident Rate is taken into account for the performance incentives of all managers at industrial sites and logistics centers who receive a bonus.

In December 2011, the annual long term incentive plan for 2012 was put in place granting 2,637 people performance shares on the

condition that they belong to the Group on the day at the end of the acquisition period and that performance targets are met. For the first time, definitive attribution of a part of the shares is conditional on meeting a sustainable development target which is defined as the Planet & Society Barometer score at the end of 2013. As a reminder, the Barometer is published externally and its components are audited.

In June 2012, the profit-sharing incentive plan was signed for the years 2012-2013-2014 for the French entities Schneider Electric Industries and Schneider Electric France. For the first time, the allocation of profit for the employees of these entities includes achieving the annual targets of the Planet & Society Barometer.



## 4.9 Social Dialogue and relations

### Approach

Schneider Electric considers that freedom of association and collective bargaining are fundamental rights and must be respected everywhere. For many years, social dialogue has been taken into consideration by our social reporting system: each year, local HR report the presence of trade unions, works councils and health & safety committees (see page 104). In 2012, 87% of Schneider Electric entities have at least one representative organization (figure based on more than 84% of the overall headcount).

Social dialogue is managed at European level through the European Works Council and at Country level by the HR leaders. Schneider Electric applies in all countries the same HR policies and processes regarding career management, training, diversity, health & safety... as well as the Responsibility and Ethics Dynamics program and the R&ED line (see pages 57-59).

### Action plans in major localizations

#### European Works Council (EWC)

Schneider Electric senior management and the employee representatives of the European countries decided to set up the Schneider Electric European Committee (renamed European Works Council) under the terms of a collective agreement signed on January 28, 1998.

This European channel for dialogue has enabled the management to make more efficient decisions by giving employee representatives the opportunity to be informed of such decisions and to understand their reasons, as well as to put forward proposals to supplement or improve them.

It has also fostered the emergence of a strong identity, combining different cultures and having the common aim of working towards social and economic progress within the companies in the Group at European level.

In 2012 a new European Works Council agreement (Amendment no. 3) came into force and is now the reference. It redefines the geographical and business scope of the European Works Council, and incorporates the provisions of the 2009 Directive on European Works Council.

2012 is also the beginning of a new 4-year term for the country representatives at the European Works Council. In March, all members followed a dedicated training.

In 2012, the European Works Council met an unprecedented ten times in three different locations in Europe: nine restricted committee ("Bureau") meetings and one plenary session. Four out of the nine Bureau meetings were held through conference calls as Amendment no. 3 opened this possibility for information-only meetings. This allowed an active social dialogue at European level along with the in-depth discussion on key topics.

#### Group Works Council, France

The Schneider Electric Group Works Council France is a forum for economic, financial and social dialogue between senior management and the representatives of the employees from all French subsidiaries.

In 2012, the Group Works Council for France enhanced its information and understanding of business stakes and strategy of Schneider Electric, through 6 meetings all along the year. Besides the ordinary meetings, additional meetings were held within the framework of Connect program and French Territory GPEC agreement.

Pursuing the same objective, the Committee continued its program of site visits:

- New R&D centre in Carros (February);
- SEA Aubenas for its expertise in vacuum interrupters (July);
- DINNOV laboratories settled in Grenoble on current innovations (November).

#### Social dialogue in the United States

In North America, regular communication takes place with both union and non-union employees on key business topics and trends affecting their jobs. Company officials meet on a semi-annual basis with key international union leaders to inform them of competitive issues impacting the Company's business, and to ensure alignment with the Company's business strategies and challenges, on a local, regional and global basis.

The year 2012 was in the middle of the three year collective bargaining agreement with the three international unions in the United States as well as with the union that represents the employees at Juno Plant in Chicago. Meetings are held twice a year with the international representatives of these unions to maintain communications and to review business strategies.

### Social dialogue in Mexico

In Mexico, Schneider Electric leaders have regular communication with the employees on topics related to their jobs: this communication takes place in different ways, including large communication meetings and small group conversations. There is also continuous communication with the Union leaders and delegates of three national Unions which represent unionized employees. Schneider Electric keeps them informed of internal and external issues impacting the Company's results, listens to their concerns and looks for alignment with the Company strategy and challenges. Schneider Electric and the Unions review the collective contract every year.

In 2012, Schneider Electric Mexico received for first time the award: "ESR" as a socially responsible Company. This award is delivered to companies that have outstanding practices in Quality of life, with environment, community and ethics considered.

Schneider Electric Mexico also received the award "Responsible Family Company" by the Ministry of Work, for the Monterrey plant (for the first time), and the Tlaxcala plant (since 2008). Tlaxcala has also been receiving every year since 2005 the award "Gender, disability equity Company" from the Ministry of Work.

### Social dialogue in China

The Group has 38 entities and over 100 sites in China. Unions are set up in 23 of them. Unions give input in the review of the local policy relating to employees' remuneration. Unions also take a key role to lead employee events and activities. The Group has discussed the collective contract with Unions for several plants. Four entities have already signed the collective contract.

### Social dialogue in India

Schneider Electric India has a strong social dialogue culture with both unionized and non-unionized employees. In 2012, as in previous year, Schneider Electric India had cordial Industrial relations throughout its factories. This harmony has been achieved through time tested collective bargaining process. In some of the units where there is no recognized unions, this bargaining process is continued with elected Employee Committees such as Welfare, Health & Safety, Canteen, Sports, Transport, etc., including a special committee for women employees (fully compliant to the Prevention of sexual harassment as per local laws, duly represented by outside women leader with legal background).

The process of social dialogue also includes employee communication in small groups as well as through Town Hall communication on Company performance, strategy and challenges.

In 2011, Schneider Electric Global Supply Chain India successfully negotiated an agreement through collective bargaining with two Unions (Nashik and Chennai). Thereby, Schneider Electric agreed to fix all the terms on wages and benefits for the next four years (valid until 2014). Negotiations and agreements on bonus payment took place in two plants in India which are subject to yearly agreements.

## > 5. Schneider Electric, a responsible corporate citizen

Schneider Electric has consistently been committed to playing an active role in the economic development of the communities in which it has a presence. This is reflected in the substantial involvement of the Group and its employees in supporting communities,

particularly through its access to energy program, its "Schneider Electric Teachers" Foundation and ONG, and by helping people to enter the workforce.



### 5.1 Energy access program

#### Context and aims

In today's world, 1.3 billions <sup>(1)</sup> people, approximately 300 million households, do not have access to electricity; 590 million of these live in Sub-Saharan Africa, 293 million in India, 88 million in Bangladesh, 63 million in Indonesia and 56 million in Pakistan.

In general, these disadvantaged groups live on less than USD2 per day.

Their families' energy costs may run to more than USD15 a month. Improved access to energy not only improves quality of life, but also facilitates access to healthcare, education and development for those who need it most.

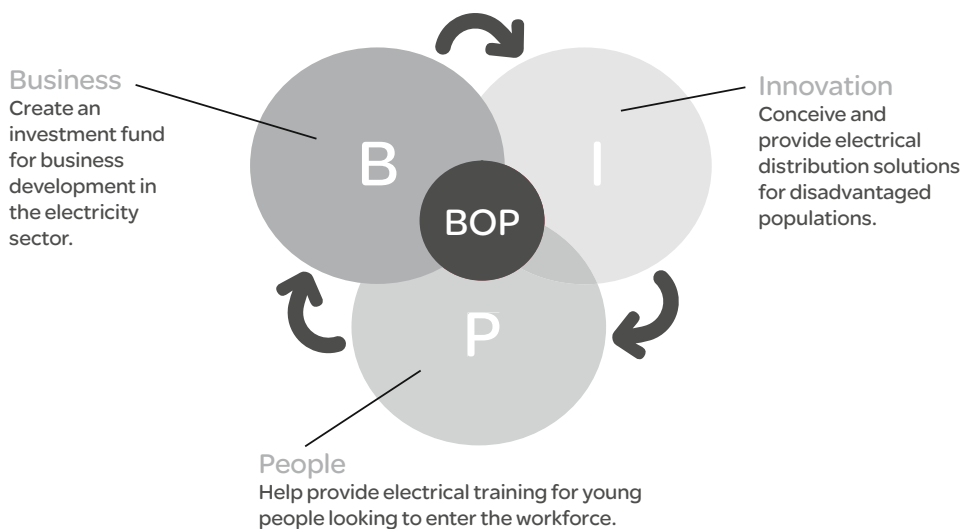
Through its energy access "BipBop" program, Schneider Electric wants to play a major role in helping people at the "Base of the Pyramid" to gain access to electricity.

Schneider Electric is involved in three specific areas:

- **Business (Investment):** manage an investment fund for business development in the electricity sector;
- **Innovation (Economic Offers and Models):** build and deliver electricity distribution solutions for disadvantaged groups;
- **People (Training):** help provide electrical training for young adults looking to enter the workforce. The Schneider Electric Foundation and Schneider Electric's team members support this focus through their collective and individual commitment.

Created in 2008 and launched in 2009, the BipBop (Business, Innovation & People at the Base of the Pyramid) internal energy access program illustrates Schneider Electric's desire to create a virtuous circle combining business, innovation and social responsibility.

#### The "BipBop" program



(1) Source: International Energy Agency – World Energy Outlook 2012.

#### > WHO IS A PERSON AT THE BASE OF THE PYRAMID?

"Base of the pyramid" is a term widely used today to refer to those with the lowest income either in the world or in a given country. Whether seen in absolute terms (income of less than USD1.25 per day in purchasing power parity according to the World Bank) or in relative terms (income of less than 60% of the average income for the European Union), poverty affects people in marginalized situations (infrastructure, isolation, poor access to banking structures, etc.). Specific approaches are required to meet these challenges and to contribute to reducing poverty.

## Organization

### Management

The program is managed by the Sustainable Development Office. The BipBop program management team was strengthened in 2010

in line with the ambitious objectives set for it in the One company program (2009-2011). The team is now spread equally between France and India:

- a BipBop solutions Business Development Director;
- an Offer Creation Director based in Bangalore (India);
- a Welfare Investment Director, who manages the Schneider Electric Energy Access social welfare fund;
- a Training Programs Director;
- BipBop correspondents in key countries (India, Senegal, Nigeria, South Africa, Brazil, etc.).

### Rollout

BipBop operates through its local presence in the countries concerned by the energy access problem to achieve its goals. With a few rare exceptions, all projects initiated benefit from monitoring by employees of Schneider Electric entities operating in the country. These employees constitute a network of key contact people for the design, management and monitoring of projects.

Their involvement may be part or full time. They contribute their knowledge of the local context (organization of civil society, local authorities, the private sector, etc.) and guarantee that the project is aligned with local needs. Their presence is of crucial importance for the long-term oversight of projects in which Schneider Electric is involved. The main areas targeted by BipBop are India, Bangladesh, China, South Asia, Sub-Saharan Africa and South America.

For this section, three key performance indicators were set in the **Planet & Society Barometer** for the duration of the Connect program (2012-2014):

Objectives for year end 2014	2012	2011
1. <b>1 million households</b> at the Base of the Pyramid have access to <b>energy</b>	344,441 ▲	-
2. <b>30,000</b> people at the Base of the Pyramid <b>trained in energy management</b>	10,517 ▲	-
3. <b>300 missions</b> with the " <b>Schneider Electric Teachers</b> " NGO	66 ▲	-

The 2011 performance serves as a starting value for the Planet & Society Barometer of the Connect program between 2012 and 2014.

▲ 2012 audited indicators

Please refer to pages 92 to 94 for the methodological presentation of indicators and the following pages for the analysis of the results (pages 86-87 for indicator 1, 87 for indicator 2 and 89 for indicator 3).

## Highlights of 2012

- Indexation of the performance incentives for the Executive Committee members to one or more components of the Planet & Society Barometer, chosen according to their field, (since 2011); expansion in 2012 to the Country Presidents of the five principal countries; access to energy for people at the Base of the Pyramid, e.g., for Strategy and Innovation and the geographical areas covered by the program.
- Launch of a new Planet & Society Barometer for the 2012-2014 period: the indicator of the million households at the Base of the Pyramid connected to electricity was extended to an additional million at the end of 2014; the target for the indicator of the number of people trained in the energy professions was raised from 10,000 to 30,000 people (in three years); an indicator was created following the launch of the "Schneider Electric Teachers" NGO with the goal of reaching 300 volunteer missions in three years.

## Social investment (Business)

In July 2009, Schneider Electric announced the creation of a global social welfare investment fund called Schneider Electric Energy Access (SEEA), with an initial capital of EUR3 million.

At December 31, 2012, the following amounts were managed by the fund:

- EUR3,000,000 in capital invested by Schneider Electric;
- EUR1,050,000 in capital invested by Schneider Énergie Sicav Solidaire;
- EUR200,000 in capital invested by Phitrust Partenaires;

### Approach

Created with the support of the Crédit Coopératif, the fund's mission is to support the development of entrepreneurial initiatives

worldwide that will help the poorest populations obtain access to energy. It will invest in specific projects:

- help jobless individuals create businesses in electricity;
- promote the development of businesses that provide access to energy in rural or suburban areas in developing countries;
- support the deployment of innovative energy access solutions that use renewable energies for people at the Base of the Pyramid.

The SEEA fund brings together different stakeholders by encouraging Schneider Electric's employees and business partners around the world to play an active role in this commitment. This socially welfare investment structure, designed by Schneider Electric to promote

responsible development, constitutes a response to the new French legislation on employee savings plans. On December 31, 2012, 2,666 Group employees in France showed their interest in the BipBop program by investing EUR4.65 million (see page 80).

The aim of the SEEA fund is to promote development while protecting the assets under management. Accordingly, it has adopted strict management rules, such as:

- always invest in partnerships with recognized players;
- never take a majority shareholding;
- always ensure sustained company support (help develop a business plan, technical advice, etc.) to deliver the optimum social efficacy while minimizing risk.



#### > SEEA FUND INVESTMENT POLICY

	International projects	France projects
Sectorial specialization	<ul style="list-style-type: none"> <li>• Access to energy sector</li> <li>• Sector of micro finance institutions funding the abovementioned sector</li> <li>• Social impact of businesses funded</li> </ul>	<ul style="list-style-type: none"> <li>• Job creation through electrical profession</li> </ul>
Geographical targets	<ul style="list-style-type: none"> <li>• Asia and Africa priority</li> </ul>	
Methodological rules	<ul style="list-style-type: none"> <li>• Always through joint investment</li> <li>• Minority participation only</li> <li>• Always provide technical and management support</li> </ul>	<ul style="list-style-type: none"> <li>• Always through joint investment</li> <li>• Minority participation only</li> <li>• Always provide technical and management support</li> </ul>
Investment type	<ul style="list-style-type: none"> <li>• Own funds</li> <li>• Tickets size: 100 to 400 thousand euros</li> <li>• Investment period: 5 to 7 years</li> </ul>	<ul style="list-style-type: none"> <li>• Own funds</li> <li>• Tickets size: 200 to 1,000 thousand euros</li> <li>• Investment period: 3 to 5 years</li> </ul>

#### Action plans

##### Investments in France

**La Foncière Chênelet** is a Chênelet Group employment opportunity company formed to counter energy precariousness by creating energy-efficient social housing. Moreover, construction sites bring together employment opportunity companies and conventional firms to promote rehiring of the unemployed.

**SIDI** (International Solidarity for Development and Investment) is an investment fund that assigns priority to the impact on development rather than return. The fund is an important partner of SEEA and is particularly active in the microfinance sector.

**LVD Energie (formerly Solasyst)** is a company of "La Varappe" employment opportunity group based in Aubagne, France. The company specializes in renewable energy solutions and has developed specific skills in integrated solar panel installation. Backed by SEEA's investment, Solasyst will open two new branches in the south of France.

##### Partnership with the ADIE

Schneider Electric set up a project two years ago in partnership with the Association pour le Droit à l'Initiative Économique (ADIE) to help entrepreneurs start electricity-related businesses. The goal is three-fold:

- help individuals who have in some cases been out of the workforce for several years create their own jobs in a promising industry;
- contribute to the local economy;
- promote the electrical profession.

The project targets entrepreneurs who do not have access to bank loans, notably the unemployed and low-income individuals. Schneider Electric and Schneider Initiatives Entrepreneurs, an association that nurtures spin-offs, finance part of the microloans granted to electrical businesses through ADIE. Schneider Electric's French sales division has also created a pact with dedicated technical training resources combined with support from a local sales representative to help these entrepreneurs.



### Investments internationally

One transaction was concluded as part of the SEEA international portfolio in 2012:

- Simpa Networks, a company based in Bangalore (India) whose business is to make Individual Solar Systems available to disadvantaged people through a specifically developed prepayment system. Simpa relies on a network of partners such as Selco to distribute the systems.

Discussions are under way for other partnerships in India and Africa.

This international investment follows up on two transactions carried out in 2011:

- Kayer SARL, a Senegalese company involved in the distribution of photovoltaic solar panels in rural areas. Its offering includes individual systems (SHS) as well as collective systems for supplying irrigation pumps or agricultural windmills;
- Nice International. A company that manages networks of Internet cafes using solar power systems. These Internet access points allow users to access training, communication and information means. The SEEA investment alongside FMO (Dutch development aid funds) and Rabobank investments allow the company to expand in Tanzania.

### Offers and economic models for the base of the pyramid (Innovation)

Innovation is reflected in the design and implementation of rural electricity offers, products and solutions for disadvantaged groups.

#### Approach

Innovation for Schneider Electric starts with the local needs and the socio-economic context of those with little or no access to clean, healthy and reliable electricity. With this in mind, the chief aims of its offers and economic models are to:

- respond to the energy needs of villages to support sustainable economic and social activity;
- include and involve local populations in projects to guarantee their sustainability in the long term.

Schneider Electric sets out to provide comprehensive energy access solutions that support revenue-generating entrepreneurial activities, foster community services or meet domestic needs. Products and solutions are developed to meet a range of both individual and community needs across the energy chain, from lighting systems and battery charging stations to decentralized small power plants and water pumping systems.

#### Action plans

##### Low-consumption lighting system

In a program to extend access to energy, lighting is one of the first vital needs expressed by population groups denied access or reliable access to electricity. Lighting makes it possible to study after the sun has gone down and to extend entrepreneurial activities into the evening. Schneider Electric developed In-Diya in 2010, an

innovative and very low-cost domestic lighting system. The system consists of a lamp made up of low-consumption LEDs that can be connected to a battery, which is in turn connected to a photovoltaic panel for charging.

The In-Diya system was improved in 2012: the connectors have been simplified, with no additional tools required; a USB port has been added to the battery to allow charging of cellular telephones; LEDs have been replaced to reduce the cost of the system, while maintaining equivalent lighting quality.

This new system is available practically everywhere in the world. Partnerships have been set up with local institutions and organizations to optimize deployment of the product and to target the poorest communities.

The lamps are sold through our distribution networks, subsidiaries, a number of NGOs and businesses in the sector developing access to electricity.

##### Electrification of villages in Nigeria and Senegal and a partnership with Grameen Shakti in Bangladesh

In 2011, Schneider Electric established a partnership with the Grameen Shakti organization based in Bangladesh. Through the partnership, Schneider Electric aims to supply lighting products and power control systems customized to demand for Grameen Shakti. Following the strengthening of this partnership through the roll-out of training programs that are fully within the BipBop approach, the links between Grameen Shakti and Schneider Electric are tightened by the creation of a social business joint venture. It was signed at the UN Conference on Sustainable Development (Rio+20) held in Rio, Brazil, in June 2012. The joint venture will be operated in accordance with the principles of Social Business as defined by Professor Muhammad Yunus.

Rural electrification continues following the success of four projects launched in 2011. The first three projects in Senegal concerned the electrification of three eco-villages situated around Dakar. They were implemented in partnership with the ANEV (National Eco-Villages Agency) and the company KAYER, a local installer with whom Schneider Electric signed a partnership agreement in 2010.

The success of the electrification of a village in Nigeria in Ogun Province led to the electrification of 10 other villages in the same province. Schneider Electric set up off-grid solar power stations that powered community buildings and battery charging stations. These stations are managed by a local entrepreneur who rents the batteries to individual households on a daily basis.

A new solution for rural electrification has been implemented in Brazil and Egypt. These hybrid solar power stations can provide reliable electricity for economic, community and home uses. Intelligent management of the two sources of energy production provides optimized power.

In India, Schneider Electric deploys an energy service sales model through the creation of a network of battery-charging entrepreneurs for the low-consumption lighting system In-Diya. In 2012, the network of more than 120 selected volunteer entrepreneurs at the start of a basic electrician training program offered this rental service to more than 1,000 households.

### Launch of a collaborative project

The MiCST project consists of designing and manufacturing an innovative solar plant using sunlight to heat a thermal energy supply powering a thermodynamic machine coupled with a 10-kW alternator.

The associated offer, named Microsol, will be designed to supply off-grid areas. MiCST is aimed in particular at developing countries with strong sunlight. Simple to install and maintain, it can be easily adopted by local populations. A major technical and technological challenge, it will take high-strength, low-cost and eco-design criteria into consideration.

The project extends over 42 months and coordinates the expertise of 12 industrial and research partners. It is supported by the French Environment and Energy Management Agency (ADEME).

### Training (People)

#### Approach

The key challenge of training in the electrical sector is to provide those at the "base of the pyramid" with the knowledge and skills to be able to carry out the task given to them in a safe and responsible way, as well as providing their families with the means for suitable subsistence.

It will also give them the ability, should they wish, to sell and maintain energy access offers and to create their own small business in time.

Furthermore they are a vital and indispensable element for all responsible and sustainable rural electrification policies.

Schneider Electric's strategy for the training of disadvantaged groups at the Base of the Pyramid includes three key priorities:

- basic training that is relatively short, free and accessible to a large number of people; full-time or evening and weekend courses to be able to better adapt to the local situation;
- training leading to qualifications in partnership with local Ministries of Education, included within the bilateral guidelines;
- training for trainers to support effective and quality roll-out of training down the line, accompanied by financing for investments in materials.

These actions are funded by the Schneider Electric Foundation and are always implemented in partnership with local players and/or national or international organizations (NGOs, governments, etc.). They systematically work with the local subsidiary of Schneider Electric.

Designed and implemented by Schneider Electric, a range of educational materials dedicated to the people at the Base of the Pyramid, called "BipBop Education", enhances the effectiveness of these different types of training.

#### Action plans

Based on the rationalization and optimization efforts of previous years, in 2012 Schneider Electric was able to extend its major training projects on a larger scale, achieving the target of 10,000 people trained during the year.

At the end of 2012, there are 21 projects in 16 countries bringing hope of a decent life for thousands of young people.

The "BipBop Education" range of teaching materials for people at the Base of the Pyramid was also launched in 2012. To enhance the acceptability and effectiveness, these teaching materials are all accompanied by courses and tutorials that enable teachers to be immediately operational.

During this year, the following activities were continued:

- initiatives for direct donations of materials;
- support of micro-enterprise creation by young adults coming from partnership training centers (150 in India in 2012);
- efforts towards transnational expansion.

In 2013, new projects in Bangladesh, Mexico, Ethiopia and by expansion in Nigeria, Morocco, Zambia and Kenya will emerge.

Seeking global agreements will be the priority for 2013. These agreements may link Schneider Electric to international companies, state players and/or NGOs with broad geographical coverage, with the express condition of sharing values and a shared desire to provide people at the Base of the Pyramid with a way out of poverty through professional training programs.



## 5.2 The Schneider Electric Foundation

### Approach

Created in 1998 under the aegis of *Fondation de France*, the Schneider Electric Foundation is involved in three main programs:

- training and employment opportunities for young adults from the Base of the Pyramid, trained primarily in the electrical professions;
- support for emergency and post-emergency relief efforts after natural disasters;
- raising sustainable development awareness through innovative projects.

The Schneider Electric Foundation focuses on the involvement of company employees in all the actions it implements. It carries out

its work through a network of 130 employee volunteers, known as delegates. These volunteers, covering 75 countries, are responsible for identifying local partnerships, presenting them to employees in their units, and to the Foundation and tracking projects once they are launched. Each project proposed is subject to a review process based on administrative and financial data by the Schneider Electric Foundation and by *Fondation de France* before funds are released.

With an annual budget of EUR4 million, the Foundation works to support its partnerships through Schneider Electric entities in which employees are also involved. A total of more than EUR10.5 million have been invested in this way to benefit local communities (see pages 107-108).

## Organization

The Foundation's network structure is an original and very suitable means for engaging local, humane and lasting sponsorship. It also reinforces the energy of the people involved. In each site, the choice of delegates is made based on recognized and formalized participation via a letter of engagement signed by the head of the site and that of the Foundation for a duration of two years. In 2012, the Foundation had 130 delegates covering 75 countries for a mission, which includes:

- selecting an association dedicated to employing young adults;
- defining a project and supporting this partnership;
- organizing local events adapted to the country's culture, to better boost employee morale;
- informing employees of Foundation activities at their site.

The delegates also coordinate the organization of the Schneider Electric Foundation's annual campaign for international mobilization called Luli. This week takes place in June/July and is an important time in the life of the Foundation and the Company with local partnerships taking center stage at an international level.

In 2012, 25,000 employees in 50 countries took part in this campaign and have rolled out 150 initiatives.

## Governance

The Schneider Electric Foundation Board of Directors meets two times per year. It defines and encourages significant strategic directions for the Foundation. It is composed of Schneider Electric managers, employee representatives and important people from outside the Company.

Requests received, responding to the foundation's criteria, are systematically sent to the delegate of the country concerned for the proposed project. Once the project is selected and supported locally, it can be studied on the corporate level by the selection committee if a supplementary budget is necessary.

This committee is composed of three members: the Foundation's Managing Director, the Foundation's Program Director and the Access to Energy Program Training Director. They meet every month.

## Action plans

### Training and opportunities for young adults

To facilitate the integration and professional training of the most under-privileged young adults, the Schneider Electric Foundation continually encourages and supports national and international integration associations or electrical profession educational organizations.

To fulfill this mission, the Foundation also participates in the Group's commitment to sustainable development. In particular, it also contributes to the BipBop energy access program (for Business, Innovation and People at the Base of the Pyramid) started in 2008. The Foundation supports the People aspect of the program, dedicated to training with priority given to the target developing countries.

This training and integration program captures more than 70% of the annual funding allocated by the Foundation. All of these actions are monitored and measured on a quarterly basis within the scope

of the Planet & Society Barometer through a key performance indicator: For the 2009-2011 period, the objective was to train 10,000 young adults at the Base of the Pyramid in energy management professions. The objective was surpassed, with more than 12,000 young people trained. Over the 2012-2014 period, the Connect company program again includes this training objective, but with the target tripled: the objective is to train 30,000 people. In 2012, 10,517 people at the Base of the Pyramid were trained in the energy management professions.

### Emergency relief and reconstruction aid

Acting as intermediary in rallying its employees, the Schneider Electric Foundation regularly brings its support during natural disasters. The Foundation above all wishes to maintain long term involvement. The aid takes place at two times: during the emergency the teams mobilize immediately to support the specialized NGOs and to meet the initial needs of the populations. The second stage is then implemented, which can take time. This stage aims to contribute to the reconstruction in the medium term. The actions supported and developed by local partners focus on construction projects, reconstruction and rehabilitation of the technical training centers for energy management professions. This is the part of the program that mobilizes the essential available resources. The Schneider Electric Foundation considers it fundamental to share its skills in electrical professions in order to actively contribute to aid in catastrophe-hit zones so that reconstruction can be sustainable.

In 2012, the project launched following earthquakes in Japan has been validated and is in place.

### Raising awareness about sustainable development

Energy and climate change are at the heart of the issues facing our planet. Doing more with fewer resources is now possible. By supporting innovative projects, the Schneider Electric Foundation voluntarily helps raise awareness to different parties participating in the challenges of climate change. The Company invests in emblematic and international programs by making its knowledge, notably in energy systems management, available through donations in resources and/or knowledge. Through its projects and the commitment of its employees, the Schneider Electric Foundation wants to emphasize:

- the desire to contribute and provide solutions.

Safe, reliable, efficient, productive and green energy management solutions are now available and operational, even in the most extreme conditions. Through its Foundation and alongside the International Polar Foundation as well as the *Fédération française des clubs alpins et de montagne*, Schneider Electric contributes to implementing innovative and exemplary smart networks within the environmental domain;

- the ability to build together, to break down barriers.

By forging links with NGO partners, Schneider Electric aims to develop solutions that will serve the project by extending its scope, adapting to needs and to different ways of collaborating that are new and sometimes unexpected;

- setting an example for employees, but also for the wider community.

Faced with the issues of our planet and particularly the challenges posed by energy resources, Schneider Electric always wants to aim higher: through its ambitious initiatives that may sometimes seem idealistic, these adventurous solutions show that it is possible to meet the challenges.

### The “Schneider Electric Teachers” NGO

Since the Schneider Electric Foundation was created in 1998, it has placed Group employee involvement at the heart of its work. Whether Foundation delegates or employee volunteers, they are the link between the Company, the Foundation and the supported organizations in more than 70 countries.

The creation of the Schneider Electric Teachers organization at the start of 2012 resulted from the desire of Schneider Electric and the Foundation to do more to support voluntary work of Schneider Electric current and retired employees in the teaching and professional training programs. The main objective was to provide a new contribution to the BipBop training programs and to undertake 300 missions in three years. This indicator is included in the Planet & Society Barometer 2012-2014.

#### Governance

The Schneider Electric Teachers association lodged its articles of association with the prefecture in France in February 2012. Its Board is composed of former Schneider Electric directors and members of the Sustainable Development Department involved in the BipBop energy access program. Specifically by name: Christian Wiest (Chairman), Dominique Devinat (Vice Chairman), Francois Milioni (Secretary), Christophe Poline (Treasurer), Bernard Lancian (member), Gilles Vermot Desroches (member).

The Board met 10 times in 2012 and the General Assembly was held on October 16, 2012.

Actions to promote this initiative took place:

- with more than 30 Presidents of countries;
- at three sites in France (headquarters at Rueil Malmaison, at the Carros site in Nice and at the Electropole site in Grenoble);
- at the “Leadership Forum”, a gathering of more than 500 Group executives.

Though less than a year old, 19 partners have joined the initiative and offer 174 missions in 20 countries. The volunteer community comprises 222 people, and 66 missions have been carried out.

#### Operations and players

This is a shared contribution between the Foundation, Schneider Electric entities and employees/retirees for the benefit of non-profit structures in the field of education and vocational training.

- the employees/retirees volunteer their time and make their skills available;
- the partners look for skills to support their activities, specify their needs and support volunteers in carrying out their mission;
- the Schneider Electric Teachers association coordinates, connects and organizes the process and covers costs related to carrying out missions;
- the Schneider Electric entities host the volunteers when the mission takes place outside their country of residence.

#### The missions

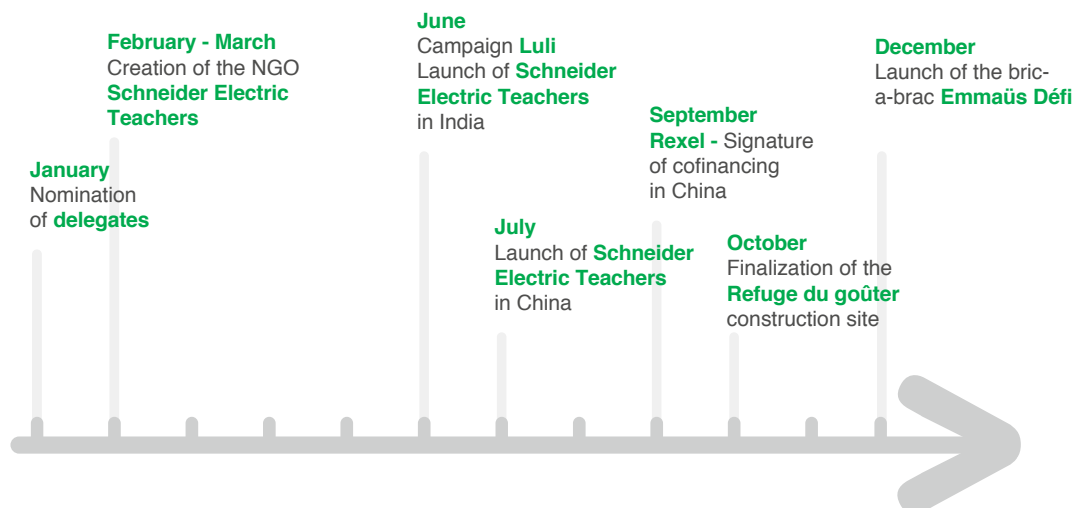
- missions to educational and professional training facilities (professional training center and/or technical schools, universities, etc.);
- tutoring, classes, events, work practices, equipment installation, discovering a profession, trainer training, optimization of standards, etc.;
- volunteer missions at associations and entrepreneurs in the field of access to energy;
  - who have supported the Energy Access social welfare investment fund,
  - or who began work after training;
- management control, finance, communication, fundraising, management, human resources, technical, etc.

For more information visit: [www.fondation.schneider-electric.com](http://www.fondation.schneider-electric.com) and [www.teachers.schneider-electric.org](http://www.teachers.schneider-electric.org)



## Examples

### Highlights of 2012 for the Schneider Electric Foundation



### Initiatives in North America

American culture places a lot of importance on community involvement. Schneider Electric North America has the following commitments:

- one of the flagship programs of the Schneider Electric Foundation North America is the "matching gift program", through which the Company matches employee donations to the organizations of their choice. In 2012, the Company matched 2,532 donations in North America (compared with 2,791 in 2011 and 2,578 in 2010);
- Pelco by Schneider Electric, the Group entity specialized in building security and video surveillance, is developing a program

called Pelco Community Partnership Program which encourages employees to get involved and volunteer in selected associations for up to 40 hours per employee per year;

- APC by Schneider Electric implements a program every year called Community Impact which gathers employees from the head office and others to support local associations with community service (donating or recycling computer equipment, assisting handicapped people, etc.).

These initiatives are consolidated at the level of the Schneider Electric Foundation and are taken into account in the different reports and indicators.

## 5.3 Territorial positioning and impact on economic and social development

Wherever it operates, Schneider Electric makes a strong commitment to community partners and civil society through positioning itself in a way that is indispensable for a global enterprise that wants to keep in touch with the labor markets local to its industrial facilities. Numerous projects under way and on the drawing board demonstrate Schneider Electric's desire to be engaged, notably in the area of employment, and to contribute fully to local economic development.

### Business creation in France – Support for business creation with Schneider Initiatives Entrepreneurs (SIE)

#### Approach and action plans

For more than 15 years, Schneider Electric has supported employee projects in France to create businesses or buy going concerns

through Schneider Initiatives Entrepreneurs (SIE), a dedicated structure demonstrating the Group's commitment to its mobility, employment and regional economic development responsibilities.

SIE also illustrates Schneider Electric's efforts to encourage the development of entrepreneurial values within its units.

Schneider Initiatives Entrepreneurs provides support for Schneider Electric employees during all stages of business creation, as well as afterwards, with a follow-up period of three years.

SIE's dedicated team of seasoned managers is responsible for reviewing the financial, legal, technical and commercial aspects of business creation projects to ensure they are viable and sustainable.

Specific support is offered for energy-related projects, which can benefit in particular from the support of the Sales and Marketing Department. These accounted for more than 20% of all supported projects in 2012. The support of the Sales Department is also provided to electrical designers from EDF.

The SIE structure is represented directly or indirectly in local business networks. To enhance the quality of services offered, it has teamed up with associations such as the EGEE, ECTI, *Boutiques de Gestions*, ALIZE, the local *Entreprendre* networks and other local associations.

SIE is very active in the promotion of expansion, by chairing the DIESE Network, an association formed of major groups that support their employees in project creation or takeovers.

More than 1,000 project sponsors were supported, including electricians, bakers, consultants, graphic designers, asset managers, florists, etc.

### Examples

On January 16, 2013, during the fifth Schneider Electric "Vivez l'aventure!" (Live the Adventure) competition, six heads of companies received an award to recognize and highlight their initiative.

Since the first edition of the "Live the Adventure" competition, 30 creations and takeovers of companies have been highlighted, with a survival rate of 83% and 126 jobs created or saved.

### Economic development of territories

Many actions are undertaken to contribute to local economic development, for example:

- specific missions within the fabric of the local SMEs (small and medium industries/enterprises) carried out by Schneider Electric senior experts;
- membership in and promotion of the Pass Compétences tool, which allows the posting of experienced managers to SMEs in the Ile-de-France; these frameworks are valuable resources for these SMEs that invest in structuring and development projects;
- support for organizations that open the way to creation of activities and companies;
- financial aid for learning within the energy sector.

Other organizations such as ADIE (Association for the Right to Economic Initiative) are also financially supported through guarantee funds, loans or particular subsidies for electrical project creators.

The electrical project creators can also access support for expansion from the Schneider Electric SALES Department.

### Revitalization of local labor markets in France

The pilot SIE structure was used to implement the revitalization actions put in place during restructuring of certain industrial areas.

The involvement of the teams in local economic networks optimizes the allocation of resources where they are needed most under these agreements defined in the GPEC, the employment safeguarding plans (PSE) or the future industrial restructuring plans.

Nine local labor markets were involved in 2011 and 2012. These actions result in support for employment, implementation of the Group's involvement policy, SME development aid, support for the energy sector, assistance for learning and other actions desired by the local economic and political authorities.

### Job creation for disadvantaged young adults in France

The diversity of backgrounds, cultures, profiles and experience is always a source of wealth, sharing, new ideas and innovation. In disadvantaged areas, there is a huge amount of talent that is eager to grow. Recognizing this, we believe that companies have a role to play. It is our duty to act, particularly in the heart of the markets in which we operate.

Convinced of the need to better support young people entering the workforce, Schneider Electric is involved in different ways: training, work/study programs for young adults entering the workforce from disadvantaged backgrounds, partnerships with schools and associations, financial support for young students, and participation in technical or general training courses, etc. These actions are undertaken by partnerships founded within the scope of the Schneider Electric Foundation.

The annual **"100 chances - 100 emplois"** campaign in France targets young adults aged 18 to 30 with a low level of education or qualifications that are susceptible to discrimination, come from "sensitive urban areas" (ZUS) and who are motivated to take part in a job opportunity program.

The objective is to open the door to lasting employment by offering personalized qualification pathways with the help of many companies brought together and led by the pilot companies (Schneider Electric in Grenoble, Chambéry, Rouen, Rueil-Malmaison, Dijon and Nord-Isère).

The goal is to attain a positive outcome of 60%, meaning that participants obtain a fixed-term or temporary contract of more than six months, a permanent contract or a skills-qualification training or diploma contract, of which more than 50% in work/study programs.

The French government launched the first **"100 chances - 100 emplois"** campaign in January 2005 in Chalon-sur-Saône.

At the end of 2012, more than 850 young adults had obtained a permanent contract, a fixed-term contract of more than six months or a skills-qualification training contract, particularly work/study, equal to over 70% of participants. More than 1,700 other young adults were supported by the program.

The **"100 chances - 100 emplois"** campaign targeted the cities of Aubervilliers, Saint-Denis, Cognac, Chalon-sur-Saône, Grenoble, Chambéry, Dieppe, Dijon, Evreux, Lyon, Marseille, Nanterre, Nemours, Nice, Rouen, Rueil-Malmaison, Dijon and Nord-Isère.

The **Interim policy** encourages our industrial facilities in France to develop interim employment contracts, participates in supporting employment at companies through temporary employment, and encourages temporary jobs for those entering the workforce.

The signing of the **Pacte pour l'Insertion et l'Emploi** (Pact for Integration and Employment) with the *Comité national des entreprises d'insertion* (CNEI) is part of the desire to learn more about companies providing jobs for the unemployed and involve them in our purchasing policy.

We have tested **employment clauses** in our markets, based on the example of the public markets.

Finally, Schneider Electric has partnered with many other organizations: *École de la Deuxième Chance*, *Nos Quartiers ont des Talents*, *Télémaque*, etc.





## > 6. Methodology and audit of indicators

### 6.1 Methodology elements on the published indicators

In the absence of any recognized and meaningful benchmark for companies involved in manufacturing and assembling electronic components, Schneider Electric has drawn up a frame of reference with reporting methods for the Planet & Society Barometer's indicators and for Human Resources, safety and environment data.

This referential includes the boundaries, the collection and consolidation procedures and the definitions of this information. As it is engaged in a process of constant improvement, Schneider Electric is gradually supplementing this work to adapt its referential of sustainable development indicators to changes in the Group. This document is regularly updated and additional information can be consulted at [www.schneider-electric.com/barometer](http://www.schneider-electric.com/barometer).

In keeping with its commitment to continuous improvement, Schneider Electric asked Ernst & Young to conduct a review in order to obtain a moderate level of assurance for certain human resources, safety and environment indicators. The audit work is entered along with that conducted since 2006 and was broadened to a larger number of indicators, in particular all of the key performance indicators from the Planet & Society Barometer (See Independent verifier's report pages 97-98).

#### Human Resources, safety and environment indicators

The Human Resources and safety data comes from several dedicated reporting tools, available on the Group's Intranet, including the One reporting tool for the Human Resources and safety data. Its consolidation is placed respectively under the Global Human Resources Division and the Group's Global Supply Chain Management. Data reliability checks are conducted at the time of consolidation (review of variations, inter-sites comparison, etc.).

The Safety data of the sites are included in the Group metrics after one complete calendar year following their creation or acquisition. A site joining the Group in year  $n$  will be included in the metrics on January 1  $n+2$ , except in exceptional circumstances when contract language stipulates not to include the Safety data before 2 years. A gap can be thus recorded with the scope of financial consolidation.

Breakdown of workforce data (by gender, category, age and seniority), sites declaring employee representation, the number of collective agreements and training programs cover more than 84% of the total workforce. Performance or career interviews have taken place with more than 87% of the workforce.

This data is consolidated over all fully integrated companies within the scope of financial consolidation, when the Group has more than a 50% stake in the subsidiary.

Units that belong to Group companies which are fully consolidated are included on a 100% basis in reporting. Units belonging to

proportionally consolidated companies are also fully integrated. Companies accounted for by the equity method are not included in the reporting.

All the ISO 14001 certified entities must report their environmental data. All production and supply chain sites with 50 or more employees must obtain ISO 14001 certification before the end of the third full calendar year of operation or membership in the Group. Administrative, R&D and sales sites with 500 employees or more also have to obtain ISO 14001 certification. Other sites may seek certification and/or report on a voluntary basis. A gap can be thus recorded with the scope of financial consolidation.

#### Indicators from the Planet & Society Barometer

The Barometer data is used and consolidated under departments directly concerned by the indicators (Human Resources, environment, the Foundation, etc.) and each represented by a driver.

The global performance of the Planet & Society Barometer is calculated by the Group's Sustainable Development Department. The indicators from the Planet & Society Barometer have a Group scope with specific levels of coverage per indicator.

#### 10% reduction of CO<sub>2</sub> emissions in transport

This indicator includes emissions from the transport of goods purchased by Schneider Electric, covering more than 80% of the total transport costs of the Group.

The measurement of CO<sub>2</sub> equivalents combines the impact of CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O, HFCs, SF<sub>6</sub>, PFCs, NO<sub>x</sub> and water vapor.

Two methods are used by carriers to measure CO<sub>2</sub> equivalent emissions: energy-based method (preferred) and activity-based method (accepted).

The data is corrected for activity, in tons transported.

This indicator was audited by Ernst & Young.

#### 75% of our product revenues achieved with Green Premium

A Green Premium product is defined by the following four criteria:

- an Environmental Product Profile available online;
- an end-of-life instruction manual available online;
- the list of substances of concern according to the European Directive REACH available online;
- the observance of the thresholds imposed by the RoHS EU Directive on hazardous substances.



The indicator measured the share of sales made with a Green Premium offer from sales figures for the year n-1. All Activities are included in the program, except CST. The EMEA Power offers are exempt. For Infrastructure, the indicator does not include the RoHS criterion.

This indicator was audited by Ernst & Young.

### 10% energy savings

The goal is to reduce energy consumption each year (2012-2013-2014) by 3.3%, using Schneider Electric solutions. The program is available for all Schneider Electric sites. The internal customer is Global Supply Chain Management. The Energy Management Services teams are the internal provider.

In 2012, the program addresses Schneider Electric's 100 most energy intensive sites (based on energy consumption in 2011). By 2014, it will include all sites larger than 5,000 m<sup>2</sup>. In case of acquisition, the sites concerned will be included in the program the following year.

The "energy savings" refer to standardized data; a model for each site is built to take into account climatic variations and changes in production.

All energies (gas, electricity, oil, etc.) are taken into account and converted into kWh.

This indicator was audited by Ernst & Young.

### +7 points of growth with the "EcoXperts" with respect to Group growth

The objective is, through "EcoXperts" partners selected by Schneider Electric, to develop energy efficiency and renewable energy activities suitable for small and medium-sized buildings.

Schneider Electric aims to reach seven points of growth with the EcoXperts activities, in excess of the Group's growth, measured quarterly year-to-date.

The program provides end users access to:

- a network of local partners accredited by Schneider Electric;
- energy efficiency and renewable energy solutions based on tested, validated and documented architectures;
- a volume of sales supported by the experience of a specialist in energy management.

The indicator incorporates country results after six months in the EcoXperts program (annually from January 2012).

This indicator was audited by Ernst & Young.

### 1 million households at the Base of the Pyramid connected

The indicator accounts for all sales of products and solutions that provide access to energy for people at the Base of the Pyramid that were developed within the BipBop program:

- products: lamps (In-Diya) and lighting products, power control systems, individual solar systems, inverters for CFL lamps, meters (BEC23 range);
- solutions: battery charging stations, solar water pumping systems, micro-solar power stations for generation off-grid electricity (Villasol, VillaSmart and DC Grid).

The Base of the Pyramid is the socio-economic segment of the world population with the lowest incomes. This population is defined in the indicator from a geographic perspective and business model perspective: the population living in non-OECD countries; accessing products and solutions through non-traditional distribution channels, appropriate marketing or a project approach developed by dedicated sales forces.

For products, the rule of one product per household was established. For solutions, the number of households is determined from the project specification documents.

This indicator was audited by Ernst & Young.

### 90% of our recommended suppliers comply with ISO 26000

The objective is to motivate "recommended" Group suppliers to roll out and monitor progress plans conforming to ISO 26000. An assessment of recommended suppliers is carried out externally. Suppliers whose assessments are too low are excluded from the indicator. All assessments are monitored by Business Review with the Schneider Electric buyers, with a view to continuous improvement according to the guidelines of ISO 26000.

The total number of recommended suppliers to take into account for the year is fixed at the beginning of the year. The number of recommended suppliers evaluated during the year was stopped at January 31 n+1 in order to take into account the assessments at December 31 of the previous year.

The sustainable development goals have become one of the seven pillars used to measure supplier performance since 2011; this has the particular advantage of allowing the highest-performing suppliers to become a 'recommended', or for the best suppliers, 'preferred' Group supplier.

This indicator was audited by Ernst & Young.

### Three major ethical stock market indices choose Schneider Electric

The indicator measures the presence of Schneider Electric in the following three ethical stock market indices:

- the Dow Jones Sustainability Index (DJSI) World;
- the Dow Jones Sustainability Index (DJSI) Europe;
- the Advanced Sustainable Performance Index (ASPI) Eurozone.

This indicator was audited by Ernst & Young.

### 300 sites recognized as "Great place to work - Cool site"

Schneider Electric wants to create motivating work environments for its employees, environments that are not only safe and effective, but also that are based on reflection on the values of Schneider Electric.

The "A great place to work" of the Connect program business defines the criteria for "Cool Sites":

- as in a village, we gather around activities and events to celebrate and interact beyond simple business;
- develop services relating to everyday life for our employees;
- test the solutions and products we sell in order to better understand what we are all working towards.

This indicator has been delayed and will roll out in 2013.



### **30% reduction in the “Medical Incident Rate” (MIR)**

The Medical Incident Rate (MIR) is the number of work incidents requiring medical treatment per million hours worked. Incidents may or may not have resulted in a day off. Medical treatment does not include first aid.

All incidents reported on Schneider Electric sites are counted (including therefore incidents affecting subcontractors on site and temporary workers). All Schneider Electric sites are taken into account.

This indicator was audited by Ernst & Young.

### **70% of the result of our “Employee Engagement Index”**

During quarterly One Voice satisfaction surveys, Schneider Electric employees are asked a series of questions; six of them are used to generate the Employee Engagement Index (EEI). The EEI is a standard international index.

Employees with an email address are surveyed every quarter; those who do not, in factories, are questioned annually on the basis of a quarterly rotation. All employees are surveyed (fixed-term contracts – including work/study participants – and permanent contracts).

This indicator was audited by Ernst & Young.

### **30% of women in our talent pool (~ 2,500 people)**

The talent pool consists of: Key Position Potentials, Key Position Holders (n-1 of the Executive Committee), Exceptional Potentials, Potentials, and Key Experts. The indicator, and therefore the goal of increasing the proportion of women, excludes Key Experts.

This indicator was audited by Ernst & Young.

### **One day of training per year per employee**

The indicator measures the percentage of employees who received at least one training day during the year, the equivalent of eight hours in total, unless defined differently by local regulations (seven hours for France, for example).

All permanent employees, white collar and blue collar, are included in the indicator. Subcontractors, fixed-term contract employees, trainees and apprentices are excluded. Arrivals during the year are accounted for in the following year.

This includes all training activities: in person, individual or collective, tutored, e-learning, webinars, internal and external; all areas of training: Products, Management, Languages, Office, Security, Legal and Regulatory training, etc.; excluded from the count are: training that does not have a formal trainer, with no written learning objectives or notices and time spent on social media.

This indicator has been delayed and will roll out in 2013.

### **30,000 people in the BoP trained in the energy professions**

The objective is to create and/or roll out energy management training programs (commercial, industrial, electrical engineering, automation and renewable energy) at the regional or national level, dedicated to the people at the Base of the Pyramid.

In partnership with local and international NGOs, Schneider Electric provides direct or indirect contributions to training centers to create new classes or new training, or significantly improve existing courses. Contributions may be (cumulative possible): training products and equipment, knowledge transfer, trainer training and money. Schneider Electric does not provide trainers, does not provide the premises and does not pay long-term operating expenses.

Duration: full-time training for a minimum of three months with certification; diploma courses of one to three years; evening and/or weekend courses totaling 100 hours minimum.

Each partner must be able to justify the BoP nature of the persons trained, according to the defined local benchmark.

This indicator was audited by Ernst & Young.

### **300 missions carried out via the “Schneider Electric Teachers” ONG**

Missions undertaken are performed: by Schneider Electric employees and retirees; on a voluntary basis (on leave); in vocational or educational NGOs (vocational and technical training, schools and universities, etc.); primarily aimed at disadvantaged young people; in organizations and/or companies supported by the Schneider Electric Energy Access Fund; depending on the skills of the volunteer and the needs of the beneficiary (validation process in place); in the country of origin and/or abroad for variable periods of time (with a minimum of two weeks for a foreign mission).

The organization of these missions is coordinated by a specific NGO called “Schneider Electric Teachers”. It works closely with BipBop (BipBop People) training teams, the Schneider Electric Energy Access fund and the HR function. It develops partnerships with local NGOs (Planet Emergency, ESF, etc.).

This indicator was audited by Ernst & Young.

## 6.2 Concordance of indicators with article 225 of the Grenelle 2 Act

The table below indicates the page numbers of the report in which the various indicators are mentioned.

1° Social information	Pages
<b>a) Employment</b>	
Total workforce and breakdown of employees by gender, age and region	101-103
Hiring and layoffs	103-104
Remuneration and its development	80-81, 130-138
<b>b) Organization of work</b>	
Organization of working time	101-105
Absenteeism	105
<b>c) Social relations</b>	
Organization of social dialogue – particularly information and personnel consultation procedures and personnel negotiation procedures	81-82, 104
List of collective agreements	81-82, 104
<b>d) Health and safety</b>	
Health and safety conditions in the workplace	71-72
List of agreements signed with unions or staff representatives regarding health and safety in the workplace	104
Work accidents, particularly their frequency and their seriousness...	104
... as well as occupational illnesses	72, 80, 105
<b>e) Training</b>	
Training policies implemented	74-76
Total number of training hours	105
<b>f) Equality of treatment</b>	
Measures taken towards gender equality	78, 102
Measures taken towards employment and involvement of persons with disabilities	79
Anti-discrimination policy	77-79, 57-59
<b>g) Promotion and respect of the provisions of the International Work Organization's fundamental agreements relating to:</b>	
<ul style="list-style-type: none"> <li>• respect of the freedom of association and the right to collective bargaining;</li> <li>• eradication of discrimination in employment and profession;</li> <li>• eradication of forced or obligatory labor;</li> <li>• effective abolition of child labor.</li> </ul>	47-48, 42
<b>2° Environmental information</b>	
<b>a) General environmental policy</b>	
Organization of the Company to take into account environmental questions and, when necessary, environmental evaluation or certification approaches	60-61, 68, 99
Employee training and information actions regarding environmental protection	61, 58, 105
Environmental risk and pollution prevention means	69
Amount of provisions and cover for environmental risks except if this is likely to cause serious harm to the Company in a pending litigation	35
<b>b) Pollution and waste management</b>	
Measures for prevention, reduction or repair of emissions in the air, water and ground with serious environmental effects	69, 99
Measures for prevention, recycling and removal of waste	69, 99



Consideration of noise pollution and any other form of pollution specific to an activity	69
<b>c) Sustainable use of resources</b>	
Water consumption and supply according to local constraints	68, 99
Raw material consumption and measures taken to improve the efficiency of their use	68
Energy consumption and the measures taken to improve energy efficiency and the use of renewable energies	63-64, 100
Land use	69
<b>d) Climate change</b>	
Greenhouse gas emissions	62-65, 100
Adaptation to the consequences of climate change	62-65, 68, CDP
<b>e) Biodiversity protection</b>	
Measures taken to preserve or develop biodiversity	69, 65-67, 50
<b>3° Information relating to societal commitments in sustainable development</b>	
<b>a) Territorial, economic and social impact of the Company's activity</b>	
Regarding employment and regional development	84-86, 90-91
On bordering or local populations	86-87, 91
<b>b) Relations with the persons or organizations involved in the Company's activity, particularly involvement organizations, teaching establishments, environmental defense organizations, consumer associations and bordering populations</b>	
Conditions of dialogue with these persons or organizations	43-44
Partnership or sponsorship actions	87-90
<b>c) Subcontracting and suppliers</b>	
Consideration within the Company's purchasing policy of social and environmental issues	56-57
The importance of subcontracting and the consideration within relations with subcontractors and suppliers of their social and environmental responsibility	56-57
<b>d) Loyalty of practices</b>	
Anti-corruption actions taken	60
Measures taken towards consumer health and safety	65-67, 14
<b>e) Other actions taken towards human rights, within the scope of this third indicator</b>	42

## 6.3 Independent verifier's report

*This is a free translation into English of the original report issued in French language, provided solely for the convenience of English speaking readers.*

Year ended December 31, 2012

### Independent verifier's attestation and limited assurance report on social, environmental and societal information, and on the Planet & Society Barometer's indicators



To the Board of Directors,

Pursuant to your request and in our capacity as independent verifier of Schneider Electric S.A., we hereby report to you on the consolidated social, environmental and societal information presented in the management report issued for the year ended 31st of December 2012, in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code (Code de commerce), and on the Planet & Society Barometer's indicators<sup>(1)</sup> as of December 31st 2012.

#### Management's Responsibility

The Board of Directors is responsible for the preparation of the Management Report including the consolidated social, environmental and societal information (the «Information») in accordance with the requirements of Article R. 225-105-1 of the French Commercial Code (Code de commerce), presented as required by the entity's internal reporting standards (the «Guidelines»), a summary of which is provided in the Management Report on pages 92-94 («Methodology note»).

#### Our Independence and Quality Control

Our independence is defined by regulatory requirements, the Code of Ethics of our profession (Code de déontologie) and Article L. 822-11 of the French Commercial Code (Code de commerce). In addition, we maintain a comprehensive system of quality control including documented policies and procedures to ensure compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### Independent verifier's responsibility

It is our role, on the basis of our work:

- to attest whether the required Information is presented in the management report or, if not presented, whether an appropriate explanation is given in accordance with the third paragraph of Article R. 225-105 of the French Commercial Code (Code de commerce) and Decree no. 2012-557 dated 24 April 2012 (Attestation of presentation);
- to provide limited assurance on whether the Information and the Planet & Society Barometer's indicators are fairly presented, in all material respects, in accordance with the Guidelines (limited assurance).

### 1. Attestation of presentation

Our engagement was performed in accordance with professional standards applicable in France:

- we compared the Information presented in the management report with the list as provided for in Article R. 225-105-1 of the French Commercial Code (Code de commerce);
- we verified that the Information covers the consolidated perimeter, namely Schneider Electric S.A. and its subsidiaries within the meaning of Article L. 233-1 and the controlled entities within the meaning of Article L. 233-3 of the French Commercial Code (Code de commerce), within the limits specified in the Methodology Note;
- in the event of the omission of certain consolidated Information, we verified that an appropriate explanation was given in accordance with Decree no. 2012-557 dated 24 April 2012.

On the basis of our work, we attest that the required Information is presented in the management report.

(1) 10 % CO2 savings on transportation, 75% of our products' revenue achieved with Green Premium, 10% energy consumption savings, 7 pts growth turnover EcoXperts above transactional growth turnover, 90% of recommended suppliers embracing ISO 26000 guidelines, 3 major ethical stock market indexes select Schneider Electric, 1 million households at the Base of the Pyramid (BoP) have access to energy, 30.000 people at the BoP trained in energy management, 300 missions in the "Schneider Electric Teachers" NGO, 30% reduction of the medical incident rate (MIR), 70% scored in the employee engagement index, 30% women in the talent pool (~ 2.500 people). The indicators 1 day of training for each employee every year and 300 sites recognised "Great place to work - Cool Site" are not published as of December 31st 2012.

(2) The entities concerned are Schneider Automation Carros (France), Regensburg (Germany), Gebze (Turkey), Pelco Clovis (USA), ZAO Potencial (Russia), APC Bangalore and Chennai (India), SE Thailand Ltd Corp. (Thailand), Clipsal Australia PTY Gepp Cross (Australia).

## 2. Limited Assurance report

### Nature and scope of the work

We conducted our engagement in accordance with ISAE 3000 (International Standard on Assurance Engagements) and French professional guidance. We performed the following procedures to obtain limited assurance that nothing has come to our attention that causes us to believe that the Information is not fairly presented, in all material respects, in accordance with the Guidelines. A higher level of assurance would have required more extensive works.

#### Our work consisted in the following:

- we assessed the appropriateness of the Guidelines as regards their relevance, completeness, neutrality, clarity and reliability, taking into consideration, where applicable, the good practices in the sector;
- we verified that the Group had set up a process for the collection, compilation, processing and control of the Information to ensure its completeness and consistency. We examined the internal control and risk management procedures relating to the preparation of the Information. We conducted interviews with those responsible for social and environmental reporting;
- we selected the consolidated Information to be tested and determined the nature and scope of the tests, taking into consideration their importance with respect to the social and environmental consequences related to the group's business and characteristics, as well as its societal commitments.

Concerning the quantitative consolidated information that we deemed to be the most important:

- at the level of the consolidating entity and the controlled entities, we implemented analytical procedures and, based on sampling, verified the calculations and the consolidation of this information;
- at the level of the sites that we selected based on their business, their contribution to the consolidated indicators, their location and a risk analysis:
  - we conducted interviews to verify that the procedures were correctly applied and to identify any omissions;
  - we performed tests of detail based on sampling, consisting in verifying the calculations made and reconciling the data with the supporting documents.

The sample thus selected represents on average 4.2% of the workforce and between 5% and 14% of the quantitative environmental information tested.

Concerning the qualitative consolidated information that we deemed to be the most important, we conducted interviews and reviewed the related documentary sources in order to corroborate this information and assess its fairness. Regarding fair practices related matters, the interviews were only conducted at the level of the consolidating entity.

- As regards the other consolidated information published, we assessed its fairness and consistency in relation to our knowledge of Schneider Electric S.A. and, where applicable, through interviews or the consultation of documentary sources.
- Finally, we assessed the relevance of the explanations given in the event of the absence of certain information.

### Comments on the Guidelines

We wish to make the following comments on the Guidelines:

- the reporting Guidelines for Environmental and Social information (excluding Safety) are precise and communicated throughout the Group; the collection of information is largely based on an information system and the controls in place at the different levels are effective,
- the reporting Guidelines for Safety information have been modified or complemented in 2012, so as to reach better accuracy and homogenize practices throughout the group, in particular regarding the "Medical Incident Rate (MIR)".

### Comments on the Information

We turn the attention to the point that for Environmental and Safety information, the reporting perimeter does not include all the entities consolidated in the financial perimeter, as described in the Methodology note.

### Conclusion

Based on our work described in this report, nothing has come to our attention that causes us to believe that the Information is not fairly presented, in all material respects, in accordance with the Guidelines.

Paris-La Défense, March 20th 2013

The Independent verifier

ERNST & YOUNG et Associés

Cleantech & Sustainability

French original signed by:

Eric Mugnier

## > 7. Indicators

### 7.1 Environmental indicators

The indicators below have a Group scope. They illustrate our industrial and logistics sites' environmental consumption, emission and waste in addition to certain major tertiary sites. The scope of environmental reporting is that of ISO 14001 certified sites, and certain non-certified sites on a voluntary basis and without interruption in time. All of the industrial and logistics sites with more than 50 people and the major tertiary sites with more than 500 people must be ISO 14001 certified within two years after their acquisition or creation. A difference can be established with the scope of financial consolidation. ISO 14001 sites cover about 70% of the Group.

Schneider Electric provides readers two pieces of information so that environmental performance can be compared from one year to the next:

- one part publishing constant scope indicators;
- and another part publishing indicators per employee to correct the changes in the Company's activities. The sites' workforce includes Schneider Electric employees (fixed-term, permanent and work/study participants), temporary staff and on-site subcontractors.

The table below indicates how the indicators correspond with the Global Reporting Initiative (GRI).

Comments on the indicators are included in the corresponding chapters.



#### ISO 14001 certification of sites

	2012	2011	2010
Number of ISO 14001 Certified Sites	280 ▲	273	251
Industrial and logistics sites	258	253	236
Tertiary sites	22	20	15
New sites certified this year	11	36	22
Certified sites that have closed or consolidated this year	4	14	15

▲ 2012 audited indicator.

#### Group sites consumption, emissions and waste

GRI	Indicators	Current Scope			Constant Scope	
		2012	2011	2010	2012	2011
	Number of Participating sites	283 ▲	281	255	275	275
	Number of employees	101,978 ▲	102,991	87,371	99,933	102,331
EN22	Waste produced (in t)	134,814 ▲	135,392	113,684	133,395	134,619
EN22	Waste produced per employee (in t/p)	1.3 ▲	1.3	1.3	1.3	1.3
EN22	Recovered waste (in t)	115,382 ▲	112,611	95,092	114,261	111,746
EN22	Percentage of waste recovered	85.6% ▲	83%	84%	85.7%	83%
	Target percentage of waste recovered	-	-	-	85%	-
EN8	Water consumption (m³)*	2,456,716 ▲	2,863,934	2,664,824	2,403,945	2,559,891
EN8	Water consumption/employee (m³/p)	24.1 ▲	27.8	30.5	24.1	25.1
	Change in water consumption per employee	-	-	-	-4.1%	-
	Target consumption of water	-	-	-	-3.3%	-
EN19-20	VOC emissions (in kg) (estimates)	416,612 ▲	451,154	461,499	414,117	443,943
EN19-20	VOC/per employee (kg/p) (estimates)	4.1 ▲	4.4	5.3	4.1	4.4



GRI	Indicators	Current Scope			Constant Scope	
		2012	2011	2010	2012	2011
EN3	Energy consumption (MWh equivalent)	1,166,497 ▲	1,204,580	1,186,864	1,156,464	1,197,289
EN4	Electricity (indirect consumption)	812,917	839,991	790,829	804,590	834,574
EN4	District heating (indirect consumption)	29,255	31,074	32,231	29,255	31,074
EN3	Fuel oil (direct consumption)	22,466	21,366	28,128	20,938	21,292
EN3	Gas (direct consumption)	297,114	307,705	331,010	296,936	305,896
EN3	Coal (direct consumption)	4,521	4,432	4,641	4,521	4,432
EN3	Renewable energy (direct consumption)	224	11	25	224	11
EN5	Energy consumption per employee (MWh)	11.4 ▲	11.7	13.6	11.6	11.7
EN16	CO <sub>2</sub> emissions linked to energy consumption (in t) (estimates)**	413,414 ▲	430,191	411,177	408,272	422,531
EN17	Electricity (indirect emission)	334,720	348,316	323,429	330,012	341,047
EN17	District heating (indirect emission)	10,403	11,728	10,995	10,403	11,728
EN16	Fuel oil (direct emission)	5,841	5,555	7,313	5,444	5,536
EN16	Gas (direct emission)	60,908	63,080	67,857	60,872	62,709
EN16	Coal (direct emission)	1,542	1,511	1,583	1,542	1,511
EN16	Renewable energy	0	0	0	0	0
EN16	CO <sub>2</sub> per employee in t/p)	4.1 ▲	4.2	4.7	4.1	4.1
EN16	SF <sub>6</sub> emissions (in CO <sub>2</sub> equivalent t)***	44,947 ▲	52,542	60,491	44,947	52,794
	SF <sub>6</sub> leakage rate	0.75%	0.94%	1.76%	UP	UP
	Target SF <sub>6</sub> leakage rate	0.95%	1%	-	-	-
EN16	Direct and indirect CO <sub>2</sub> emissions (energy consumption and SF <sub>6</sub> emissions in t)	458,351 ▲	482,733	471,668	453,219	475,325

▲ 2012 audited indicators.

UP = Unpublished.

\* Not including water used for cooling for two sites in 2012 and for the constant scope calculation: Carros (Nice) and TEC 38 (Grenoble). In 2012, Schneider Electric made a change in methodology to distinguish the water used for consumption and water used for cooling (and returned to the environment). In 2013, Schneider Electric plans to expand this differential reporting to all sites.

\*\* The CO<sub>2</sub> emissions linked to energy consumption are considered estimates, because the indirect emissions are calculated on the conversion factors per country.

\*\*\* Nine sites used in 2010, 17 sites in 2011 and 2012 with the acquisition of Areva D, 17 sites for the constant scope calculations. Constant scope emissions are not corrected from activity level.

### Key performance indicators from the Planet & Society Barometer

Objectives for year end 2014	2012	2011
1. <b>10% CO<sub>2</sub> savings on transportation</b>	14.8% ▲	-
2. <b>75% of our product revenues achieved with Green Premium</b>	65.5% ▲	63%
3. <b>10% energy consumption savings</b>	6.1% ▲	-

The 2011 performance serves as a starting value for the Planet & Society Barometer Connect program between 2012 and 2014.

▲ 2012 audited indicators.

Please refer to pages 92 to 94 for the methodological presentation of indicators and the following pages for the analysis of the results (pages 65 for indicator 1, 65-67 for indicator 2 and 63-64 for indicator 3).

### CO<sub>2</sub> emissions in transportation (scope 3)

Indicators	2012	2011
1. <b>CO<sub>2</sub> emissions on transportation paid by the Group (in tons of CO<sub>2</sub>e)</b>	393,765 ▲	497,703

▲ 2012 audited indicators. Calculation based on a coverage of 81% extrapolated to 100%.

Please refer to page 65 for the presentation of this program.

## Other key indicator

Objectives for year end 2013	2012	2011
1. <b>12 countries</b> are implementing a recovery process for SF <sub>6</sub> gas	10	8

Please refer to page 56 for the presentation of this program.

## 7.2 Social indicators

The indicators below have a Group scope.

The Safety data of the sites are included in the Group metrics after one complete calendar year following their creation or acquisition. A site joining the Group in year n will be included in the metrics on January 1 n+2, except in exceptional circumstances when contract language stipulates not to include the Safety data before two years. A gap can be thus recorded with the scope of financial consolidation.

HR data cover 100% of the workforce from integrated companies (see rules page 92). Certain indicators cover 84% or 87% of the workforce; they are indicated by the footnotes at the bottom of the page. To meet the requirements of French law, some indicators are given for France only. The precisions on the variations of scope are contributed at the end of the tables below and indicated by footnotes.

The social indicators count the people with fixed-term contracts, on work-experience and on permanent contracts. The indicators that also include temporary workers and/or subcontractors on site are indicated by footnotes.

The calculation methodology of the absenteeism rate varying from a country to the other, in this domain Schneider Electric communicates at Group level the number of lost days and the number of hours worked (Safety data).

The comments on the indicators are given in the matching chapters and indicated in the tables below.

The table below indicates the matching of indicators with the Global Reporting Initiative.



## Key performance indicators from the Planet & Society Barometer

Objectives for year end 2014	2012	2011
1. <b>30%</b> reduction in the "Medical Incident Rate" (MIR)	-23% ▲	-
2. <b>70%</b> result in our "Employee Engagement Index"	55% ▲	-
3. <b>30% women</b> in our talent pool (~ 2,500 people)	27% ▲	23%
4. <b>One day of training</b> for each employee every year	-*	-
5. <b>300 sites</b> recognized "Great place to work - Cool site"	-*	-

The 2011 performance serves as a starting value for the Planet & Society Barometer Connect program between 2012 and 2014.

▲ 2012 audited indicators

\* These indicators will be reported from 2013, the tools to measure them are being rolled-out in 2012.

Please refer to pages 92 to 94 for the methodological presentation of indicators and the following pages for the analysis of the results (pages 71-72 for indicator 1, 73 for indicator 2, 78 for indicator 3, 75 for indicator 4 and 73 for indicator 5).

## Workforce

GRI	Indicators	2012	2011	2010
<b>Workforce</b>				
LA1	Average workforce <sup>(4)</sup>	152,384 ▲	140,489	123,482
	Blue collar (VDC) <sup>(4)</sup>	75,601	70,609	61,913
	White collar (non-VDC) <sup>(4)</sup>	76,383	69,580	61,569
LA1	Average supplementary workforce	13,947 ▲	13,924	12,049
LA1	Fixed-term contract and permanent contract personnel <sup>(5)</sup>	139,989 ▲	137,535	118,819
	Permanent contract	90.2%	87.3%	88.4%
	Fixed-term contract	9.8%	12.7%	11.6%
LA1	Share of temporary personnel (fixed-term contracts and temporary workers) <sup>(5)</sup>	17.4%	20.5%	20.8%
LA1	Organization of working time <sup>(3)</sup>			
	Full-time	98%	97.9%	UP
	Part-time	2%	2.1%	UP
LA1	Hires <sup>(6)</sup>	20,971 ▲	19,792	17,590

GRI	Indicators	2012	2011	2010
LA1	Departures <sup>(6)</sup>	20,615	16,362	14,968
	Layoffs	5,719 ▲	3,887	3,976
	Resignations	10,379 ▲	7,558	UP
	Others (retirement, end of contract, etc.)	4,489	4,917	UP
LA1	Voluntary turnover	7.5% ▲	6%	7%
LA1	Breakdown of workforce by region <sup>(6)</sup>			
	Asia-Pacific	31%	31%	27%
	Europe	38%	39%	42%
	North America	21%	21%	22%
	Rest of the world	10%	9%	9%
LA1	Breakdown of workforce by country (the most significant countries) <sup>(6)</sup>			
	France	14%	13%	17%
	United States of America	13%	12%	15%
	China	11%	10%	10%
	India	9%	8%	6%
	Mexico	5%	5%	6%
	Spain	4%	4%	3%
	Brazil	4%	3%	3%
	Germany	3%	3%	4%
	Australia	3%	3%	3%
	Indonesia	3%	2%	UP
	United Kingdom	2%	2%	3%
	Russia	2%	2%	3%
LA1	Annual change in workforce by country (the most significant countries) <sup>(6)</sup>			
	France	- 4%	- 2%	+ 9%
	United States of America	0%	+ 9%	- 1%
	China	- 5%	+ 29%	+ 24%
	India	+ 6%	+ 88%	+ 38%
	Mexico	+ 3%	+ 5%	+ 14%
	Spain	- 2%	+ 74%	+ 6%
	Germany	+ 2%	+ 2%	+ 57%
	Brazil	+ 21%	+ 38%	+ 40%
	Australia	- 7%	+ 22%	+ 2%
	Indonesia	+ 33%	+ 10%	+ 22%
	United Kingdom	+ 6%	+ 8%	+ 11%
	Russia	+ 3%	- 1%	+ 6%
LA13	Breakdown of workforce by gender <sup>(2)</sup>			
	Men	69% ▲	68%	66%
	Women	31% ▲	32%	34%
LA13	Breakdown of workforce by gender and by category <sup>(2)</sup>			
	White collar	53.2%	54.5%	53.6%
	Men	72%	72%	71%
	Women	28%	28%	29%
	Blue collar	46.8%	45.5%	46.4%
	Men**	65%	64%	60%
	Women	35%	36%	40%

**SUSTAINABLE DEVELOPMENT**  
INDICATORS

GRI	Indicators	2012	2011	2010
LA13	Breakdown of workforce by age <sup>(2)</sup>			
	14/24 years	9.2%	9.7%	8.7%
	25/34 years	33.2%	32.7%	31.4%
	35/44 years	26.8%	36.4%	27.5%
	45/54 years	20.7%	21.2%	22.3%
	55/64 years	9.5%	9.6%	9.7%
	> 64 years	0.6%	0.4%	0.4%
LA1	Breakdown of workforce by seniority <sup>(2)</sup>			
	< 5 years	42.9%	44.2%	43.9%
	5/14 years	33.5%	29.9%	30.4%
	15/24 years	13.2%	13.8%	13.7%
	25/34 years	7.2%	8.8%	8.6%
	> 34 years	3.2%	3.3%	3.4%
LA1	Breakdown of workforce by function			
	Marketing	3.8%	3.8%	3.8%
	Sales	11.4%	12%	14.9%
	Services and projects**	16.4%	15%	12.9%
	Support	19.6%	19.2%	16.8%
	Technical	7.6%	8.4%	7.6%
	Industrial	6%	6.4%	6.6%
LA1	Direct variable costs* (cost of employees under production or business costs)	46.7%	45.4%	46.4%
	<b>Hires <sup>(6)</sup></b>			
LA2	Breakdown by type of contract			
	Permanent contract	67%	61.2%	58.5%
	Fixed-term contract	33%	38.8%	41.5%
LA2	Breakdown by category			
	White collar	44%	51.3%	41.1%
	Blue collar	56%	48.7%	58.9%
LA2	Breakdown by Region			
	Asia-Pacific	45%	47%	45%
	Europe	21%	23%	20%
	North America	21%	17%	12%
	Rest of the world	13%	13%	23%
	<b>Layoffs <sup>(6)</sup></b>			
LA2	Breakdown by type of contract			
	Permanent contract	83%	81%	75%
	Fixed-term contract	17%	19%	25%
LA2	Breakdown by category			
	White collar	45%	45%	39%
	Blue collar	55%	55%	61%
LA2	Breakdown by Region			
	Asia-Pacific	29%	18%	11%
	Europe	25%	33%	31%
	North America	27%	27%	42%
	Rest of the world	19%	23%	16%



GRI	Indicators	2012	2011	2010
<b>Resignations <sup>(6)</sup></b>				
LA2	Breakdown by seniority <sup>(2)</sup>			
	< 1 year	28.9%	35.8%	33.8%
	1/4 years	47%	41.5%	45%
	5/14 years	19.6%	18.7%	18.1%
	15/24 years	2.3%	2.7%	2.2%
	25/34 years	1.2%	0.9%	0.7%
	> 34 years	1%	0.4%	0.2%
<b>Average supplementary workforce</b>				
LA1	Breakdown by category			
	White collar	16.4%	12.7%	12.5%
	Blue collar	83.6%	87.3%	87.5%
LA1	Breakdown by Region			
	Asia-Pacific	59.6%	56.9%	59.4%
	Europe	26.9%	32%	29.5%
	North America	4.1%	3.8%	7%
	Rest of the world	9.3%	7.3%	4.1%

## Dialogue and social relations

<b>Dialogue and social relations</b>				
LA4-6	Sites stating they benefit from employee representation <sup>(2)</sup>			
	Unions	47.6%	52.4	60.6%
	Works Council	50%	56.5%	63.1%
	Health and Safety Committee	76.7%	81%	85.9%
LA7	Number of collective agreements <sup>(2)</sup>	315	316	261

## Health and safety of employees

<b>Health and safety of employees</b>				
LA7	Number of accidents <sup>(1)</sup>	364 ▲	531	612
	of which Schneider Electric employees	312	434	507
	of which subcontractors	52	96	104
LA7	Number of fatal accidents	1	0	1
	of which Schneider Electric employees	1	0	1
	of which subcontractors	0	0	0
LA7	Lost-Time Injury Rate (LTIR) <sup>(6)</sup>	1.42 ▲	2.06	
	of which Schneider Electric employees	1.41		
	of which subcontractors	1.54		
LA7	Lost-Time Day Rate (LTDR) <sup>(6)</sup>	47.98 ▲	56.00	
	of which Schneider Electric employees	51.60		
	of which subcontractors	24.15		
LA7	Frequency		2.06	2.51
	of which Schneider Electric employees		1.95	2.37
	of which subcontractors		2.62	3.50
LA7	Severity		0.06	0.06
	of which Schneider Electric employees		0.06	0.06
	of which subcontractors		0.04	0.05

LA7	Number of lost days	12,263 ▲	14,284	14,624
	of which Schneider Electric employees	11,449	12,815	13,007
	of which subcontractors	814	1,491	1,617
LA7	Number of hours worked	255,566,952 ▲	257,533,623	243,999,107
	of which Schneider Electric employees	221,866,584	222,372,065	214,588,490
	of which subcontractors	33,700,368	35,161,558	29,410,617
LA7	Medical Incident Rate <sup>(6)</sup>	3.44 ▲	4.49	7.54
	of which Schneider Electric employees	3.36	4.13	UA
	of which subcontractors	3.92	6.77	UA



### Talent development and training

GRI	Indicators	2011	2010	2009
	<b>Talent development and training</b>			
LA10	Number of training hours <sup>(2)</sup>	2,489,421 ▲	2,205,713	2,088,144
LA10	Average hours of training per person <sup>(2)</sup>	21.5	21.1	22.6
	White collar	27.7	27.2	30.8
	Blue collar	15.4	15	14.3
LA10	Breakdown of hours by category <sup>(2)</sup>			
	White collar	64.2%	64.3%	68.6%
	Blue collar*	35.8%	35.7%	31.4%
LA10	Breakdown of hours by training type <sup>(2)</sup>			
	Health, safety and environment	14.6%	14.3%	11.9%
	Technical	29.2%	36.8%	32.7%
	Languages. IT		16.6%	18.2%
	Languages	16.2%	UA	UA
	IT	4.8%	UA	UA
	Solutions	5.1%	UA	UA
	Management and <i>Leadership</i>	15.1%	12.4%	16.7%
	Others	15%	20%	20.6%
LA10	Breakdown of costs by training type <sup>(2)</sup>			
	Health, safety and environment	7.9%	10.4%	11.8%
	Technical	27.8%	29.4%	43.2%
	Languages and IT		15.8%	10.5%
	Languages	16%	UA	UA
	IT	1.5%	UA	UA
	Solutions	5.1%	UA	UA
	Management and <i>Leadership</i>	24.2%	18.8%	18.4%
	Others	17.5%	25.6%	16.1%
LA10	Breakdown of costs by category <sup>(2)</sup>			
	White collar	73%	75.5%	68.0%
	Blue collar	27%	24.5%	32.0%
LA12	Employees having had a performance interview <sup>(3)</sup>	66.3%	52%	46.7%
	Employees having had a career interview <sup>(3)</sup>	31%	31.3%	32.0%

### Indicators France

	<b>Workforce (France)</b>			
LA1	Spot workforce	19,189	19,947	20,311
LA1	Number of hires	932	1,228	793
LA1	Number of departures	1,742	1,531	1,228

LA1	Breakdown by type of contract			
	Permanent contract	94.3%	94.7%	95.6%
	Fixed-term contract	5.7%	5.3%	4.4%
LA1	Breakdown by occupational category			
	Manual workers	26.8%	28.6%	30.2%
	Foremen	1.2%	1.2%	1.3%
	Administrators and technicians	30.7%	30.7%	31.9%
	Engineers and executives	36.3%	35.1%	32.7%
	Work experience	5%	4.4%	3.9%
LA13	Breakdown by gender <sup>(7)</sup>			
	Men	68.8%	68.4%	66.8%
	Women	31.2%	31.6%	33.2%
<b>Average supplementary workforce (France)</b>				
LA1	Total	2,051	2,779	2,202
	Breakdown by category			
	White collar	10%	11%	10%
	Blue collar	90%	89%	90%
<b>Disability (France)</b>				
	Employees with disabilities	6.05%	6.19%	6.09%
	Direct employment	3.16%	3.19%	3.09%
	Indirect employment	2.89%	3%	3%
<b>Talent development and training (France)</b>				
LA10	Breakdown of costs by training type			
	Health, safety and environment	13.2%	13%	11.8%
	Technical	34.1%	42.8%	16.7%
	Languages and IT		17.3%	17.8%
	Languages	19%	UA	UA
	IT	2%	UA	UA
	Solutions	0%	UA	UA
	Management and Leadership	16.8%	13.7%	14.2%
	Others	14.8%	13.2%	9.9%
LA10	Breakdown of costs by gender			
	Women	21.6%	25.2%	27.2%
	Men	78.4%	74.8%	72.8%
LA10	Breakdown of costs by category			
	Engineers and executives	51%	48.9%	37.7%
	Administrators, Technicians and Foremen	37%	39.1%	39.1%
	Manual workers	12%	11.9%	23.2%

(1) Includes business travel, excludes home/workplace travel.

(2) The data relates to over 84% of the Group's workforce at the end of December 2012 (annual survey).

(3) The data relates to over 87% of the Group's workforce at 12/31/2012.

(4) Temporary workforce included.

(5) Based on spot workforce year end.

(6) Acquisitions/disposals and temporary staff are not taken into account in the calculation.

(7) The data relates to over 94% of the Group's workforce on French territory.

(8) LTIR = Number of incidents with lost days x 1,000,000/number of hours worked. International standard indicator comparable to the accident frequency rate.

LTDR = Number of lost days x 1,000,000/number of hours worked. International standard indicator comparable to the accident severity rate (the latter, however, is calculated per thousand hours worked).

MIR = Number of accidents requiring medical treatment x 1,000,000/number of hours worked.

\* Data includes service VDC headcount, or 33% of all VDC in 2012; 23% in 2011; 19% in 2010.

\*\* Part of the VDC services on total workforce: 11.8% in 2012; 10.4% in 2011; 8.9% in 2010.

UA = Unavailable/UP = Unpublished.

VDC, variable direct costs are Schneider Electric employees whose costs impact directly on the completion of business. They are included under "blue collar". ▲ 2012 audited indicators.



### 7.3 Societal indicators

The data below was consolidated for the first time in 2010. It is distributed based on declarative information submitted by Foundation delegates.

It covers 80% of Schneider Electric employees and highlights the importance of company and employee participation in the Foundation's approach to involvement towards local communities.

With more than EUR10.5 million in 2012, the amount of contributions to the Foundation's actions includes the Foundation's intervention

budget, the amount of the donations from the entities, the employees and the partners, and the amount of donations in kind. With regard to 2011, we observe a decrease of the total contribution, mainly due to the decrease of donations in equipment. This item is indeed much linked to the emergency and reconstruction actions deployed further to natural disasters and, fortunately, no campaign of this type was organized in 2012.

The number of employees involved in the Foundation's actions is increasing from 28,129 in 2011 to 35,741 in 2012.



#### Breakdown of the Foundation's financial commitments

	2012
<b>FOUNDATION'S INTERVENTION BUDGET</b>	<b>4,000,000</b>
Breakdown by program ( <i>in %</i> )	
Training and opportunities for young adults	68%
Emergency and post-emergency	0%
Raising awareness of sustainable development	7%
Employees' volunteering / skills-based sponsorship	8%
Other (mainly involving employee/sponsorship expertise)	17%
Breakdown by region ( <i>in %</i> )	
Africa & Caribbean	12%
America	1%
Asia	51%
Europe	36%

#### Breakdown of contributions from employees and Schneider Electric entities to the Foundation actions

	2012
Total financial contribution ( <i>in euros</i> )	
From employees	960,712
Of the Schneider Electric entity	3,946,161
From partners	440,625
<b>TOTAL</b>	<b>5,347,498</b>
Financial contribution per region ( <i>in %</i> )	
Africa & Caribbean	1%
America	72%*
Asia	23%
Europe	4%
<b>DONATIONS IN PRODUCTS OR SERVICES FOR A PARTNER/PROJECT OF THE FOUNDATION</b> ( <i>in euros</i> )	<b>1,198,916</b>
<b>Number of employees involved in the Foundation's actions</b>	<b>35,741</b>

\* Of which Square D/Schneider Electric North America

## Total budget for 2012 for the Foundation's actions

**FOUNDATION BUDGET, FINANCIAL CONTRIBUTIONS AND DONATIONS IN KIND (in euros)** **10,546,414**

## Key performance indicators from the Planet & Society Barometer

Objectives for year end 2014	2012	2011
1. <b>1 million households</b> at the Base of the Pyramid have access to energy	344,441 ▲	-
2. <b>30,000</b> people at the Base of the Pyramid trained in energy management	10,517 ▲	-
3. <b>300 missions</b> with out via the "Schneider Electric Teachers" NGO	66 ▲	-

*The 2011 performance serves as a starting value for the Planet & Society Barometer Connect program between 2012 and 2014.*

▲ 2012 Audited Indicators

*Please refer to pages 92 to 94 for the methodological presentation of indicators and the following pages for the analysis of the results (pages 86-87 for indicator 1, 87 for indicator 2 and 89 for indicator 3).*

### For more information visit:

- [www.schneider-electric.com](http://www.schneider-electric.com) (> Company and Careers > Sustainability or > Foundation)
- [www.schneider-electric.com/barometer](http://www.schneider-electric.com/barometer)
- [www.schneider-electric.com/sri](http://www.schneider-electric.com/sri)
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- [www.foundation.schneider-electric.com](http://www.foundation.schneider-electric.com)
- [www.teachers.schneider-electric.org](http://www.teachers.schneider-electric.org)

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## Statement GRI Application Level Check

GRI hereby states that **Schneider Electric SA** has presented its report "Registration Document 2012" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level B+.

GRI Application Levels communicate the extent to which the content of the G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines. For methodology, see [www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf](http://www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf)

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 11 March 2013

A handwritten signature in black ink, appearing to read "Nelmara Arbex".

Nelmara Arbex  
Deputy Chief Executive  
Global Reporting Initiative



The "+" has been added to this Application Level because Schneider Electric SA has submitted (part of) this report for external assurance. GRI accepts the reporter's own criteria for choosing the relevant assurance provider.

*The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance.*  
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**Disclaimer:** Where the relevant sustainability reporting includes external links, including to audio-visual material, this statement only concerns material submitted to GRI at the time of the Check on 1 March 2013. GRI explicitly excludes the statement being applied to any later changes to such material.



## 1. Trends in Schneider Electric's core markets

### Industries and machine manufacturers

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Our industry market experienced a contraction in 2012 after enjoying a sharp rebound since the trough of the previous recession mid 2009. Continuing debt crisis in the Euro zone along with political uncertainty in China and the US have depressed business and consumer confidence, leading companies to focus on cost cutting and investment downscale. Trend stabilized over the second semester.

In Western Europe, sovereign debt crisis and uncertainties over the future of the zone led to plunging business confidence and lower final demand. Furthermore, production capacity utilization declined, reducing the need for equipment spending and maintenance. Some improvements have been noticed at the end of the year.

In the US, trend slowed down in the second half after a strong first semester, with manufacturing seeing slow growth abroad and stalled business investments at home.

China, where the OEM market has by now become the largest worldwide, slowed down after several years of double digit growth,

impacted by deterioration in both inland manufacturing investments and export. In addition, decreasing importation of machines in China hit the OEM production of other regions abroad. In new economies excluding China, market growth remained positive as a whole, although penalized by a lower foreign demand.

On the end user side, investment cautiousness was felt in the project business in the second half of the year. Cash constraints and overall economic uncertainty reduced demand for new projects and subsequent investments. This was particularly true for investments in Mining-Mineral-Metals segment in the second half of the year. Yet some investment areas remained very active in 2012 such as gas.

This reduction in capex came along with an increased focus on production, with end users looking more into optimizing existing assets through smaller opex projects and services. Success of important water services contract in Sydney illustrates this shift. Similarly, we benefited from the end user focus on energy management, in particular in the Food & Beverage industry.

### Non residential buildings

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In the US, non-residential construction experienced a recovery in 2012 as a whole, driven by industrial buildings, office and retail, whereas government buildings, public education and public healthcare segments decreased. However, trend slowed down during the second semester, impacted by weaker foreign environment and uncertainty regarding the fiscal cliff. Beyond this short term volatility, the recovery was constrained by excess capacity that still needed to be absorbed and continued tightness in lending conditions.

In Western Europe, non-residential construction declined further in 2012 with the intensification of the implementation of austerity policies and harsh lending conditions. The usual disparities between countries should be highlighted: Iberian countries continued to plunge while Nordic countries showed resilience in the face of the European crisis.

Non residential construction slowed down in Australia and China, dragged by past tight credit conditions over past quarters and less favorable inland and foreign environment.

### Residential

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In Western Europe, 2011 trend showing improvement in housing construction was not confirmed in 2012. Recovery was delayed because of ongoing economic and sovereign debt crisis, bringing austerity measures along with lack of confidence and rising unemployment. Housing construction decreased in 2012 in Europe, but a noticeable heterogeneity between countries has to be underlined. Indeed, losses in South of Europe dampened global European figures, while Germany, Norway, Switzerland, outperformed other European countries.

In the US however, housing improved due to growing consumer confidence and declining vacancy rates. An increase of 20% in

housing starts in 2012 supports evidence of this recovery, despite a very low base. However, economic uncertainty and harsh lending conditions continued to weigh down on residential construction.

In Asia Pacific, residential construction deteriorated in our main markets. In Australia, residential construction declined sharply in 2012, but housing starts showed first signs of recovery at year-end. In China, housing starts decreased in 2012 after several year of tremendous growth. This can be explained by the Chinese government's policy, which aims to restrain developers' activities and to limit housing purchase.

## Utilities and Infrastructures

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### Electrical Utilities

The investment pace of European utilities has been affected by the ongoing crisis. North American utilities have maintained their investment effort towards more efficiency, reliability and grid security. Both geographies showed a particular focus on network renovation, utility-scale renewable projects and energy efficiency, in a context of weak or even negative consumption growth. In China, the GDP slowdown impacted utility investments, while India has been penalized by the slowing down in its economy as well as financing constraints from certain players. The trend towards a smart grid is now reaching all regions, stimulating innovation and enabling advanced applications in distribution automation and advanced distribution management systems. The increasing penetration level of renewable energy, in conjunction with a greater demand side participation in the grid management will be the main drivers for the coming period (as a matter of fact, energy consumers have become more active, with the ability for instance to inject renewable energy into the grid or to modulate their consumption).

### Oil and Gas

In 2012, Oil & Gas markets confirmed the recovery engaged since 2010. With USD600 billion invested in Exploration & Production, investment strongly grew again and far-exceeded the level reached pre-crisis in 2008. Uncertainties caused by the geopolitical tensions in Middle East and North Africa (Arabic spring), combined with the sovereign debt turmoil have not altered the confidence of Oil & Gas companies.

The Middle East continued to invest in production capacities (Saudi Arabia, Gulf), while large developments were underway to ramp up production on large fields in Iraq. In North America, investment was sustained by the shale gas and oil sands development. Finally, strong investments occurred in Brazil, Latin America, Australia, with promising developments in Central Asia.

## Data centers and Networks

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The global IT markets recovered modestly in 2012, impacted by slow growth in Europe-Middle East-Africa, lower growth in China and a slowdown in the US in the second half. After a challenging 2011, x86 server growth (a key market tracker) was slower than expected in 2012. Asia Pacific, Europe and Latin America did not perform as well as in 2011. Meanwhile, the continued high growth rates of tablets and smartphones and their impact on data storage in the cloud were the bright story of the year.

Our transactional single phase market leveraged good dynamics in emerging countries such as Africa, Asia and Russia, offsetting slower growth in other economies.

The drivers for long term growth in Data Centers continued with the migration to the Cloud and to larger Data Centers, where fast growing Collocation and Cloud companies are battling with telcos and IT outsourcers. The high growth in Cloud and Collocation led to a significant slowdown in the largest segment of the datacenter market: internal datacenters within the enterprise (as enterprise applications and services have migrated to these segments). Strong IT business customers in the Collocation segment, benefiting from continued access to capital markets or from the backing of large Private Equity groups, have accelerated their development. These companies accelerated their international expansion as well to meet growing global demand.



## > 2. Review of the consolidated financial statements

### Review of business and consolidated statement of income

#### Changes in the scope of consolidation

##### Acquisitions

On May 4, 2012, Schneider Electric announced that it has signed an agreement to acquire M&C Energy Group ("M&C"), a fast-growing company specialized in energy procurement and sustainability services for both multinationals and small to medium sized enterprises.

M&C provides its customers with energy procurement, compliance and performance optimization services mostly on recurring subscription basis. The Company has more than 500 employees including 300 energy specialists and an international presence with 21 offices across 15 countries, particularly in Europe and Asia-Pacific.

M&C will be consolidated in Group's financial statements from July 1, 2012.

##### Acquisitions and disposals that took place in 2011 and that had an impact on the 2012 financial statements\*

The following entities were acquired during financial year 2011 and their consolidation on a full-year basis for financial year 2012 had a scope effect compared to financial year 2011:

- Lee Technologies, consolidated as from April 1, 2011;
- Summit Energy, consolidated as from April 14, 2011;

- DIGILINK, consolidated as from May 13, 2011;
- APW President Systems, consolidated as from May 19, 2011;
- Luminous Power Technologies, consolidated as from June 1, 2011;
- Steck Da Amazonia Industria Electrica, consolidated as from July 20, 2011;
- Telvent GIT, consolidated as from August 31, 2011;
- Leader & Harvest Power Technologies Holdings, consolidated as from October 11, 2011.

#### Changes in foreign exchange rates

Changes in foreign exchange rates relative to the euro had a material impact over the year. This positive effect amounts to EUR981 million on consolidated revenue and to EUR171 million on Adjusted EBITA (1).

#### Revenue

On December 31, 2012, the consolidated revenue of Schneider Electric totaled EUR23,946 million, an increase of 7.2% at current scope and exchange rates compared to December 31, 2011.

This growth breaks down into an organic decrease of 0.7%, a contribution of acquisitions net of disposals of 3.5% and a positive exchange rate effect of 4.4%.

### Changes in revenue by operating segment

**The Power business** generated revenues of EUR8,738 million, or 37% of the consolidated total. This represents an increase of +5.8% on a reported basis and **+0.5%** like-for-like. This performance reflects growth in the Solution business, benefiting from continued investments in infrastructure, oil & gas, mining and data centers, partly offset by the significant decline of solar energy projects. Product business was stable: stronger construction and industrial markets in North America, South America and Russia helped to balance the decline in Western Europe, Australia and China.

**The Infrastructure business** generated revenues of EUR5,366 million, or 22% of the consolidated total. This represents an increase of +9.6% on a reported basis and **-1.5%** like-for-like. Both Products and Solutions declined. Growth of secondary distribution products, driven mainly by utility and oil & gas

segments, only partially offset the decline in primary distribution components, reflecting challenging market conditions in some key new economies. The Solution business benefited from investments in resource-intensive industries as well as growth in installed base services, but saw a decline in sales of substations and equipments, weighed down primarily by reduced spending in Western Europe.

**The Industry business** generated revenues of EUR4,483 million, or 19% of the consolidated total. This represents an increase of 2.0% on a reported basis and **-3.8%** like-for-like. The Solution business continued to expand at double-digit, aided by the robust trends of mining and oil & gas segments in new economies, continued success of the OEM machine solutions and positive trends in services. The product business remained negative across the Board as reduced capacity utilization in Western Europe, China and Japan

\* Correspond to the dates on which the Group gained control of the acquired companies.

(1) Adjusted EBITA is EBITA before restructuring costs and before other operating income and expenses, which includes acquisition, integration and separation costs.



impacted machine builders and general manufacturing segments. The business' organic decline was much less pronounced in the second half than in the first half.

**The IT business** generated revenues of EUR3,677 million, or 15% of the consolidated total. This represents an increase of +13.6% on a reported basis and **+2.7%** like-for-like. Solutions showed modest growth on the back of solid trends for services, partly offset by customer cautiousness towards new datacenter investment in the mature countries. Products were slightly positive, primarily driven by sustained demand for secured power from new economies, such

as Russia or South East Asia, and by the success of the Luminous offer in India.

**The Buildings business** generated revenues of EUR1,682 million, or 7% of the consolidated total. This represents an increase of +8.4% on a reported basis and **-3.1%** like-for-like. Products were impacted by tough market conditions for video security products and Solutions were slightly negative due to lower related public spending in Western Europe and a decline of advanced services in the US.

## Gross profit

Gross profit increased from EUR8,387 million for the year ended December 31, 2011 to EUR9,057 million for the year ended December 31, 2012, or 8.0%. This increase was gathered through 2011 acquisitions and through the price actions as well as costs

discipline led since the second semester of 2011. As a percentage of revenues, gross profit increased 0.3 points from 37.5% in 2011 to 37.8% in 2012 due to the significant price actions and to the industrial productivity that had more than offset the negative effects of mix.

## 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 5.9% from EUR539 million for the year ended December 31, 2011 to EUR507 million for the year ended December 31, 2012. As a percentage of revenues, the net cost of research and development decreased slightly to 2.1% of revenues in 2012 (2.4% in 2011).

Total research and development expense, including capitalized development costs and development costs reported as cost of sales (see note 4 to the Audited Consolidated Financial Statements) increased by 8.1% from EUR979 million for the year ended December 31, 2011 to EUR1,058 million for the year ended December 31, 2012. As a percentage of revenues, total research and development expenses remain stable at 4.4% for the year ended December 31, 2012 and for the year ended December 31, 2011.

In 2012, the net effect of capitalized development costs and amortization of capitalized development costs amounts to EUR153 million on operating income (EUR122 million in 2011).

Selling, general and administrative expenses increased by 8.1% from EUR4,658 million for the year ended December 31, 2011 to EUR5,035 million for the year ended December 31, 2012. As a percentage of revenues, selling, general and administrative expenses represented 21.0% for the year ended December 31, 2012 (compared to 20.8% for the year ended December 31, 2011), cost control allowing compensating most of inflation and investments.

Combined, total support function costs, that is, research and development expenses together with selling, general and administrative costs, totaled EUR5,542 million for the year ended December 31, 2012 compared to EUR5,197 million for the year ended December 31, 2011, an increase of 6.6%. However, our support functions costs to sales ratio decreased from 23.3% for the year ended December 31, 2011 to 23.1% for the year ended December 31, 2012.



## Other operating income and expenses

For the year ended December 31, 2012, other operating income and expenses amounted to a net expense of EUR10 million, including costs linked to acquisitions for EUR52 million, a EUR21 million gain on the curtailment of a U.S. employee benefit plan and miscellaneous other operating incomes and expenses amounting to a net of EUR21 million. Costs linked to acquisitions are acquisition, integration and separation costs on 2011 and 2012 acquisitions, notably Telvent and M&C. Net other operating income includes mainly reversal of provisions for litigation or claims that expired on December 31, 2012.

For the year ended December 31, 2011, other operating income and expenses amounted to a net expense of EUR8 million, including costs linked to acquisitions for EUR99 million, a EUR45 million gain on the curtailment of a U.S. employee benefit plan and miscellaneous other operating incomes and expenses amounting to a net of EUR46 million. Costs linked to acquisitions are acquisition, integration and separation costs on 2010 and 2011 acquisitions, notably Areva, Telvent and Leader & Harvest. Net other operating income includes mainly reversal of provisions for litigation or claims that expired on December 31, 2011.

## Restructuring costs

For the year ended December 31, 2012, restructuring costs amounted to EUR164 million compared to EUR145 million for the

year ended December 31, 2011. These costs related to industrial and support functions restructurings.

## 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 EUR3,515 million for the year ended December 31, 2012, compared to EUR3,190 million for the year ended December 31, 2011, an increase of 10.2%, as the result of

effective cost control and continuous focus on price actions. As a percentage of revenues, adjusted EBITA increased from 14.3% for the year ended December 31, 2011 to 14.7% for the year ended December 31, 2012.

EBITA increased 10.0% from EUR3,037 million for the year ended December 31, 2011 to EUR3,341 million for the year ended December 31, 2012, thanks to the strong increase of Adjusted EBITA and despite the increase of restructuring costs in line with initiatives from Connect program. As a percentage of revenues, EBITA increased to 14.0% for the year ended December 31, 2012 (13.6% for the year ended December 31, 2011).

## EBITA and Adjusted EBITA by business segment

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

<i>(in millions of euros)</i>	Power	Infrastructure	Industry	IT	Buildings	Corporate costs	Total
<b>Full year 2012</b>							
Revenues	8,738	5,366	4,483	3,677	1,682	-	23,946
Adjusted EBITA*	1,813	575	823	698	107	(501)	3,515
Adjusted EBITA (%)	20.7%	10.7%	18.4%	19.0%	6.4%	-	14.7%
Other operating income and expense	17	(6)	(2)	(3)	(3)	(13)	(10)
Restructuring costs	(84)	(32)	(21)	(4)	(12)	(11)	(164)
EBITA	1,746	537	800	691	92	(525)	3,341
EBITA (%)	20.0%	10.0%	17.8%	18.8%	5.5%		14.0%

\* Adjusted EBITA: EBITA before restructuring costs and before other operating income and expenses

<i>(in millions of euros)</i>	Power	Infrastructure	Industry	IT	Buildings	Corporate costs	Total
<b>Full year 2011*</b>							
Revenues	8,262	4,897	4,397	3,237	1,552	-	22,345
Adjusted EBITA**	1,705	511	774	523	145	(468)	3,190
Adjusted EBITA (%)	20.6%	10.4%	17.6%	16.2%	9.3%		14.3%
Other operating income and expense	49	(27)	4	(17)	(8)	(9)	(8)
Restructuring costs	(75)	(19)	(24)	(9)	(11)	(7)	(145)
EBITA	1,679	465	754	497	126	(484)	3,037
EBITA (%)	20.3%	9.5%	17.1%	15.4%	8.1%		13.6%

\* The 2011 figures were restated for the item disclosed in note 1.2 of the consolidated financial statements, thus EUR42 million for the Group out of which EUR35 million for Power and EUR7 million for Industry as a reduction of revenues, EBITA and Adjusted EBITA.

\*\* Adjusted EBITA: EBITA before restructuring costs and before other operating income and expenses.

**Power** recorded an adjusted EBITA margin of 20.7% for the year ended December 31, 2012, up 0.1% compared to 20.6% for the year ended December 31, 2011, due to sustained pricing and productivity gains, offsetting negative geographical mix and costs related to new product launches.

**Infrastructure** recorded an adjusted EBITA margin of 10.7% for the year ended December 31, 2012, up 0.3% compared to 10.4% for the year ended December 31, 2011, reflecting strict cost control and synergies delivered by acquisition integration.

**Industry** recorded an adjusted EBITA margin of 18.4% for the year ended December 31, 2012, up 0.8% compared to 17.6% for the year ended December 31, 2011, demonstrated strong resilience to negative volume and unfavorable mix, thanks to pricing discipline, productivity and good cost control.

**IT** recorded an adjusted EBITA margin of 19.0% for the year ended December 31, 2012, up 2.8% compared to 16.2% for the year ended December 31, 2011, helped by positive volume, price actions, productivity gains, and improved solutions profitability.

**Buildings** recorded an adjusted EBITA margin of 6.4% for the year ended December 31, 2012, down 2.9% compared to 9.3% for the year ended December 31, 2011, reflecting the softness of the construction markets in its key countries and difficulties of the video security activity.

Corporate costs amounted to EUR501 million for the year ended December 31, 2012 or 2.1% of Group revenues, stable compared to the year ended December 31, 2011 (2.1% of Group revenues or EUR468 million).

## Operating income (EBIT)

Operating income (EBIT) increased from EUR2,811 million for the year ended December 31, 2011 to 2,866 million for the year ended December 31, 2012, an increase of 2.0% despite a goodwill impairment on Buildings CGU of EUR250 million before tax effect

and an increase of amortization of intangibles linked to business combinations of EUR16million (EUR224 million on the year ended December 31, 2012 compared to EUR208 million on the year ended December 31, 2011).

## Net financial income/loss

Net financial loss amounted to EUR405 million for the year ended December 31, 2012, compared to EUR415 million for the year ended December 31, 2011. This decrease is mainly linked to the decrease in other financial incomes and costs, from a net expense of EUR114 million for year ended December 31, 2011 to a net expense of EUR56 million for year ended December 31, 2012. This is mainly due to the decrease of exchange loss (EUR21 million

in 2012 compared to EUR40 million in 2011) and to the gain on Axa investment sale of EUR11 million.

Within the net financial loss, the increase in the cost of net financial debt from EUR301 million for year ended December 31, 2011 to EUR349 million for year ended December 31, 2012 is triggered by the increase in the average net debt between those two periods.



## Tax

The effective tax rate was 23.1% for the year ended December 31, 2012, slightly increasing compared to 22.8% for the year ended December 31, 2011. The corresponding tax expense increased from EUR547 million for the year ended December 31, 2011 to EUR568 million for the year ended December 31, 2012.

## Share of profit/(losses) of associates

The share of profit of associates amounted to EUR34 million for the year ended December 31, 2012, compared to EUR28 million for the year ended December 31, 2011, thanks to the increasing contribution of Electroschild in Russia and Sunten in China.

## Non-controlling interests

Minority interests in net income for the year ended December 31, 2012 totaled EUR87 million, compared to EUR84 million for the year ended December 31, 2011. This represented the share in net income attributable, in large part, to the minority interests of certain Chinese companies.

## Profit for the period

Profit for the period attributable to the equity holders of our parent company amounted to EUR1,840 million for the year ended December 31, 2012, that is a 2.6% increase over the EUR1,793 million profit for the year ended December 31, 2011.

Before goodwill impairment of Buildings CGU of EUR250 million before tax effect and EUR183 million after tax effect in 2012 (and

EUR15 million of goodwill impairment in 2011), the profit for the period attributable to the equity holders of our parent company amounted to EUR2,023 million for the year ended December 31, 2012, an increase of 11.9% compared to EUR1,808 million in 2011.

## Earnings per share

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Earnings per share increased to EUR3.39 for the year ended December 31, 2012 from EUR3.34 for the year ended December 31, 2011 (taking into account the division of the nominal value of the shares by two, effective as of September 2, 2011).

Before goodwill impairment of Buildings CGU of EUR183 million after tax effect in 2012 (and EUR15 million of goodwill impairment in 2011), earnings per share amounted to EUR3.73 for the year ended December 31, 2012, an increase of 11.0% compared to EUR3.36 for the year ended December 31, 2011.

## Consolidated cash-flow

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### Operating Activities

Net cash provided by operating activities before changes in operating assets and liabilities reached EUR2,802 million for the year ended December 31, 2012, up 10.4% compared to EUR2,537 million for the year ended December 31, 2011, and represented 11.7% of revenue in 2012 compared with 11.4% in 2011.

Change in working capital requirement consumed EUR1 million in cash in the year ended December 31, 2012, compared to EUR285 million in consumption in the year ended December 31, 2011, in the framework of Connect initiatives to improve inventory management.

In all, net cash provided by operating activities increased 24.4% from EUR2,252 million in the year ended December 31, 2011 to EUR2,801 million in the year ended December 31, 2012.

### Investing Activities

Net capital expenditure, which included capitalized development projects, decreased 3.6% to EUR719 million for the year ended December 31, 2012, compared to EUR746 million for the year ended December 31, 2011, and represented 3.0% of revenues.

Our acquisitions represented a cash outflow, net of cash acquired, of EUR242 million for the year ended December 31, 2012, corresponding partially to M&C, compared to EUR2,873 million in the year ended December 31, 2011 corresponding mainly to acquisitions of Telvent, Luminous, Leader & Harvest and Summit.

The proceeds from sale of financial assets in 2012 correspond to the proceeds net of fees of the sale of AXA shares in September 2012.

### Financing Activities

The bond issuance of EUR601 million corresponds to a USD800 million bond issue in September 2012 due 2022 in the United States, by way of a private placement to institutional investors only (including to qualified institutional buyers in the United States) at 2.95% fixed rate.

The net decrease in other financial debts amount to EUR585 million during the year ended December 31, 2012, compared to an increase of EUR432 million during the year ended December 31, 2011. The dividend paid by Schneider Electric was EUR919 million the year ended December 31, 2012, compared with EUR856 million the year ended December 31, 2011.

## > 3. Review of the parent company financial statements

Schneider Electric SA posted total portfolio revenues of EUR372 million in 2012 compared with EUR1,436 million the previous year. Schneider Electric Industries SAS, the main subsidiary, paid dividends of EUR300 million in 2012 compared with EUR1,300 million in 2011. Interest expense net of interest income amounted to EUR151 million versus EUR84 million the year before.

Current income amounted to EUR207 million in 2012 compared to EUR1,336 million in 2011.

On December 30, 2011, Schneider Electric SA invoiced Schneider Electric Industries SAS a financial compensation for the use of the trademark Schneider Electric for EUR1.2 billion.

Net profit stood at EUR225 million compared with EUR2,604 million in 2011.

Equity before appropriation of net profit amounted to EUR11,229 million at December 31, 2012 versus EUR11,701 million at the previous year-end, after taking into account 2012 profit, dividend payments of EUR919 million and share issues in an amount of EUR222 million.

Schneider Electric SA issued in September 2012 a USD800 million bond due 2022 in the United States, by way of a private placement to institutional investors only (including to qualified institutional buyers in the United States) at 2.95% fixed rate.

## > 4. Review of subsidiaries

### Schneider Electric Industries SAS

Revenue totaled EUR3.6 billion in 2012 same as in 2011.

The subsidiary posted an operating loss of EUR69 million in 2012 compared with an operating loss of EUR88 million in 2011.

Net profit amounted to EUR1,061 million in 2012 compared with EUR992 million in 2011.



## > 5. Outlook

Schneider Electric expects the economic environment to remain mixed in 2013 with continued challenges in Western Europe, opportunities for acceleration in the new economies and a slow recovery in North America.

Based on current market conditions, the Group targets a low-single digit organic growth in revenues and a stable to slightly up adjusted EBITA margin for the year 2013.