

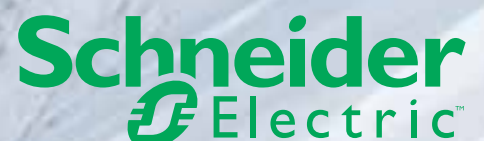


# Registration Document 2012

## Financial and Sustainable Development Annual Report

### Registration Document Schneider Electric SA

The 'Refuge du Goûter', the historical last shelter before the summit of Mont Blanc, has been completely refurbished to become a net-zero building equipped with the most innovative energy management solutions from Schneider Electric™. It is a dramatic example of how Schneider Electric collaborates with external partners to take sustainable development to new heights.



**Schneider**  
Electric™

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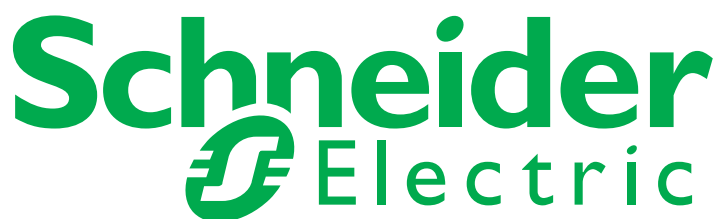
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# Registration Document 2012

## Financial and Sustainable Development Annual Report

All of Schneider Electric's regulated information is available on the corporate website at [www.schneider-electric.com](http://www.schneider-electric.com), Finance section.

The Business and Sustainable Development Report is available at [www.schneider-electric.com](http://www.schneider-electric.com), Sustainable Development and Foundation section.



This Registration Document was filed with the *Autorité des Marchés Financiers* (AMF) on March 21, 2013, in compliance with article 212-13 of the AMF's general regulations. The issuer prepared this document and the signatories are responsible for the information herein.

It may not be used in connection with any financial transactions unless it is accompanied by an Offering Circular approved by the AMF.



## > Message from Jean-Pascal Tricoire

CHAIRMAN OF THE MANAGEMENT BOARD

In a complicated international environment, 2012 has been a year of consolidation for Schneider Electric. A year dedicated to unlock the efficiency and the potential of being one Schneider.

First of all, 2012 has been a record year of earnings and cash generation. We grew 7% in sales reaching €24 billion, we increased our earnings per share by 11%. For the first time, our adjusted EBITA reached €3.5 billion, our adjusted net profit exceeded €2 billion, and our free cash flow was above €2 billion. This strong performance allows us to propose a 10% increase in the dividend to €1.87 per share this year.

These figures reflect the strength of our business model, the solid execution of the Connect company program and the disciplined integration of our acquisitions.

We have positioned Schneider Electric on a solid and growing business: our technologies make industry, IT, energy and cities more efficient. We have diversified and balanced our exposure to geographies and end markets, while remaining totally focused on our mission to help our customers make the most of their energy.

We continue to grow our business in new economies, which now make up 41% of our sales, expanding our presence in these geographies with a huge potential and developing catalogues and solutions specifically adapted to those countries.

Our business with partners has been strengthened by a growing relationship with large end users, especially to optimize their critical applications. By growing our service business and our software solutions, we have considerably improved in 2012 in delivering new added values to our customers, wherever they operate in the world.

We have increased our investment in innovation with more than €1 billion invested in R&D, to reinforce our leadership in functionality, quality, connectivity, integration and usability.

Our work was intense on making sure our customers can benefit from the efficiency of one Schneider. We continued streamlining our costs and delivered significant cost productivity from our new size. We progressed towards a more customer-centric and efficient supply chain, and by doing so improved our deliveries and optimized inventory. We globalized and simplified our organization. We created two business groups: Partner, dedicated to the service and the growth of our partners, integrators and distributors, and the End User, focused on end to end solutions for our end users. We organized our geographical presence by integrating our operations into three hubs, by main geographies. We also globalized our supply chain in order to strengthen partnerships with our suppliers, and drive efficiency of the supply chain on a whole different scale.

Schneider Electric also welcomed on board the companies we had recently acquired, and made sure these new teams would find their place at Schneider Electric, and build all the necessary bridges to develop a growth and cost advantage for our customers.

We stepped up our engagement in social responsibility and sustainable development, in five key directions: environment, social, society, ethics, and dedicated actions for underprivileged people. We measure our progress in our Planet & Society barometer, and integrate this indicator in the incentives of our leaders. In addition to our support to the UN Global compact since 2003, our commitment has been recognized, and we are proud to be part of ethical stock indices and ratings of reference such as Dow Jones Sustainability Indices (World and Europe), Carbon Disclosure Project, Global 100 Most Sustainable Corporations and Ethisphere Most ethical companies. I am particularly proud of our BipBop Access to energy program. In 2012, this initiative brought electricity to 340,000 households, and enabled to train 10,000 underprivileged youngsters in the field of electricity.

As a specialist in efficiency technologies, Schneider Electric has been an active contributor to the debates over the world energy challenge and climate change, explaining some of the new solutions offered by technology.

The world of energy is under important pressure and undergoing major transitions. Energy prices, commercial unbalance due to energy imports, energy availability, climate change and pollution in large cities are many challenges demanding a different energy paradigm. The energy challenge is there to stay. New technologies, the convergence of IT and energy technologies, and the new affordability of renewable sources of energy open the door to a new world. A world where energy is saved systematically, where energy is produced closer to centers of consumption, where energy is better shared, where the environment is connected and accessible. Users, managers and utilities will then work together to save more and share better energy, and integrate a more intelligent energy for more intelligent and efficient cities. It is time for everyone to become an active player in energy, by saving, producing and consuming energy in the same place. Everyone will then drive this connecting, sharing and integrating.

Schneider Electric helps to face these transitions and builds this new energy world. This is the mission, the aspiration, the ambition of all Schneider Electric's 140,000 people, in the 100 countries where we serve our customers wherever they develop, defy challenges, and innovate to build a more efficient world.



## Message from Henri Lachmann

CHAIRMAN OF THE SUPERVISORY BOARD

Since a few years, we have been deeply thinking with the Supervisory and the Management Boards about my succession plan and Schneider Electric's governance evolution. I took the initiative to put in place this succession plan at the next Annual Shareholder's Meeting, in order to be able to participate in this transition before the end of my term.

Consequently, our Supervisory Board, in agreement with the President of the Management Board, would like you to approve the adoption of a structure with a Board of Directors (*Conseil d'Administration*). The Board is attached to the continued success of the Group and its good governance. It endeavours to respect two key principles: to maintain a strong and stable leadership and to guarantee the independent control in the management of the company. It intends to name Jean-Pascal Tricoire as Chairman and Chief Executive Officer (*Président-Directeur Général*) in light of his achievements and performance since he took the lead of the Group in 2006.

In this new governance structure, we ensured:

- to establish a clear distinction between the Chairman & Chief Executive Officer and its Executive Committee in charge of proposing, managing and executing, and the Board on the other hand, in charge of approving and controlling;
- to set up a more significant and frequent connection between the directors of the Board and the management team, in particular with the members of the Executive Committee;
- that the Board and the directors take on a real responsibility;
- and furthermore, that the Board fully carries out its controlling responsibility over the Chairman & CEO and the management team, and over the strategy and its execution.

In order to reinforce the Board's role and involvement in the oversight of the Group, the Board of Directors will name a Vice-Chairman Lead Director, in application of the by-laws and will publish the internal regulation of the Board of Directors. Furthermore, four committees will be established, chaired by independent directors. Executive sessions (without the presence of the Chairman & CEO) chaired by the Vice-Chairman Lead Director will be included in each Board meeting agenda. The Board will remain flexible with respect to the combination of the Chairman & CEO roles and will reconsider on a yearly basis the combination of these roles.

The existing members of the Supervisory Board (who will be nominated as directors of the Board for the remaining duration of their terms) have built a strong relationship with the management of our company, based on transparency, dialogue, and even on confronting their ideas and options. By unanimous agreement, they propose this new governance structure and are very confident in its functioning, in the best interest of our shareholders and all Schneider Electric's stakeholders.

Schneider Electric's 2012 performance reflects the strength of our strategy and the quality of the teams implementing this strategy. The Supervisory Board would like to congratulate and thank them for their work and efficiency. We are highly confident in the profitable development of our company and believe that Schneider Electric is well positioned to seize opportunities related to the energy transition and energy efficiency in general.





## > Interview with Emmanuel Babeau

EXECUTIVE VICE PRESIDENT FINANCE,  
MEMBER OF THE MANAGEMENT BOARD

### **Financial results further improved in 2012 despite mixed markets. Could you describe for us the main elements of this performance?**

In 2012 our sales increased 7% mainly thanks to the disciplined integration of our acquisitions, including Telvent, Luminous and Leader & Harvest. Organic growth was slightly down at -0.7%, reflecting a mixed global economic environment, with challenges in Southern Europe and a pause in growth in China, while North America and a number of new economies saw growth. Our balanced geographic exposure again proved to be an important asset.

Trends were also contrasted by business, as Industry suffered from the general slowdown of manufacturing in Western Europe and in China, while IT continued to benefit from digitization trends worldwide and the need for power grid reliability in a number of countries.

In this environment, our rigorous execution contributed to earnings progression. Pricing actions and cost efficiency measures in particular drove margin improvement. It allowed us to post an adjusted EBITA\* up 10% to a record EUR3.5 billion. Net profit, adjusted for goodwill impairment, was up 12%. Therefore, in line with our payout policy, we were able to propose a record dividend to our shareholders, at EUR1.87, up 10%.

### **Cash generation, a long-time strength of the Group, also reached record levels in 2012. How was it achieved and what are your capital allocation priorities?**

In such a challenging environment, we are proud to deliver a record free cash flow exceeding EUR2 billion for the first time. We achieved this not only thanks to our focused operational execution, but also to our demonstrated ability to manage capital expenditures and working capital.

"Tailored Supply Chain" in particular - a key initiative under Connect aimed at optimizing inventory by reducing unhealthy stocks - contributed EUR210 million to cash flow in 2012, while significantly improving customer satisfaction.

As a result, we reduced our net financial debt by EUR0.9 billion to EUR4.4 billion. Our balance sheet is strong, with a net debt to adjusted EBITDA ratio of 1.1x.

Looking ahead, we will continue to allocate capital to capture growth opportunities while maintaining attractive returns for our shareholders. Our first priority is to pay dividend to shareholders, based on our 50% payout policy. We will strive to maintain a solid balance sheet structure with a strong investment grade rating. Regarding external growth, we will consider opportunities when they make sense from a strategic and valuation point of view.

### **2012 was the first year for the Connect program, which set a number of ambitions for 2014. Is the Group on track with the program's financial targets?**

Absolutely. Among the most important achievements of 2012, I would like to highlight the 1 point margin improvement of solutions, reflecting our focus to reinforce the way we execute solutions. We will continue to seek efficiency to achieve the targeted 2 points improvement by 2014.

In addition, cost efficiency initiatives delivered savings in line with our expectations, despite challenging business conditions, and remained a key driver to our profitability.

Lastly, I also want to mention the benefits of our new approach to supply chain management, which helped us to generate a 1 point reduction of the inventory to sales ratio. This structural improvement in the way we work should continue to bring benefits in the future.

We are therefore on track to deliver all financial targets of Connect.

### **What is your outlook for 2013?**

We expect 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. In this context, we target 2013 to be another positive year for the Group with a low-single digit organic growth in sales and a stable to slightly up adjusted EBITA margin for the year 2013.

\* Adjusted EBITA: EBIT before amortization and impairment of purchase accounting intangibles and impairment of goodwill, and before Restructuring charges and Other operating income & expenses.

# > Leadership team

Executive Committee (as of February 21, 2013)



## Global functions

- 1 Jean-Pascal Tricoire**  
Chairman of the Management Board\*
- 2 Emmanuel Babeau**  
Executive Vice-President, Finance\*
- 3 Annette Clayton**  
Executive Vice-President, Global Supply Chain
- 4 Hervé Coureil**  
Executive Vice-President, Information Systems
- 5 Michel Crochon**  
Executive Vice-President Strategy
- 6 Aaron Davis**  
Executive Vice-President, Marketing
- 7 Karen Ferguson**  
Executive Vice-President, Global Human Resources

## Operations

- 8 Julio Rodriguez**  
Executive Vice-President, Global Operations
- 9 Chris Curtis**  
Executive Vice-President, North America operations
- 10 Zhu Hai**  
Executive Vice-President, China Operations

## Businesses

- 11 Philippe Delorme**  
Executive Vice-President, Partner
- 12 Laurent Vernerey**  
Executive Vice-President, End User Business Group
- 13 Clemens Blum**  
Executive Vice-President, Industry
- 14 Daniel Doimo**  
Executive Vice-President, IT
- 15 Éric Pilaud**  
Executive Vice-President, CST\*\*

\* Member of the Management Board.

\*\* President and CEO, Custom Sensors & Technologies Inc.



## Supervisory Board (as of February 20, 2013)

**Henri Lachmann**

Chairman of the Supervisory Board

**Léo Apotheker\***

Vice Chairman of the Supervisory Board

**Betsy Atkins\***

Corporate Director

**Xavier Fontanet\***

Corporate Director

**Noël Forgeard\***

Senior Partner at Arjil SAS

**Antoine Gosset-Grainville\***

Executive Vice-President Caisse des dépôts et consignations

**Magali Herbaut**

Member of Supervisory Board for the "Schneider Actionnariat" and "Schneider Énergie Solidaire" Mutual Funds

**Willy R. Kissling\***

Corporate Director

**Cathy Kopp\***

Corporate Director

**Gérard de La Martinière\***

Corporate Director

**Dominique Sénéquier\***

President and CEO of AXA Private Equity

**G. Richard Thoman\***

Managing Partner of Corporate Perspectives and University Professor

**Serge Weinberg\***

Chairman of the Board of Directors for Sanofi

## Non-voting Member

**Claude Bébéar**

Corporate Director

## Secretary of the Board

**Philippe Bougon**

## Remuneration, Appointments and Human Resources Committee

**Henri Lachmann**

Chairman

**Claude Bébéar****Léo Apotheker\*****Willy R. Kissling\*****Serge Weinberg\***

## Audit Committee

**Gérard de La Martinière\***

Chairman

**Noël Forgeard\*****Antoine Gosset-Grainville\***

## Management Board

**Jean-Pascal Tricoire**

Chairman of the Management Board

**Emmanuel Babeau**

Member of the Management Board, Executive Vice-President Finance

## Statutory Auditors

## Principal auditors

**Ernst & Young et Autres****Mazars**

## Alternate auditors

**Société Auditex****M. Thierry Blanchetier**

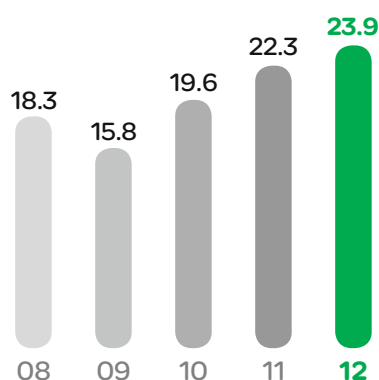
\* Independent member of the Supervisory Board as defined in the AFEP/MEDEF Corporate Governance Guidelines for listed companies.

# > Key figures 2012

## SCHNEIDER ELECTRIC

- Record high earnings and cash generation in mixed markets
- Adjusted EBITA up 10% at EUR3.5 billion, or 14.7% of revenues
- EPS grew 11%, at EUR3.73 on adjusted basis
- Record free cash flow of EUR2.1 billion and dividend of EUR1.87
- Connect company program delivered solid results in line with 2014 ambition

### Consolidated revenues *(in billions of euros)*

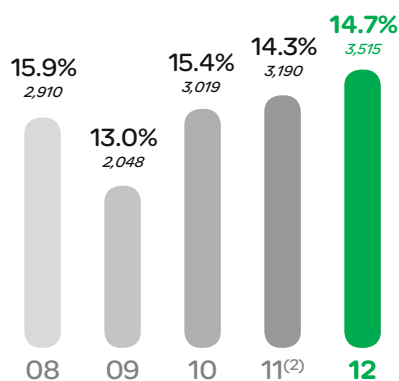


Revenues were up 7% on a current structure and exchange rate basis and down 0.7% like-for-like.

2012 organic growth trends remained contrasted by region and by business. The IT and Power business posted growth this year, while Industry saw the strongest decline, impacted by the general drop in manufacturing in Western Europe and China. From a geographic standpoint, North America and Rest of World continued to grow. On the other hand, Europe and Asia Pacific were down, respectively impacted by the south of Europe and China.

The Group benefited again from its strong presence in new economies and from Solutions growth, accounting respectively for 41% and 39% of revenues in 2012.

### Adjusted EBITA <sup>(1)</sup> *(in millions of euros and as a % of revenues)*



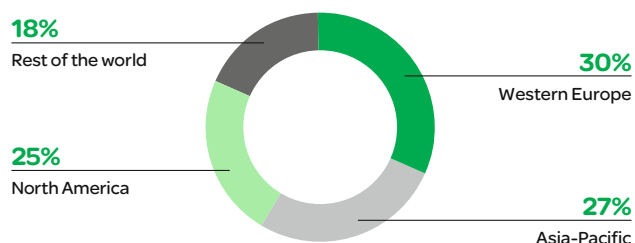
2012 adjusted EBITA was up 10% to EUR3,515 million, or 14.7% of revenues.

The higher profitability, achieved despite negative volume and unfavorable mix, was driven by strong pricing discipline, continuous push for operational efficiency and improving margin of the solution business, in line with ambitions defined in the Connect company program.

(1) Adjusted EBITA: EBITA before restructuring costs and other operating income and expenses (one time items such as capital gains/losses, pension gains/losses, acquisition costs, impairments).

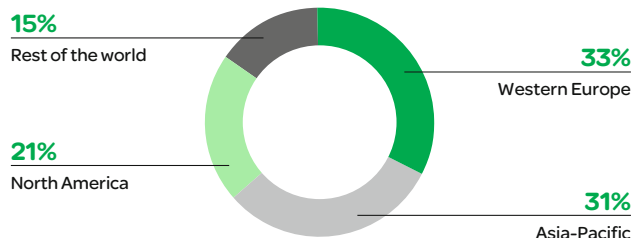
(2) The 2011 figures were restated for the item disclosed in note 1.2 of the consolidated financial statements.

## Revenues by geography



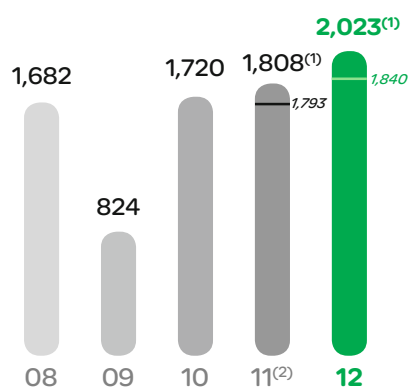
## 2012 Headcount

139,989 employees <sup>(1)</sup>



(1) Spot headcount, including employees under fixed-term and open-ended contracts, at December 31, 2012.

## Net income (in millions of euros)

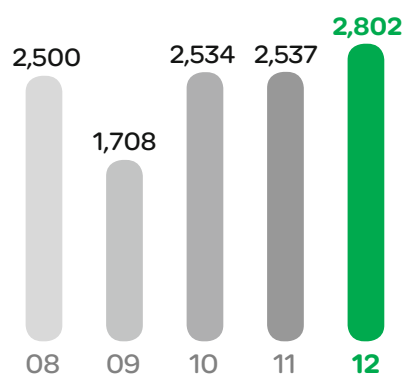


The Group share in net income reached EUR1,840 million, up 1% year-on-year. Net income adjusted for the one-time goodwill impairment charge reached a record high at EUR2,023 million, up 12% year-on-year. Net earnings per share amounted to EUR3.73 on an adjusted basis, up 11% year-on-year.

(1) Adjusted for the non-recurring goodwill impairment charges.

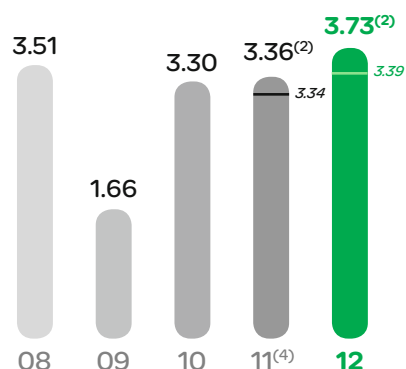
(2) The 2011 figures were restated for the item disclosed in note 1.2 of the consolidated financial statements.

## Operating cash flow (in millions of euros)

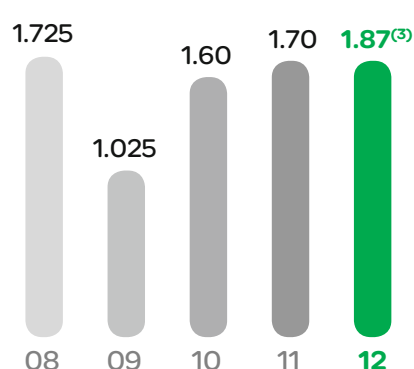


Operating cash flow was up 10% year-on-year and amounted to EUR2,802 million. Free cash flow reached an all time high at EUR2,082 million, achieved by strict working capital control and better inventory management through the deployment of Tailored Supply Chain, a key initiative of the Connect program. Indeed, stock reduction represented a contribution of EUR210 million.

## Earnings per share<sup>(1)</sup> (in euros)



## Dividend per share<sup>(1)</sup> (in euros)



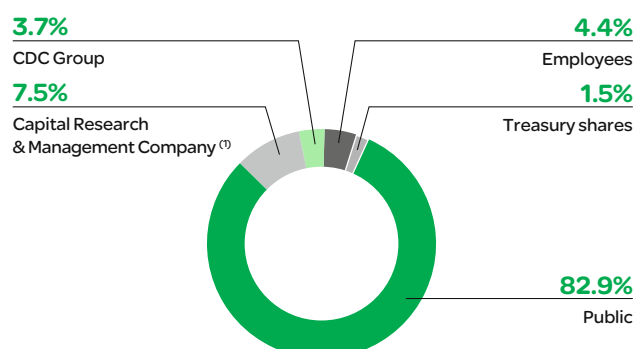
(1) Historic figures adjusted for the two-for-one share split (September 2, 2011).

(2) Adjusted for the non-recurring goodwill impairment charges.

(3) Subject to shareholders' approval at the Annual Meeting of April 25, 2013, for payment on May 7, 2013.

(4) The 2011 figures were restated for the item disclosed in note 1.2 of the consolidated financial statements.

## Ownership structure on December 31, 2012



(1) To the best knowledge of the Company.

## Share price against CAC 40 index over five years



# > 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 Bébéar 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

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 regroups 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.



## 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

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

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.

### 1836-1880: 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.

**1875:** 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.

### 1881-2001: The Schneider Group refocuses on the Electricity Sector

**1881-1997:** 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 Lextel, 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 Electroshield 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, Conserv 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.

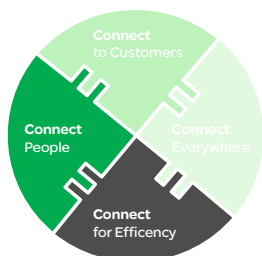


## Connect, Schneider Electric's new company program (2012-2014)



**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: Chambery, 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.



- **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.

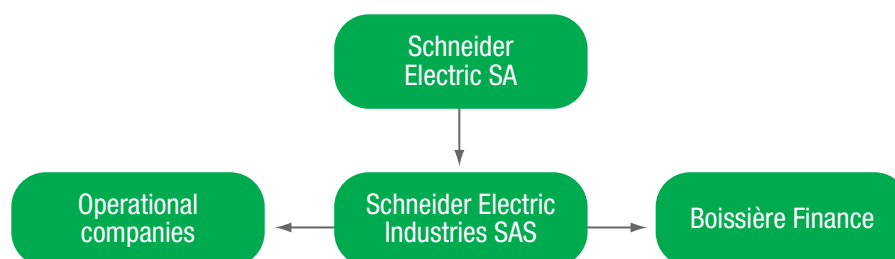
- **Globalization:** Major support functions that are not specific to a given country or business are gradually globalized to increase experience and leverage a significant scale effect around cost and service. Manufacturing and supply chain operations, areas of shared services or expertise (such as 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.



**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





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

### **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

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.



### 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.



## SUSTAINABLE DEVELOPMENT

SUSTAINABLE DEVELOPMENT AT THE HEART OF OUR STRATEGY

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

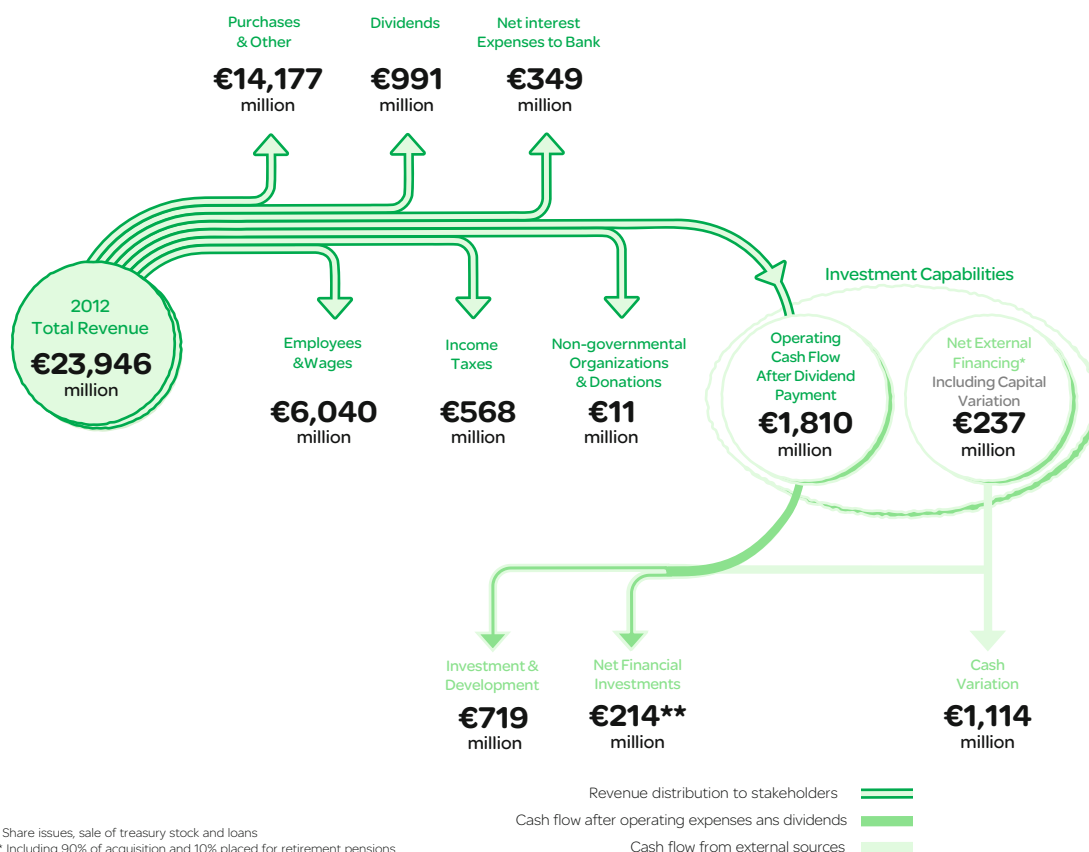
## Highlights of 2012

- 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.

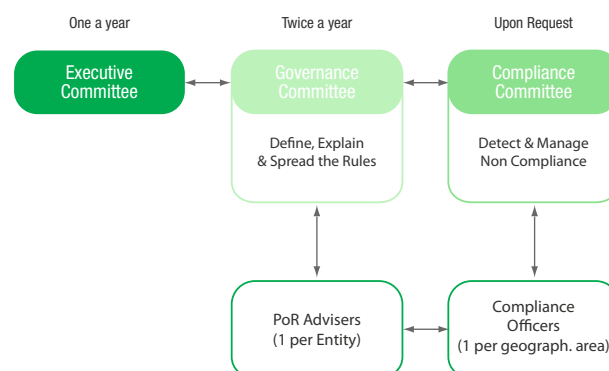
They are responsible for the implementation and roll out of the Responsibility & Ethics Dynamics program ;

- 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

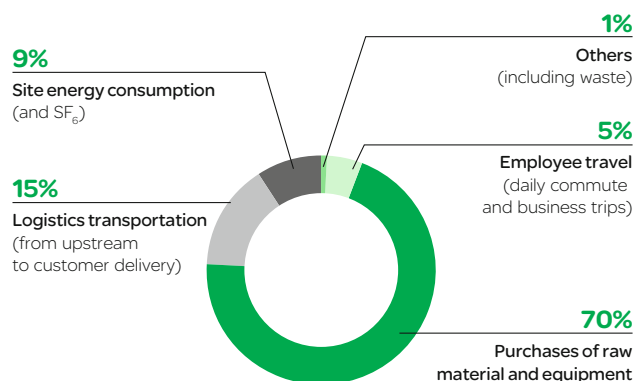
Schneider Electric is not subject to European quotas on carbon emissions since it is an industrial business that globally produces few emissions in comparison to energy intensive industries. Schneider Electric is therefore classified in the low emissions sector by the Carbon Disclosure Project <sup>(1)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





**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;



- 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.

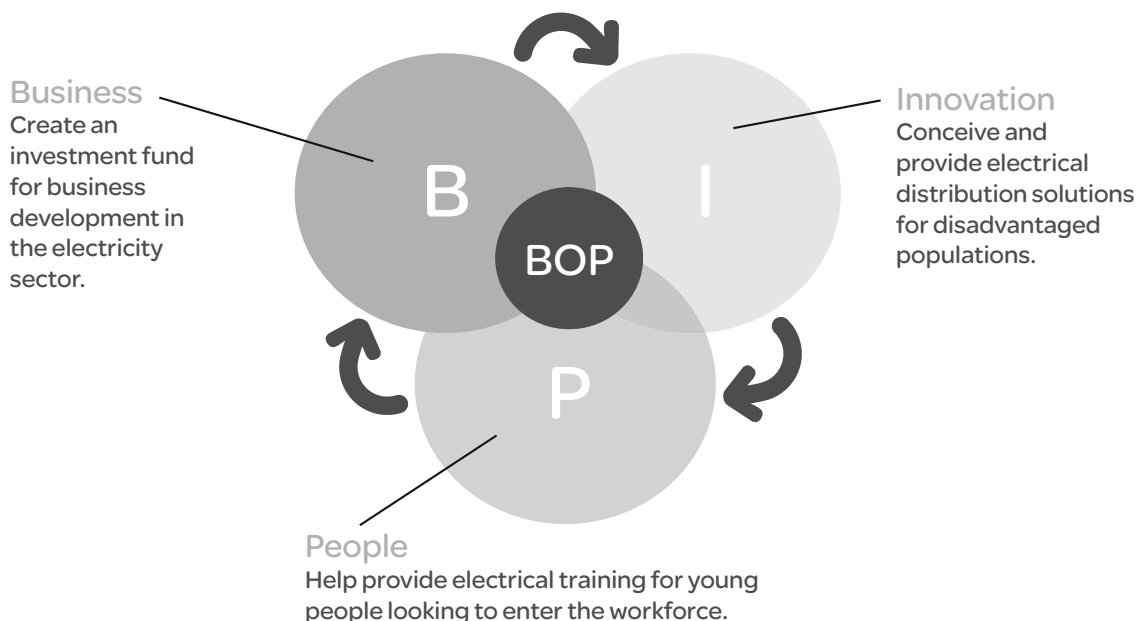
Through its energy access "BipBop" program, Schneider Electric wants to play a major role in helping people at the "Base of the Pyramid" to gain access to electricity.

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

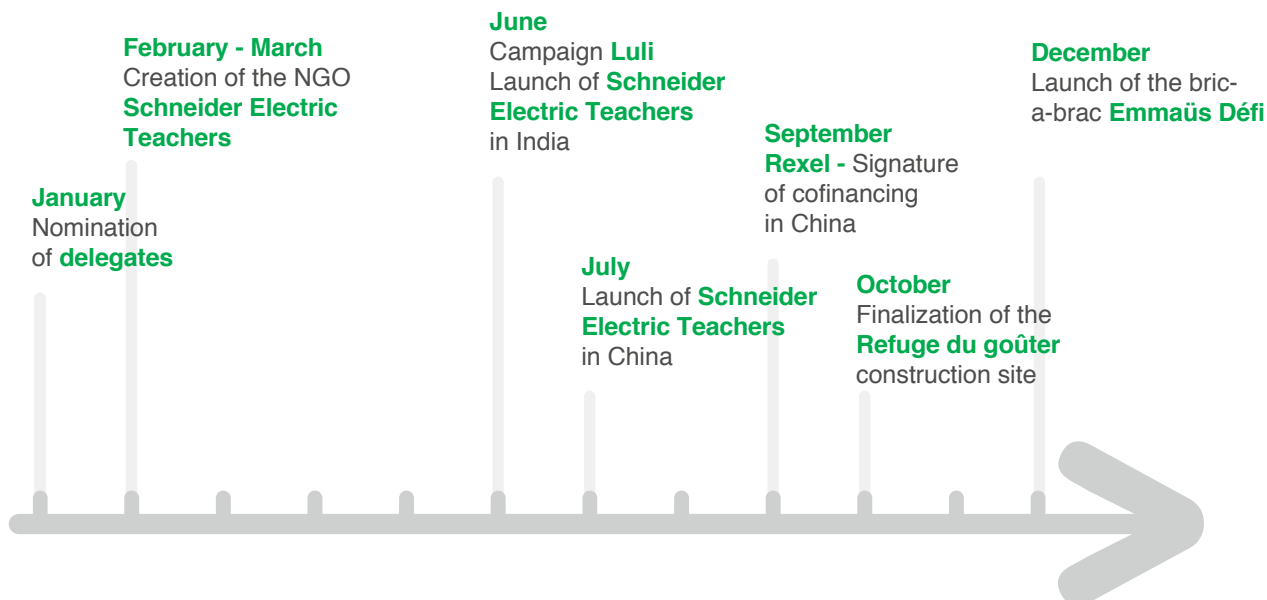
- missions to educational and professional training facilities (professional training center and/or technical schools, universities, etc.);
- tutoring, classes, events, work practices, equipment installation, discovering a profession, trainer training, optimization of standards, etc.;
- volunteer missions 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, NOx 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 m². 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%</b> CO <sub>2</sub> savings on <b>transportation</b>	14.8% ▲	-
2. <b>75%</b> of our product revenues achieved with <b>Green Premium</b>	65.5% ▲	63%
3. <b>10%</b> energy consumption <b>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. CO <sub>2</sub> emissions on transportation paid by the Group (in tons of CO <sub>2</sub> e)	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</b> of training for each employee every year	-*	-
5. <b>300</b> sites 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>(5)</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>(5)</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>(5)</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%

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>(8)</sup>	1.42 ▲	2.06	
	of which Schneider Electric employees	1.41		
	of which subcontractors	1.54		
LA7	Lost-Time Day Rate (LTDR) <sup>(8)</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>(8)</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 (<i>in euros</i>)</b>	<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)
- [www.environment.schneider-electric.com](http://www.environment.schneider-electric.com)
- [www.schneider-electric.com/bipbop](http://www.schneider-electric.com/bipbop), [www.schneider-electric.com/bipbopmap](http://www.schneider-electric.com/bipbopmap)
- [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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**Mail:** Schneider Electric

Sustainable Development Department address – 35, rue Joseph Monier, CS 30323 – 92506 Rueil-Malmaison Cedex, France



## Statement GRI Application Level Check

C2

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 "Nelmar Arbex".

Nelmar 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. [www.globalreporting.org](http://www.globalreporting.org)*

**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.





## Corporate governance

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This report includes the Chairman's report on the composition of the Board, the application of the principle of equal representation of women and men on the Board, and the conditions applicable for the preparation and organization of the work carried out by the Supervisory Board, and the internal control and risk management procedures implemented by the Company.

The sections Management Board and Supervisory Board system, 1, 2, 3, 4, 8 (Remuneration Policy for corporate officers and members of the Management Board and Pension Plans), 10 and 11, and Section 2 (Shareholder's Meeting and Voting Rights) and 7 of Chapter 7 constitute the Chairman of the Supervisory Board's report provided for in article L.225-68 of the French Commercial Code. They are indicated with\*\*.

### **A Management Board/Supervisory Board system\*\***

Since May 2006, the governance of Schneider Electric SA has been based on a dual structure composed of a Management Board and a Supervisory Board. On December 18, 2012, the Supervisory Board announced its intention to propose to the Annual Shareholders' Meeting of April 25, 2013, to change the mode of governance. Mr. Henri Lachmann, having expressed his intention to resign as Chairman of the Supervisory Board, the Supervisory Board has considered necessary to strengthen his role and his involvement in the supervision of the Group by adopting an organization with a Board of Directors.

On February 20, 2013 the Supervisory Board approved proposed amendments to the articles of association required for the implementation of this change. It confirmed its recommendation to appoint Mr. Jean-Pascal Tricoire as Chairman and CEO, given his achievements and performance as head of the Group since 2006. This proposal to combine the functions of Chairman of the Board of Directors and Chief Executive Officer is not definite. The Supervisory Board will re discuss this proposal every year. As of today, this solution seems the most adequate given the membership of the Supervisory Board, the experience and achievements of Mr. Tricoire, of the economic environment which requires clarity and responsiveness of the leadership, and procedures to ensure an accurate information and an effective functioning by the Board of Directors, in particular the institution of a Vice-Chairman-Lead Independent Director, of the principle of holding an executive session at each meeting of the Board presided over by the Vice-Chairman-Senior Director, and the creation of four Board committees.

A more detailed presentation of the proposed new organization of the governance can be found in the report of the Management Board to the Annual Shareholder's Meeting of April 25, 2013 (see pages 274 to 277).

The Company applies the AFEP/MEDEF corporate governance guidelines. There are a few exceptions, which are described below (see Section 11).

The guidelines are available online at [www.medef.fr](http://www.medef.fr).

## > 1. Supervisory Board\*\*

The Supervisory Board must have at least three and up to 18 members, all of whom must be natural persons elected by the Annual Shareholders' Meeting. However, in case of death or resignation of a member, the Board may co-opt a new member. This appointment is then subject to ratification by the next General Shareholders' Assembly.

Throughout their term, Supervisory Board members must hold at least 1,000 Schneider Electric SA shares. Consequently, as a result of its assessment in 2011, the Supervisory Board has requested that its members hold at least 1,000 shares. The Board's internal rules and procedures were amended accordingly.

Supervisory Board members are elected for a four-year term and are eligible for re-election. However, the Annual Shareholders' Meeting of April 21, 2011 removed the age limit of 74 years for membership and it was decided that members who are 70 years old may be re-elected or appointed for a period of two years. No more than one third of the members of the Supervisory Board may be over 70 years old.

The Supervisory Board as of December 31, 2012 has 14 members and one non-voting member.

There are 12 independent members according to the definition contained in the AFEP/MEDEF corporate governance guidelines for listed companies: Mr. Léo Apotheker, Ms. Betsy Atkins, Mr. Gérard de La Martinière, Mr. Xavier Fontanet, Mr. Noël Forgeard,

Mr. Antoine Gosset-Grainville, Mr. Jeong Kim, Mr. Willy R. Kissling, Ms. Cathy Kopp, Ms. Dominique Sénéquier, Mr. G. Richard Thoman and Mr. Serge Weinberg. Each year, the Supervisory Board includes an item on the agenda to review the status of its members, based on a report from the Remunerations, Appointments and Human Resources Committee. Members' directorships and functions in other companies that have business relations with Schneider Electric do not, by their nature, affect the said members' independence in light of the types of transactions involved. These transactions are carried out on arms-length terms and are not material for either party. Moreover, as regards Mr. de La Martinière, who has been a director or member of the Supervisory Board of Schneider Electric SA for more than 12 years, his seniority is not considered as a hindrance to his independence due notably to his personality and involvement in the work and discussions on the operation of the Audit Committees.

Five members do not have French nationality (American: Ms. Atkins, Mr. G. Richard Thoman; Korean-American: Mr. Kim, German: Mr. Apotheker; and Swiss: Mr. Kissling).

One member, Ms. Magali Herbaut, represents the employee shareholders in accordance with article L.225-71 of the French Commercial Code. She was nominated by the Shareholders' Meeting, on the recommendation of the Supervisory Boards of the FCPEs.

The average age of the Supervisory Board members is 61.



## Composition of the Supervisory Board (as of December 31, 2012)

### Chairman of the Supervisory Board

Mr. Henri Lachmann

Age : 74

Business address:  
Schneider Electric  
35, rue Joseph-Monier  
92500 Rueil-Malmaison- France

**93,202 <sup>(1)</sup> Schneider Electric SA shares**

First appointed: 1996/Term ends: 2014

### Directorships and other functions

- Currently:  
Chairman of the Supervisory Board of **Schneider Electric SA**.
  - Other directorships or functions at a listed company:  
Member of the Supervisory Board of **Vivendi**; member of the Supervisory Board of **groupe Norbert Dentressangle**; Director of **Carmat**; non-voting member of **Fimalac**.
  - Other directorships and functions:  
Chairman of the Board of Directors of Centre Chirurgical Marie Lannelongue; Chairman of Fondation pour le Droit Continental; member of the Steering Committee of Institut de l'Entreprise; Director of Association Nationale des Sociétés par Actions; Chairman of Institut Télémaque; Vice Chairman and Treasurer of Institut Montaigne; Director of Planet Finance and Fondation Entreprendre; Chairman of the Advisory Council of Campus d'Excellence au Commissariat Général à l'Investissement (Grand Emprunt); Director of the Steering Committee of Proxinvest.
- Previous directorships and functions held in the past five years:  
Vice-Chairman of the Supervisory Board of **Vivendi**; member of the Supervisory Board of **AXA** and AXA Assurances IARD Mutuelle; non-voting member of Tajan; member of CODICE; Director of Solidarités Actives.

### Experience and qualifications

A graduate of Hautes études commerciales (HEC), Henri Lachmann began his career in 1963 with Arthur Andersen. In 1970, he joined Compagnie industrielle et financière de Pompey. In 1971 he became Executive Vice-President of Financière Strafor (later Strafor Facom), where from 1981 to 1997 he served as CEO. He was elected to the Schneider Electric SA Board of Directors in 1996 and was appointed Chairman on February 25, 1999. On May 3, 2006, he became Chairman of the Supervisory Board of Schneider Electric SA.

### Vice-Chairman of the Supervisory Board

Mr. Léo Apotheker\*

Age: 59

Business address:  
Flat A, 15 Eaton Square  
London SW1W 9DD - England

**1,538 Schneider Electric SA shares**

First appointed: 2007/Term ends: 2016

### Directorships and other functions

- Currently:  
Vice-Chairman of the Supervisory Board of **Schneider Electric SA**;
  - Other directorships at a listed company:  
Member of the Supervisory Board of **Stéria**.
  - Other directorships or functions:  
Chairman of the Board of Directors of KMS A.S. (Denmark), Director of New E.A. (USA) and Intelius (USA); Member of the Board and Strategy Committee of PlanetFinance.
- Previous directorships and functions held in the past five years:  
CEO and President of **Hewlett-Packard**; member of the Board of Directors of **Hewlett-Packard**; CEO of **SAP AG**; Non-voting member of **Schneider Electric SA**; Director of Ginger SA, GTNexus (USA), SAP America Inc. (USA), SAP Global Marketing Inc. (USA), SAP Asia Pte. Ltd (Singapore), SAP Japan Co., Ltd (Japan), SAP France SA, SAP Italia Sistemi, Applicazioni, Prodotti in Data Processing SpA (Italy), SAP Hellas Systems Application and Data Processing SA (Greece), SAP (Beijing) Software System Co., Ltd, (China), SAP Manage Ltd (Israel), SAP Finland Oy (Finland) and SAP Danemark A/S (Denmark).

### Experience and qualifications

Léo Apotheker began his career in 1978 in management control after graduating with a degree in international relations and economics from the Hebrew University in Jerusalem. He then held management and executive responsibilities in several IT firms including SAP France and SAP Belgium, where he was CEO between 1988 and 1991. Mr. Apotheker was founding President and Chief Operating Officer of ECsoft. In 1995, he returned to SAP as Chairman of SAP France. After various appointments within SAP as Regional Director, he was appointed in 2002 as a member of the Executive Committee and President of Customer Solutions & Operations, then in 2007 as President CSO and Deputy CEO of SAP AG and in 2008 CEO of SAP AG. In 2010, he became CEO and President of Hewlett-Packard and served until autumn 2011.

*Note: bold indicates the names of companies whose securities are listed on a regulated market.*

*(1) Directly or through the FCPE.*

*\* An independent member of the Supervisory Board within the meaning of the AFEP/MEDEF corporate governance code for listed companies.*

#### Ms. Betsy Atkins\*

Age: 59

Business address:  
BAJACORP  
10 Edgewater Drive, Ste 10A  
Coral Gables, FL 33133

**1,000 Schneider Electric SA shares**

First appointed: 2011/Term ends: 2015

#### Directorships and other functions

- Currently:
  - Member of the Supervisory Board of **Schneider Electric SA**.
  - Other directorships or functions at a listed company:
    - Member of the Board of Directors of **Chicos FAS Inc.** (USA), **Polycorn Inc.** (USA); member of the **SAP** Advisory Committee (Germany).
  - Other directorships
    - Member of Bazaarvoice (USA).
- Previous directorships and functions held in the past five years:
  - Director of **Towers Watson** (USA), **Reynolds American** (USA), **SunPower Corp** (USA), **Vonage** (USA); President and CEO of Clear Standards, Inc. (USA); Chairman of the Board of Directors of Vantrix (Canada).

#### Experience and qualifications

After graduating from the University of Massachusetts and Trinity College Oxford, Betsy Atkins began her career co-founding several successful high-tech and consumer companies including Ascend Communications. In addition, she served as CEO and Chairman of NCI from 1991 to 1993 and as CEO of Key Supercomputer from 1987 to 1989.

#### Mr. Xavier Fontanet\*

Age: 64

Business address:  
3 Rue Charles Lamoureux  
75016 Paris - France

**1,000 Schneider Electric SA shares**

First appointed: 2011/Term ends: 2016

#### Directorships and other functions

- Currently:
  - Member of the Supervisory Board of **Schneider Electric SA**.
  - Other directorships at a listed company:
    - Director of **Essilor** and **L'Oréal**.
  - Other directorships or functions:
    - Associate professor at HEC; member of the Board of Directors of Ansa.
- Previous directorships and functions held in the past five years:
  - CEO of **Essilor International**; Chairman of the Board of Directors of **Essilor International**; Director of the Fonds stratégique d'Investissement (F.S.I.); Director of **Credit Agricole SA**; President of EOA Holding Co. Inc. (USA), Nikon and Essilor Joint Research Center Co Ltd (Japan); Director of Nikon-Essilor Co. Ltd (Japan), Nikon and Essilor Joint Research Center Co Ltd (Japan), Essilor of America Inc. (USA), Transitions Optical Inc. (USA), EOA Holding Co, Inc. (USA), Shanghai Essilor Optical Company Ltd (China), Transitions Optical Holdings B.V. (Netherlands), Essilor Manufacturing India Private Ltd (India), Essilor India PVT Ltd (India), Essilor Amico L.L.C. (United Arab Emirates); Permanent representative of Essilor International on the Board of Directors of the *Association Nationale des Sociétés par Actions* (Ansa).

#### Experience and qualifications

A graduate of the *École Nationale des Ponts et Chaussées* and Massachusetts Institute of Technology, Mr. Xavier Fontanet began his career as a Vice-President at the Boston Consulting Group. He was General Manager for Bénéteau beginning in 1981. Between 1986 and 1991, he was in charge of central management of catering for the Wagons-Lits group. In 1991, he joined Essilor as Executive Vice-President and then served as CEO from 1996 to 2009 and Chairman of the Board of Directors until the beginning of 2012.

Note: bold indicates the names of companies whose securities are listed on a regulated market.

\* An independent member of the Supervisory Board within the meaning of the AFEP/MEDEF corporate governance code for listed companies.



#### Mr. Noël Forgeard\*

Age: 66

Business address:  
ARJIL, 84 Avenue d'Iéna  
75116 Paris - France

**1,000 Schneider Electric SA shares**

First appointed: 2005/Term ends: 2014

#### Directorships and other functions

- Currently:

Member of the Supervisory Board of **Schneider Electric SA**.

- Other directorships or functions:

Senior Partner at Arjil SAS; member of the Committee of France Galop; Director of the PMU Economic Interest Group; Chairman of Manopi SAS (oceanic research services company).

#### Experience and qualifications

A graduate of École polytechnique and École des Mines in Paris, Noël Forgeard began his career in the French civil service before joining Usinor's subsidiary Compagnie Française des Aciers Spéciaux. In 1986, he served as an advisor on industrial issues in Prime Minister Jacques Chirac's office. In 1987, he joined the Lagardère Group, where he headed the Defense and Space divisions of **Matra**. Five years later, he became CEO of Matra Haute Technologie and joint Vice-President of the **Lagardère Group**. In 1998, he was appointed Director and general manager of GIE Airbus-Industrie, and in 2000, CEO of Airbus SAS (an Airbus consolidated company). From July 1, 2005 to July 1, 2006 he was co-Executive Chairman of EADS. In 2011, he joined Arjil SAS as a Senior Partner.

#### Mr. Antoine Gosset-Grainville\*

Age: 46

Business address:  
CDC  
56 Rue de Lille  
75007 Paris - France

**1,000 Schneider Electric SA shares**

First appointed: 2012/Term ends: 2016

#### Directorships and other functions

- Currently:

Member of the Supervisory Board of **Schneider Electric SA**.

- Other directorships at a listed company:

Director of **CNP Assurances**, **Compagnie des Alpes**, and **lcade**.

- Other directorships or functions:

Deputy Managing Director of Caisse des dépôts et consignations; Director of *Fonds Stratégique d'Investissement*, La Poste and Véolia-Transdev.

- Previous directorships and functions held in the past five years:

Director of **Dexia**, Deputy Director in the office of Prime Minister François Fillon from 2007 to March 2010.

#### Experience and qualifications

Mr. Gosset-Grainville, 46, is a graduate of the *Institut d'études politiques* in Paris and holds a DESS post-graduate degree in banking and finance from University Paris IX Dauphine. After graduating from France's *École nationale d'administration*, he began his career at the *Inspection Générale des Finances* (1994-1997). Then, he became Deputy General Secretary of the European Monetary Committee and later of the Economic and Financial Committee of the European Union (1997-1999). He was appointed Adviser for Economic and Monetary Affairs in the office of the European Commissioner in charge of Trade (1999-2002). He is a member of the Paris and Brussels Bars, and was a partner at the Brussels office of the Gide Loyrette Nouel law firm (2002-2007) before becoming Deputy Director in the office of Prime Minister François Fillon (2007-2010). He has been Deputy Managing Director of the *Caisse des dépôts et consignations* since May 2010.

Note: bold indicates the names of companies whose securities are listed on a regulated market.

\* An independent member of the Supervisory Board within the meaning of the AFEF/MEDEF corporate governance code for listed companies.

## Ms. Magali Herbaut

Age: 41

Business address:  
Schneider Electric Industries SAS  
Bac de Roda, 52 – Edificio A  
08019 Barcelona, Spain

**6,040 <sup>(1)</sup> Schneider Electric SA shares**

First appointed: 2012/Term ends: 2016

### Directorships and other functions

- Currently:  
Member of the Supervisory Board of **Schneider Electric SA**.  
– Other directorships or functions:  
Member of the Supervisory Board of FCPE Schneider Actionnariat and FCPE Solidaire Schneider Énergie, Member of the Board of Directors of the SICAV Schneider Énergie Solidaire.
- Previous directorships and functions held in the past five years:  
Member of the Supervisory Board of GFA Castillon.

### Experience and qualifications

Magali Herbaut graduated from the *École Supérieure de commerce* in Grenoble and earned an MBA from Laval University (Canada). She began her career as an auditor for the firm Deloitte. Then in 1996, she joined Schneider Electric as a management controller for Schneider Electric Automation GmbH. Ms Herbaut spent two years as a management controller for Schneider Electric Automation Inc. in the US, before becoming Chief Financial Officer for Normabarre (2000-2003) then for the Medium Voltage/Low Voltage Regional Facilities Unit (2003-2007), later taking charge of the Alombar plant (2007-2008). She managed the Electrical Wiring activity in the Business Unit LifeSpace for the EMEAS region between 2009 and 2012 and recently expanded her responsibility to the Asia-Pacific and North America region. Ms. Herbaut is a member of the Supervisory Board of the FCPE Schneider Actionnariat.

## Mr. Jeong H. Kim\* <sup>(2)</sup>

Age: 52

Business address:  
Alcatel-Lucent  
600 Mountain Avenue, Room 6A-509  
Murray Hill, NJ 07974 - USA

**1,000 Schneider Electric SA shares**

First appointed: 2011/Term ends: 2015

### Directorships and other functions

- Currently:  
Member of the Supervisory Board of **Schneider Electric SA**.  
– Other functions at a listed company:  
Chairman of **bell labs** and **chief strategy officer** of **Alcatel-Lucent**.  
– Other directorships and functions:  
Professor at the University of Maryland College Park (USA); Member of the Board of Directors of the University of Georgetown (USA); member of the Board of Visitors of the Stanford Freeman Spogli Institute (USA); CEO of Jurie Holdings LLC (USA); member of the Board of Directors of the Nuclear Threat Initiative (USA);
- Previous directorships and functions held in the past five years:  
Member of the Board of Trustees at the University of Maryland, College Park Foundation of Johns Hopkins University (USA) and Bankinter Foundation of Innovation (Spain); Director of In-Q-Tel (USA); member of the **Nasdaq** Listing and Review Council (USA); member of the External Advisory Board of the CIA (USA); member of the Advisory Board of Royal Oak Capital (USA) and Director of CINTT; member of the Board of Managers of the Applied Physics Lab (USA); (Director of GIV Global Private Equity (USA).

### Experience and qualifications

Jeong H. Kim holds a doctorate in reliability engineering from the University of Maryland and holds degrees from Johns Hopkins University in Technical Management, electrical engineering, and computer sciences.

A businessman, professor, and member of the National Academy of Engineering, Jeong H. Kim joined Lucent Technologies in 1998 when Lucent purchased Yurie Systems, the company he founded in 1992. He supervised the Lucent's Optical Network Group. He then joined the University of Maryland, where he taught in both the Electrical Engineering and Computer Sciences Department and the Mechanical Engineering Department. Before that, Jeong H. Kim held technical and managerial positions in computers, satellite systems, and data communications, and he spent seven years as an officer aboard a US Navy nuclear submarine. In 2005, Jeong H. Kim was appointed Chairman of Bell Laboratories (**Alcatel-Lucent**). He is the eleventh Chairman.

Note: bold indicates the names of companies whose securities are listed on a regulated market.

(1) Directly or through the FCPE.

(2) Mr. Jeong Kim resigned on February 16, 2013 following his nomination as Minister of Future Creation and Science of South Korea.

\* An independent member of the Supervisory Board within the meaning of the AFEP/MEDEF corporate governance code for listed companies.





### Mr. Willy R. Kissling\*

Age: 68

Business address:  
Poststrasse n° 4 BP  
8808 Pfäeffikon - Switzerland

**4,000 Schneider Electric SA shares**

First appointed: December 12, 2001/Term ends: 2014

### Directorships and other functions

- Currently:  
Member of the Supervisory Board of **Schneider Electric SA**.
- Previous directorships and functions held in the past five years:  
Member of the Board of Directors of **Cleantech Invest AG**; Director of **Kühne + Nagel International AG** (logistics); Director of **Holcim Ltd**; Chairman of the Board of Directors of Grand Resort Bad Ragaz AG; member of the European Advisory Board of Booz & Co.

### Experience and qualifications

Willy Kissling, a Swiss citizen, holds diplomas from the University of Bern and Harvard University. He began his career at Amiantus Corporation and then joined Rigips, a plasterboard manufacturer, in 1978. He was appointed to the Rigips Executive Committee in 1981 and subsequently became Chairman. From 1987 to 1996, Mr. Kissling served as Chairman and Executive Vice-President of Landis & Gyr Corporation, a provider of services, systems and equipment for building management, electrical contracting and payphones. From 1998 to 2005, he was Chairman of the Board of Directors of Oertikon Bühler Holding AG (since renamed OC Oertikon Corp.).

### Ms. Cathy Kopp\*

Age: 63

Business address:  
22, square de l'Alboni  
75016 Paris – France

**1,024 Schneider Electric SA shares**

First appointed: 2005/Term ends: 2014

### Directorships and other functions

- Currently:  
Member of the Supervisory Board of **Schneider Electric SA**.  
– Other directorships or functions:  
Director of Dexia; member of the Board of the Fondation SNCF.
- Previous directorships and functions held in the past five years:  
Director of **Dexia**; member of the Board of École normale supérieure de la rue d'Ulm in Paris; General Manager of Human Resources and member of the Executive Committee of **Accor**; Member of the Collège de la haute autorité de lutte contre

les discriminations (Halde); member of the Haut Conseil à l'Intégration.

### Experience and qualifications

After earning a degree in mathematics, Cathy Kopp joined IBM France in 1973. In 1992, she became Human Resources Director at IBM France before being appointed Vice-President of Human Resources in the Storage Systems Division of IBM Corp. In 2000, Cathy Kopp became Chairman and Executive Vice-President of IBM France. In 2002 she joined the Accor Group as HR Director and served until 2009. Cathy Kopp was Chairman of the Social Committee of the Service Providers Group at MEDEF until 2009. She headed up the cross sector negotiations on diversity at MEDEF in 2006, and the negotiations on modernizing the labor market in 2007.

### Mr. Gérard de La Martinière\*

Age: 69

Business address:  
18, allée du Cloître  
78170 La Celle-Saint-Cloud - France

**6,856 Schneider Electric SA shares**

First appointed: 1998/Term ends: 2013

### Directorships and other functions

- Currently:  
Member of the Supervisory Board of **Schneider Electric SA**.  
– Other directorships at a listed company:  
Director of **Air Liquide**.  
– Other directorships or functions:  
Director of Standard & Poor's Credit Market Services France SAS; Director of Allo Finance; Chairman of the Managing Committee of Charte du Don en Confiance (a charity within the meaning of the 1901 French law); member of the *Haut Conseil de la Vie Associative*.
- Previous directorships and functions held in the past five years:  
Chairman of the French Insurance Companies Federation (FFSA) and Chairman of *Comité européen des Assurances* (CEA); Vice-Chairman of *Comité européen des Assurances* (CEA); Director of Banque d'Orsay; Member of the Supervisory Board of the European Financial Reporting Advisory Group "EFRAG" (an association under Belgian law).

### Experience and qualifications

A graduate of *École polytechnique* and *École nationale d'administration*, Gérard de La Martinière held several positions in the French Finance Ministry before serving as Secretary General of *Commission des Opérations de Bourse* and General Manager of *Société des Bourses Françaises*. In 1989, he joined AXA, where he was appointed Executive Vice-President for Holding Companies and Corporate Functions in 1993, Member of the Management Board in 1997 and Executive Vice-President of Finance, Budget Control and Strategy in 2000. He left the AXA Group in 2003 to become Chairman of the *Fédération Française des Sociétés d'Assurances* (FFSA), a post he held until October 2008.

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## Ms. Dominique Sénéquier\*

Age: 59

Business address:  
AXA Private Equity  
20, place Vendôme  
75001 Paris - France

**1,000 Schneider Electric SA shares**

First appointed: 2010/Term ends: 2015

### Directorships and other functions

- Currently:

Member of the Supervisory Board of **Schneider Electric SA**.

- Other directorships or functions at a listed company:

Non-voting member of the Board of Directors of **Groupe Bourbon SA**, France; member of the Board of Directors of **Compagnie Industriale Riunite S.p.A.**, Italy.

- Other directorships or functions:

President and CEO of AXA Investment Managers Private Equity SA, France; President and CEO of AXA Investment Managers Private Equity Europe SA, France; Chairman of the Supervisory Committee of AXA Private Equity US LLC, USA; Chairman of the Supervisory Board of AXA Private Equity Germany GmbH, Germany; Director of AXA Private Equity Asia Pte Ltd, Singapore; Chairman of the Board of Directors of AXA Private Equity Italy S.r.l., Italy; Chairman of the Board of Directors, member of the ASF V Committee and of the AESF V Committee of AXA Private Equity UK Ltd, UK; Chairman of the Board of Directors of AXA Private Equity Switzerland AG, Switzerland; Chairman of the Board of Directors of AXA Private Equity Switzerland Holding AG, Switzerland; Chairman of the Supervisory Board of AXA Private Equity Eastern Europe GmbH, Austria; Chairman, member of the Board of Directors and of the Coordination Committee of AXA Infrastructure Investissement SAS, France; Director of Théâtre des Champs-Élysées SA, France; Manager of SCI 30 rue JACOB, France; Director of SENEQ SA, Belgium; Chairman of Escouf Properties Corp., USA; member of the United Nations Investments Committee of the UN Pension Fund (international inter-governmental organization), USA; member of the Board of Directors of Fondation Valentin Haüy (a charity within the meaning of the 1901 French law), France.

- Previous directorships and functions held in the past five years:

Non-voting member of **Schneider Electric SA**; President of AXA Chile Private Equity I; Director of AXA Private Equity Funds of Funds II Manager Ltd; Director of AXA Private Equity Primary Ltd; Director of AXA Private Equity Secondaries Ltd; Director of AXA IM Secondaries Associates Management Ltd; Director of AXA Private Equity SL Management Ltd; Director of AXA PE Asia Manager Ltd; Director of AXA IM LBO Management Ltd; Director of AXA IM LBO Management Ltd III; Director of AXA IM LBO Management Ltd IV; Director of AXA Alternative Participations SICAV I; Director of AXA Alternative Participations SICAV II; Director of **Groupe Bourbon SA**; Non-voting member of the Board of Directors of Nakama SA; Chairman of Pikanter 9 SAS; Chairman of Pikanter 10 SASU; member of the Board of

Directors and of the Audit Committee of **Hewlett-Packard Company**; Chairman, member of the Board of Directors and of the Investment Committee of Matignon Développement 1 SAS; Chairman, member of the Board of Directors and of the Investment Committee of Matignon Développement 2 SAS; Chairman, member of the Board of Directors and of the Investment Committee of Matignon Développement 3 SAS; Chairman, member of the Board of Directors and of the Investment Committee of Matignon Développement 4 SAS; Manager of Vendôme GSG SARL.

### Experience and qualifications

Ms. Dominique Sénéquier is a graduate of *École Polytechnique* with a postgraduate diploma in banking and finance. She joined the insurance industry supervisory team in 1975. In 1980 she joined GAN as head of group acquisitions and then in 1987 she founded GAN Participations which led up until 1995. In 1996 she joined AXA group and set up AXA Private Equity for which she is Chairman of the Management Board.

## Mr. G. Richard Thoman\*

Age: 68

Business address:  
Corporate Perspectives, LLC  
485 Park Avenue, New York NY 10022 – (USA)

**1,000 Schneider Electric SA shares**

First appointed: 2007/Term ends: 2014

### Directorships and other functions

- Currently:

Member of the Supervisory Board of **Schneider Electric SA**.

- Other directorships or functions:

Managing Partner of Corporate Perspectives (an American strategy consulting firm); member of the Board of Advisors of INSEAD, the French American Foundation, the Americas Society, the Council of the Americas, Committee for Economic Development, McGill University School of Management, the Fletcher School and the heritage committee of the *Institut des Hautes Études Internationales*, "IHEID" (Geneva); Adjunct Professor at Columbia University and the Fletcher School; member of the Trilateral Commission, the Council on Foreign Relations; Business Executives for National Security, New York Economics Club.

- Previous directorships and functions held in the past five years:

Member of the Board of Directors of *Union Bancaire Privée* (Geneva).

### Experience and qualifications

Mr. G. Richard Thoman has a unique background. He was one of the top five CEOs for four of the top Fortune 75 companies, in three different industries: financial services, food and beverage, and technology.

Mr Thoman began his career at Citibank after receiving his BA from McGill University in Montreal and MA, MALD and PhD from Fletcher School of Law and Diplomacy which resulted from a partnership

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\* An independent member of the Supervisory Board within the meaning of the AFEP/MEDEF corporate governance code for listed companies.

between Tufts University and Harvard. He also graduated from Hautes Études Internationales in Geneva. After working with Exxon Finance and McKinsey, he became Chairman and co-Executive Vice-President of American Express Travel Related Services. In 1992, he was appointed Chairman and Executive Vice-President of Nabisco International. In 1993, he joined IBM as Senior Vice-President, Personal Systems Group, later becoming Financial Director. In 1997, he joined Xerox. He served as Chairman and Executive Vice-President of Xerox from April 1999 to May 2000. Mr Thoman is currently Managing Partner of Corporate Perspectives and is on the faculty of several US universities.

#### Mr. Serge Weinberg\*

Age: 61

Business address:  
Weinberg Capital Partners  
20, rue Quentin Bauchart  
75008 Paris – France

**1,144 Schneider Electric SA shares**

First appointed: 2005/Term ends: 2014

#### Directorships and other functions

- Currently:
  - Member of the Supervisory Board of **Schneider Electric SA**.
  - Other directorships at a listed company:
    - Chairman of the Board of Directors for **Sanofi**.
  - Other directorships or functions:
    - Chairman of Weinberg Capital Partners, Financière Piasa and Piasa Holding; Director of Piasa, Director of VL Holding, manager of Alret and Maremma; member of the Supervisory Committee of Financière BFSa; Vice-Chairman and Director of Financière Sasa; Permanent representative of Weinberg Capital Partners on the Board of Sasa Industrie; Chairman of Corum (Switzerland).
- Previous directorships and functions held in the past five years:
  - Vice-Chairman of the Supervisory Board of **Schneider Electric SA** (from May 2006 to May 2010); Chairman of the Board of Directors of **Accor** (January 2006 to February 2009); Director of Alliance Industrie (from October 2006 to November 2008), of Road Holding (from March 2007 to May 2008) and Rasec (from February 2006 to January 2010); member of the Management Board of Pharma Omnium International (from June 2006 to January 2010); Director of FNAC (from July 1995 to May 2010), Director of Rothschild Concordia SAS (from March 2008 to October 2010), Director of Rothschild & Cie (from June 2005 to October 2010), Director of the Gucci Group (from March 1999 to April 2010), member of the Supervisory Board of Alfina (from February 2010 to December 2011), Permanent Representative of Weinberg Capital Partners, Director on the Board of Alliance Industrie (from December 2008 to October 2011), Director of Financière Poinsetia (from October 2006 to October 2011).

#### Experience and qualifications

After graduating from France's *École nationale d'administration*, Serge Weinberg held several positions in the French civil service and ministerial offices. He then served as Deputy Vice-President of FR3, Executive Vice-President and then Chairman of the

Management Board of Havas Tourisme, Director of Pallas Finance. And then in 1990 joined what is now the Pinault-Printemps-Redoute Group (PPR) as Executive Vice-Chairman of Compagnie française de l'Afrique occidentale (CFAO). Within this group, he served as Chairman of Rexel (formerly CDME), an electrical equipment distributor. In 1995, he was appointed Chairman of the PPR Management Board, a position he held until early 2005. In March 2005 he founded Weinberg Capital Partners, a company that manages an investment fund specialized in leveraged buyouts and real estate. From 2006 to 2009, he was Chairman of the Board of Directors of Accor. He has been Chairman of the Board of Directors of Sanofi since May 2010.

#### Non-voting member

#### Mr. Claude Bébéar

Age: 77

Business address:  
GIE AXA  
25, avenue Matignon  
75008 Paris – France

**528 Schneider Electric SA shares**

First appointed: 2004/Term ends: 2014

#### Directorships and other functions

- Currently:
  - Non-voting member of **Schneider Electric SA**.
  - Other functions at a listed company:
    - Non-voting member of **Vivendi**.
  - Other directorships or functions:
    - Director of AXA Assurances Vie Mutuelle and AXA Assurances IARD Mutuelle; Chairman of Institut Montaigne and Honorary Chairman of IMS-Entreprendre pour la Cité.
- Previous directorships and functions held in the past five years:
  - Chairman of the Supervisory Board of **AXA**; Director of **BNP Paribas**; member of the Supervisory Board of **Vivendi**; Chairman of IMS-Entreprendre pour la Cité.

#### Experience and qualifications

A graduate of École polytechnique, Claude Bébéar joined Groupe Ancienne Mutuelle in 1958, the mutual insurance company that would become Mutuelles Unies, then AXA in 1985. He was appointed Chairman and Executive Vice-President of the Company in 1975.

From late 1996, when AXA merged with UAP, until 2000, Claude Bébéar served as Chairman of AXA's Management Board and Chairman of its Executive Committee. In 2000 he was appointed Chairman of the AXA Supervisory Board. Mr. Bébéar resigned as Chairman of the Supervisory Board in April 2008 to become Honorary Chairman of AXA.

*Note: bold indicates the names of companies listed on a regulated market.*

## > 2. Organizational and operating procedures of the Supervisory Board\*\*

### Missions and powers of the Supervisory Board

The Supervisory Board exercises ongoing control over the Management Board's management of the Company, in accordance with French law. To this end, it performs all the checks and controls that it considers appropriate and obtains copies of any and all documents that it considers necessary in order to fulfill its duties.

Specific powers are vested in the Supervisory Board under French law and the Company's articles of association. These include the power to:

- appoint the Management Board, designating the number of members that compose it as well as its Chairman. Establish the compensation of the members of the Management Board;
- remove Management Board members from office, if necessary;
- authorize financing transactions that may have a substantial effect on the Company's financial structure (loans, increase in share capital etc.);

- authorize material business acquisitions and disposals, meaning strategic transactions amounting to more than EUR250 million, as well as strategic partnerships;
- authorize the creation of share subscription or purchase option plans and bonus or performance share allocation plans;
- authorize regulated agreements;
- authorize the issuance of endorsements guarantees, as provided by French law.

They are also subject to the approval of the proposals at the Annual Shareholders' Meeting concerning the dividend, Board membership and changes to the articles of association.

The Supervisory Board may appoint between one and three non-voting members and decide to create Board committees. It draws up its internal rules and procedures. It determines the allocation of attendance fees; the total amount is determined by the Annual Shareholders' Meeting.



### Internal rules and procedures of the Supervisory Board

The Supervisory Board's internal rules and procedures, adopted on May 3, 2006, include the internal rules and procedures of the Board committees (the Remunerations and Appointments and Human Resources Committee and the Audit Committee) as well as the director's charter recommended by the AFEP/MEDEF corporate governance guidelines. It has been amended on several occasions.

The internal rules and procedures of the Supervisory Board have 13 articles:

**Article 1** defines the role and powers of the Supervisory Board (see above). It specifies the Management Board decisions that require the prior approval or consultation of the Supervisory Board. In particular, acquisitions amounting to more than EUR250 million must be approved in advance by the Supervisory Board.

**Article 2** defines the principles applied by the Supervisory Board concerning the renewal of its membership. These include assuring international representation by maintaining a significant number of non-French members, maintaining independence through a majority of independent members as defined in the AFEP/MEDEF corporate governance guidelines, ensuring continuity through the re-election of a certain proportion of the members at regular intervals and enabling representation of employee shareholders.

**Article 3** defines the procedures for organizing and conducting Supervisory Board meetings (notice of meeting, methods of participation, minutes, etc.).

**Article 4** defines the role and powers of the Chairman of the Supervisory Board. The Chairman leads the work of the Board.

He is regularly informed by the Management Board's Chairman of material events and developments in the life of the Group.

**Article 5** concerns information received by the Supervisory Board. It stipulates that Supervisory Board members shall receive any information required to enable them to fulfill their duties and that they may request any necessary or relevant documents prior to any meeting of the Board. The article also describes the content of the Management Board's quarterly reports to the Supervisory Board, to be drawn up in accordance with article L.225-68 of the French Commercial Code. It stipulates that the Management Board should present the Supervisory Board with annual targets, strategic and operational plans.

**Article 6** defines the status of members of the Supervisory Board. This is in compliance with the director's charter contained in the AFEP/MEDEF corporate governance guidelines.

It states that Supervisory Board members must:

- represent all shareholders and act in the corporate interest;
- resign from the Board when they have not participated in more than half the Board meetings;
- comply with an overall obligation of confidentiality;
- report any and all conflicts of interest and they are asked to refrain from voting and any debate regarding the matter in question;
- hold at least 1,000 shares of Company stock;
- abide by strict rules regarding transactions involving Schneider Electric SA stock (no trading allowed in the 31 days preceding the day following the publication of the annual or interim financial



statements and in the sixteen days preceding the day following publication of quarterly reports, etc.);

- attend General Meetings.

**Article 7** states that non-voting members who attend Supervisory Board meetings in a consultative capacity are subject to the same ethical rules as voting members.

**Articles 8 to 10** apply to Board committees. The content of these articles is provided in the corresponding section below.

**Articles 11 and 13** define the scope of the internal rules and procedures of the Supervisory Board.

**Article 12** states that the Management Board may allocate management tasks among its members, with the Supervisory Board's approval.

## Information on the Supervisory Board and its members

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Schneider Electric lays down the following rules so as to ensure the Supervisory Board is properly informed: in principle, members of the Supervisory Board have available to them a secure website on which they receive or can peruse, 10 days before each Board meeting, the meeting agenda and the draft minutes of the previous meeting and, four or five days before, documentation for the Board meeting. The file includes the Management Board's report, notes or the text of presentations scheduled on the agenda and, for the meeting held to approve the annual or interim financial statements, the financial statements approved by the Management Board. A supplementary file may also be provided at the meeting.

Supervisory Board meetings, except for the "executive sessions", are attended by the members of the Management Board. Furthermore, they will leave while the Board discusses their assessment or remuneration. Executive Committee members are invited depending on the subject to present the major issues within their area of responsibility. The Statutory Auditors attend the part of the Supervisory Board meetings at which the annual and interim financial statements are reviewed.

Between each meeting of the Supervisory Board, aside from interviews that Supervisory Board members may have with the Chairman of the Management Board, Supervisory Board members

receive a monthly letter, a weekly press review, all of the Company's press releases, financial analysts' reports and other documents.

Members also have the opportunity to meet informally with key senior executives prior to Supervisory Board meetings. New members of the Supervisory Board attend training and information sessions dealing with the Group's strategy and businesses.

For new members of the Supervisory Board, training and information sessions are organized on the strategy and businesses of the Group. Schneider Electric has adopted a code of ethics for Supervisory Board members and employees of the Group designed to prevent insider trading. Under the terms of these provisions, both Supervisory Board members and employees are barred from trading Company shares and shares in companies for which they have information that has not yet been made public. In addition, they may not trade Schneider Electric SA shares during the 31 days preceding the day following publication of the annual and interim financial statements, nor during the 16 days preceding the day following publication of a quarterly update, nor may they engage in any type of speculative trading involving Schneider Electric SA shares (including margin trading, purchasing and selling shares in a period of less than four months, etc.).



## > 3. Supervisory Board meetings\*\*

The Supervisory Board held six meetings in 2012. The meetings lasted around five hours and the average participation rate of members of the Supervisory Board was 93%. They were primarily

devoted to discussing the Company's corporate governance and strategy, reviewing operations and the annual and interim financial statements and preparing the Annual Shareholders' Meeting.

### Corporate Governance

Based on advice from the Remunerations, Appointments and Human Resources Committee, the Supervisory Board:

- examined the report on its three-year appraisal carried out in the autumn of 2011 with the assistance of the secretary of the Supervisory Board. This review included the opinions and comments of members of the Board based on a questionnaire drawn up by the Remunerations, Appointments and Human Resources Committee. This questionnaire covered the membership of the Board, its missions, the conduct of its meetings and information as well as the Board's relations with the Management Board and the organization and conduct of its committees. This examination concluded that the Board is exemplary. This appraisal was shared by all its members. They feel that the Schneider Electric SA Board is amongst the best, if not the best Board on which they sit or have had occasion to sit. They put this down to the quality and depth of discussions at Board meetings and the level of confidence that reigns between members themselves and between members and management. Areas for improvement were identified however. These mainly relate to the development of discussions of the Board on the situation of Schneider Electric compared to the competition, R&D and more especially R&D productivity and the conclusions arising out of the work undertaken by the Audit Committee on risk. The Board also wishes to receive more detailed information on Schneider Electric's competitors as well as information on the work of the Executive Committee. In order to improve the conduct of its work, the Board intends to extend the length of its meetings. It furthermore considers that the participation of its members by audio or video conference should only be a last resort. Furthermore, the Board has accepted to raise the minimum number of Schneider Electric SA shares that members have to hold from 250 to 1,000;
- discussed the composition of its membership and that of its committees and achieving gender balance on the Board. The Board also set a target of internationalization and of a better gender and age balance within its composition. In view of the major changes made in composition of the Board in 2011 with the addition of Ms. Betsy Atkins, Ms. Dominique Sénéquier, Mr. Jeong Kim, and Mr. Xavier Fontanet, the 2012 General Shareholders' Meeting was asked to renew the appointments of:
  - Mr. Kissling, Mr. Lachmann, and Mr. G Richard Thoman for a two year period, in view of the new provisions in the articles of association,

- Mr. Apotheker, Mr. Fontanet and Mr. Gallot for a four year period. However, Mr. Gallot having subsequently decided for personal reasons not to seek renewal of his mandate, the Management Board has proposed the appointment of Mr. Gosset-Grainville as his replacement.

With regard to the Board member representing employee shareholders, the Supervisory Board recommended that shareholders vote for Ms. Magali Herbault whose profile and professional career fit the objectives of female quotas, rejuvenation and internationalization, as set by the Supervisory Board regarding its composition;

- renewed the mandates of Chairman of the Supervisory Board, Mr. Henri Lachmann, whose remuneration has been set, and of Vice-Chairman, Mr. Léo Apotheker, and to renew the mandate of non-voting member Mr. Claude Bébéar. It named as member of Audit Committee Mr. Antoine Gosset-Grainville to replace Mr. Jérôme Gallot;
- discussed the succession of its Chairman Mr. Henri Lachmann, specifically in the frame of "sessions executives" of the Supervisory Board. Following its deliberations, the Board decided to propose to the Annual Shareholders' Meeting that the governance of the Group be changed and that an organization with a Board of Directors be adopted (see pages 274 to 277 and 282 to 288) in which M. Jean-Pascal Tricoire would be Chairman and CEO;
- renewed the Management Board for a new mandate of 3 years and approved the division of responsibilities among its members;
- reviewed the Management Board's operations and evaluated the members of the Management Board;
- examined the Management Board's members succession plan;
- approved the rules of remuneration of members of the Management Board (appraisal of attainment of their personal targets for 2011 and determination of the rules relating to their remuneration for 2012: fixed element, variable element). The principles and rules applied by the Supervisory Board in determining remuneration and benefits for corporate officers are presented below (pages 130 and 131);
- renewed Mr. Jean-Pascal Tricoire's status (pages 136, 137, 273 and 291).
- authorized the Management Board to carry out in 2013 an increase in share capital dedicated to employees;
- authorized the establishment of a new pension plan applicable to French senior executives of the Group and outsourcing of the article 39 plans, cf. pages 131, 273 and 290





On the report of the Remuneration, Appointments and Human Resources Committee and on the Audit Committee, the Supervisory Board:

- approved the Chairman's report on the application of the principle of equal representation of women and men on the Board, and the conditions applicable for the preparation and organization of

the work carried out by the Supervisory Board, and the internal control and risk management procedures implemented by the Company;

- validated the calculation of the level of achievement of performance criteria applicable to stock options plans 31 and 33 and restricted shares plan No. 5, 8 and 9.

## Strategy

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The Supervisory Board conducted an in-depth review of the Group's strategy at a one-and-a-half-day meeting devoted entirely to this topic, as it does each year.

The Board examined the new company program "Connect" covering the period 2012-2014. The Board reviewed the policy of sustainable development of Schneider Electric, the Group's results and the policy of male/female equal opportunities and remunerations.

## Activities and results

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The Supervisory Board was given the Management Board's quarterly reports. At each meeting, the Board also tracked business performance. It furthermore examined the Company's financial position.

The Supervisory Board was informed of the Group's 2012 objectives.

On February 21, 2012, the Supervisory Board reviewed the 2011 financial statements based on the Audit Committee's report and the Statutory Auditors, who were present at the meeting. Based on the Audit Committee's report, it approved the Management Board's proposal to set the dividend at EUR1.70 per share. At its meeting on July 31, 2012, the Board reviewed the financial statements for the first half of 2012 based on the Audit Committee's report and after seeking the opinion of the Statutory Auditors.

The Audit Committee reported to the Board which debated on the work carried out by the Group's internal auditors, the internal audit

teams and the results of the entities' internal control evaluations and self-evaluations. The Audit Committee also reported on other steps taken, which it also discussed, with regard to monitoring risk management (control of organizational change, industrial risk, purchase risk), prevention of fraud, crisis management, development solutions, information systems security, monitoring of accounting standardization and the independence of the Statutory Auditors. The Audit Committee also reported on the steps taken with regard to the accounting error detected, which was fraudulent in origin, in the accounts of one entity of the country France and the action plans implemented.

It ensured consistent compliance with market disclosure requirements, notably through an analysis of market consensus and the issuance of press releases.

The Supervisory Board carried out the procedures required by law, which include reviewing budgets and business plans.

## Annual Shareholders' Meeting 2012

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The Supervisory Board reviewed the agenda and draft resolutions to be tabled at the 2012 Annual Shareholders' Meeting, and prepared its report to shareholders. It approved the Chairman's report on the operations of the Supervisory Board and internal

control. Almost all of the members of the Board (13/14) were present at the Annual Shareholders' Meeting. The Meeting adopted all the resolutions tabled.

## > 4. Supervisory Board committees (members, operating procedures and meetings)\*\*

In its internal rules and procedures, the Supervisory Board has set out the role, responsibilities and competences of its two committees: the Audit Committee and the Remuneration, Appointments & Human Resources Committee. Their members are appointed by the Supervisory Board, based on recommendations

from the Remuneration, Appointments & Human Resources Committee. The Committees may commission studies from outside consultants after having referred to the Chairman of the Supervisory Board. They may invite anybody they wish to meetings, as necessary.

### Audit Committee

Members, operating procedures and responsibilities of Audit Committee are compliant with recommendations included in Audit Committee final report published by AMF in July 2010.

#### Members

The Supervisory Board's internal rules and procedures stipulate that the Audit Committee must have at least three members. Two thirds of the members must be independent and at least one must have in-depth knowledge of accounting standards combined with hands-on experience in applying current accounting standards and producing financial statements.

The Audit Committee has three members: Mr. Gérard de La Martinière, Chairman, Mr. Noël Forgeard and Mr. Antoine Gosset-Grainville, who in May 2012 replaced Mr. Jérôme Gallot, whose mandate of member of the Supervisory Board expired in 2012 and who did not wish to have that mandate renewed. They are independent and have the necessary financial or accounting competence. In addition, Mr. Noël Forgeard offers particular expertise on industrial matters.

#### Operating procedures

Meetings are called by the Committee Chairman or at the request of the Chairman of the Supervisory Board or the Chairman of the Management Board. At least five meetings are held during the year.

The Audit Committee may invite whomever it chooses to its meetings. The Statutory Auditors attend meetings at which financial statements are reviewed and, depending on the agenda, all or some of the other meetings.

The Committee can ask the Management Board to provide it with any documentation it feels necessary. It may also commission studies from external consultants.

#### Responsibilities

A cornerstone of the Group's internal control system, the Audit Committee is responsible for preparing the work of the Supervisory Board, making recommendations to the Board and issuing opinions

on financial, accounting and risk management issues. Accordingly it:

- prepares the Supervisory Board's review of the annual and interim financial statements, and notably in this respect:
  - ensures that accounting policies used to prepare the consolidated and company financial statements are appropriate and applied consistently, that all significant transactions are properly reflected in the consolidated financial statements and that the rules governing the scope of consolidation are correctly applied,
  - analyzes the scope of consolidation, risks and off-balance sheet commitments as well as the financial position and the cash position,
  - reviews the financial statements preparation process;
- reviews the draft Registration Document and takes on board any comments by the AMF in this regard, as well as the reports on the interim financial statements and other main financial documents;
- makes recommendations concerning the appointment or re-appointment of the Statutory Auditors;
- monitors the auditing of the annual and consolidated financial statements, notably by examining the scope of the external audit schedule and the results of the reviews carried out by the Statutory Auditors;
- verifies the auditors' independence, in particular by reviewing fees paid by the Group to their firm and network and by giving prior approval for assignments that, strictly speaking, fall outside the scope of the auditing of the financial statements;
- monitors the effectiveness of internal control and risk management systems. In particular, the Committee:
  - reviews the organization and resources for the Internal Audit, as well as its annual schedule. Receives a quarterly summary report on the findings of the audits carried out,
  - reviews operational risks mapping and its year-on-year evolution. It ensures procedures are implemented to prevent and reduce them,
  - reviews risk mitigation,
  - reviews the rollout of the Group's internal audit system and acknowledges the outcome of entities' self assessment



regarding internal audit. The Committee ensures procedures are implemented to identify and handle anomalies,

- acknowledges the report of the Chairman of the Supervisory Board on Internal Audit,
- reviews codes of conduct, notably concerning fair trading and ethics and examines the measures taken to ensure they are circulated and applied.

The Audit Committee examines proposed dividend payouts and the amount of financial authorizations submitted to the Annual Shareholders' Meeting.

The Audit Committee examines all financial, accounting and risk management issues referred to it by the Management Board, the Supervisory Board or its Chairman.

The Audit Committee presents its findings and recommendations to the Board. The Chairman of the Audit Committee immediately informs the Chairman of the Supervisory Board of any difficulties encountered.

### Meetings in 2012

In 2012, the Audit Committee met five times. The average duration of the meetings was four hours and the average attendance rate was 93%.

Each meeting was fully or partially attended by the Chief Financial Officer, members of the Finance Department, head of Internal Audit as well as external auditors. Operational management also reported to the Committee. Representatives of the Finance Department and Internal Audit were not present during the Statutory Auditors' presentation at meetings devoted to the financial statements. In line with the provisions of the AFEP/MEDEF Code, the Chairman and CEO did not attend any of the Audit Committee's meetings.

The topics discussed by the Committee were as follows:

- 1) financial statements and financial disclosures:
  - review of the annual and interim financial statements and of the reports of the Management Board on the financial statements,
  - review of goodwill, reserving and pension obligations or assimilated obligations,
  - review of investor relations documents concerning the annual and interim financial statements;
- 2) internal audit, internal control and risk management:

- review of the 2013/Q1 2014 Internal Audit schedule drawn up on the basis of risk mapping,
- monitoring the Internal Audit road map realisation related to 2012 and 1st quarter 2013, and review of main audits,
- review of the activities of Internal Audits, particularly the results of evaluations/self-evaluations,
- review of fraud prevention,
- review of the IT systems strategy,
- review of action plans regarding the security of IT systems,
- review of the possible impacts of the financial crisis on management of debt and the Group's conditions for obtaining finance,
- review of the development of the Solutions business,
- review of tax risks,
- review of organizational change risk,
- review of purchase risk,
- review of industrial risks,
- examination of the results of investigations into accounting error due to a fraud, detected in the accounts of one entity of the country France and review of follow-ups and implemented action plans,
- review of the management mechanism for major crises,
- review of the technology and standards monitoring mechanism,
- review of the definition and monitoring of cost reduction programs,
- review of the Chairman's draft report on procedures for internal audit and risk management;

#### 3) Statutory Auditors:

- review of the 2012/2013 external audit schedule,
- review of the fees paid to the Statutory Auditors and their networks;

#### 4) Corporate Governance:

- establish the 2013-2015 schedule covering the work of the Audit Committee including its risk review,
- recommended dividend for 2012.

The Audit Committee reported to the Supervisory Board on its work in 2012 at the February 21, June 11 and 12, July 31, October 23 and December 18, 2012 meetings.

## Remunerations, Appointments and Human Resources Committee

### Members

The Supervisory Board's internal rules and procedures stipulate that the Remuneration, Appointments & Human Resources Committee must have at least three members. It is chaired by the Chairman of the Supervisory Board.

The Committee members are: Mr. Henri Lachmann, Chairman, Mr. Claude Bébéar, Mr. Léo Apotheker, Mr. Willy R. Kissling and Mr. Serge Weinberg.

### Operating procedures

Meetings are called by the Committee Chairman. The agenda is drawn up by the Chairman, after consulting the President and CEO. It meets at least three times a year.

The Committee may seek advice from any person it feels will help it with its work.

## Responsibilities

The Committee makes recommendations to the Supervisory Board concerning candidates for appointment to the Management Board, the Supervisory Board and the Committees. It also makes recommendations concerning the remuneration of members of the Management Board and the Chairman of the Supervisory Board, as well as concerning stock options and stock grants for members of the Management Board, and all other aspects of their remuneration "package".

Based on the proposals made by the Management Board, the Committee makes recommendations concerning the remuneration of Executive Committee members, the principles and methods for determining executive compensation, as well as the creation of stock option, bonus shares and employee stock ownership plans.

It is also responsible for examining succession plan solutions for members of the Management Board and Executive Committee.

It examines Human Resource policies and in particular:

- the Human Resource strategy and major action plans, including those relating to the talent policy and key skills (high potential, experts, occupations, etc.);
- the policy of giving employees a share in the Group's profits;
- the overall remuneration policy for managers and the remuneration packages of Executive Committee members.

It recommends the amount for attendance fees, which is established by the Annual Shareholders' Meeting, and the basis for their allocation.

The Committee recommends processes and procedures to reassure shareholders and the market that the Supervisory Board carries out its responsibilities objectively and independently.

It thus makes recommendations to the Supervisory Board regarding:

- the terms of reference of Supervisory Board committees;
- the determination and review of independence criteria applicable to Supervisory Board members;
- the assessments of the Supervisory Board's organization and procedures;
- application by the Company of national or international corporate governance practices.

The Remunerations, Appointments and Human Resources Committee presents the Board with the results of its work and actions it proposes. The minutes of these meetings are circulated to members of the Supervisory Board.

## Meetings in 2012

In 2012, the Supervisory Board's Remuneration, Appointments and Human Resources Committee met five times. The attendance rate by its members was 93%. It reported on its work to the Supervisory Board at the February 21, June 11 and 12, July 31, October 23 and December 18, 2012 meetings.

The Remuneration, Appointments & Human Resources Committee made recommendations to the Supervisory Board concerning:

- the membership of the Supervisory Board and of its committees and the classification of members on the basis of the independence criteria;
- the succession of the Chairman of the Supervisory Board;
- the remuneration of members of the Management Board (amount, structure of 2012 remuneration, 2012 targets, and level of achievement of 2011 targets);
- renewing the status of the Chairman of the Management Board;
- the changes to the top-up pension plan for French senior executives and their outsourcing;
- on the 2013 long term incentive plan;
- the implementation of the annual long term incentive plan and the allocation of performance shares to members of the Management Board, in accordance with the AFEF/MEDEF guidelines of October 6, 2008;
- the launch in 2013 of a new employee share issue;
- organization and operation of the Board in the light of the results of the three-year appraisal.

The Committee also reported to the Board on:

- the review of the work of the Management Board and the assessment of the performance of its members;
- the review of the performance of members of the Executive Committee;
- the review of succession plans for members of the Management Board and members of the Executive Committee;
- the review of the development of the Group;
- the review of the policy of male/female equal opportunities and remunerations;
- the remuneration policy of Executive Committee members;
- the review of the draft report from the Chairman on corporate governance.



## > 5. Management Board members

The bylaws stipulate that the Management Board may have between two and seven members.

The Management Board and its Chairman are appointed by the Supervisory Board. Membership on the Management Board is for three years and renewable.

The age limit for holding office as a member of the Management Board is 65. When a member reaches the age of 65, the Supervisory Board may extend his or her term several times provided that the total extension does not exceed three years.

The Management Board consists of two members: Mr. Jean-Pascal Tricoire, Chairman, and Mr. Emmanuel Babeau. It is appointed by the Supervisory Board for a three-year term. Given that the Management Board mandate will expire on May 2, 2012, at its meeting of February 21, 2012 the Supervisory Board decided to renew its appointment beginning May 3, 2012 for a further three years expiring on May 2, 2015.

### Chairman of the Management Board

#### Mr. Jean-Pascal Tricoire

Age: 49 years old

Business address:  
Schneider Electric  
35, rue Joseph Monier  
92500 Rueil-Malmaison - France

**125,064 <sup>(1)</sup> Schneider Electric SA shares**

First appointed: 2006/Term ends: 2015

### Member of the Management Board

#### Mr. Emmanuel Babeau

Age: 45 years old

Business address:  
Schneider Electric  
35, rue Joseph Monier  
92500 Rueil-Malmaison - France

**11,717 <sup>(1)</sup> Schneider Electric SA shares**

First appointed: 2009/Term ends: 2015

### Directorships and other functions in French and foreign companies

- Currently:  
Chairman of the Management Board of **Schneider Electric SA**; Chairman and Chief Executive Officer of Schneider Electric Industries SAS; Chairman of the Board of Directors of Schneider Electric USA, Inc.; Chairman of the Board of Directors of SEAP.
- Previous directorships and functions held in the past five years: none.

### Experience and qualifications

After graduating from ESEO Angers and obtaining an MBA from EM Lyon, Jean-Pascal Tricoire spent his early career with Alcatel, Schlumberger and Saint-Gobain. He joined the Schneider Electric Group (Merlin Gerin) in 1986. Between 1988 and 1999, he held a variety of line positions with international subsidiaries: in Italy (five years), China (five years) and South Africa (one year). He held corporate positions from 1999 to 2001: Director in charge of Strategic Global Accounts and the "Schneider 2000+" strategic plan. From January 2002 to the end of 2003, he was Executive Vice-President of Schneider Electric's International Division. In October 2003, he was appointed Chief Operating Officer, before becoming Chairman of the **Schneider Electric SA** Management Board on May 3, 2006.

### Directorships and other functions in French and foreign companies

- Currently:  
Chairman of the Board of Directors of Schneider Electric Services International; Director of Schneider Electric Industries SAS, Schneider Electric France and Schneider Electric USA.
- Previous directorships and functions held in the past five years:  
Group Deputy Managing Director in charge of Finance at **Pernod Ricard**.

### Experience and qualifications

Emmanuel Babeau graduated from ESCP and began his career at Arthur Andersen in 1990. In 1993, he joined the Pernod Ricard group as an internal auditor. He was appointed head of Internal Audit, the Corporate Treasury center and consolidation in 1996. Mr. Babeau subsequently held several executive positions at Pernod Ricard, notably outside France, before becoming Vice-President, Development in 2001, CFO in June 2003 and Group Deputy Managing Director in charge of Finance in 2006. He joined Schneider Electric in the first half of 2009.

*Note: bold indicates the names of companies whose securities are listed on a regulated market.*

*(1) Directly or through the FCPE.*

## > 6. Organizational and operating procedures of the Management Board

The Management Board has the broadest powers in relation to third parties to act in all circumstances in the Company's name within the limits of the corporate purpose, except for those powers that are specifically vested in the Supervisory Board and the Shareholders' Meeting under French law.

Under French law and pending, when necessary, with the Supervisory Board's authorization, the Management Board:

- approves the annual and interim financial statements and related management reports;
- calls Shareholders' Meetings;

- decides share issues and capital reductions, pursuant to an authorization given by shareholders in the Extraordinary Meeting;
- allocates stock options and makes stock grants, pursuant to an authorization given by shareholders in the Extraordinary Meeting;
- decides to carry out bond issues.

The Management Board has adopted internal rules and procedures that organize its activities and its relations with the Supervisory Board. It is not enforceable against third parties.

The Management Board met 16 times during 2012.



## > 7. Declarations concerning the situation of the members of the Supervisory Board and Management Board

The members of the Supervisory Board and Management Board together hold 0.05% of the Company's capital and 0.05% of the voting rights.

Jean-Pascal Tricoire is Chairman of the Board of Directors of Schneider Electric Industries SAS, Chairman of the Board of Directors of Schneider Electric USA and Chairman of the Board of Directors of SEAP. He receives compensation for the last two duties.

Emmanuel Babeau has a service contract with Schneider Electric Industries SAS and is Chairman of the Board of Directors of Schneider Electric Services International. He receives compensation for these duties.

Magali Herbaut has a service contract with Schneider Electric Industries SAS.

### Service contracts

None of the members of the Supervisory Board or Management Board has a service contract with the Company or any of its subsidiaries providing for benefits upon termination of employment.



## Conviction or incrimination

To the best of the Company's knowledge, in the last five years, none of the members of the Supervisory Board or Management Board has been:

- the subject of any convictions in relation to fraudulent offences or of any official public incrimination and/or sanctions by statutory regulatory authorities;
- disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of an issuer;
- involved, as a member of an administrative, management or supervisory body or a partner, in a bankruptcy, receivership or liquidation.

## Family ties

To the best of the Company's knowledge, none of the members of the Supervisory Board or Management Board are related.

## Conflicts of interest

To the best of the Company's knowledge, there are no arrangements or understandings with major shareholders, customers, suppliers or others pursuant to which a member of the Supervisory Board or Management Board has been selected as a member of an administrative, management or supervisory body or a member of Senior Management.

To the best of the Company's knowledge, there are no conflicts of interest between any duties of the members of the Supervisory

Board or Management Board to the Company and their private interests or other duties.

To the best of the Company's knowledge, the members of the Supervisory Board and Management Board have no restrictions on selling their Company shares aside from those stipulated in stock option and stock grant plans (see page 262 and following) for members of the Management Board and a minimum 1,000 shareholding requirement for members of the Supervisory Board.

# > 8. Management interests and compensation

## Corporate officers and Executive Committee compensation policy\*\*

The general principles underlying the Senior Management compensation policy and the situation of each executive are reviewed by the Remunerations, Appointments and Human Resources Committee and presented to the Supervisory Board.

The policy's aims are to:

- retain and motivate the best talents;
- reward individual and collective performance;
- align overall compensation with the Group's results.

The variable remuneration in 2012, expressed in terms of a percentage of the fixed element, is linked to the attainment of objectives set out at the beginning of the financial year. There can be quite a considerable variation in amounts depending on the degree of attainment of objectives. This fluctuation can vary from 0% to 180% of the fixed remuneration for members of the Executive Committee and 0 to 220% for the Chairman of the Management Board. The variable remuneration is therefore of a distinctly random nature.

The variable remuneration of Executive Committee members is determined as follows:

- 35% is determined by the Group's overall performance, as measured in terms of operating margin, organic growth, cash generation ratio and customer satisfaction rates;
- 65% is based on the performance of the executive's unit (economic targets), as measured on the basis of collective targets (development of solutions, the Company's social responsibility, people development) and on the attainment of measurable personal goals set for them.

The remuneration of the Management Board members is set by the Supervisory Board based on the recommendations of the Remunerations, Appointments and Human Resources Committee.

The variable remuneration of the Management Board members is determined as follows:

- 70% is determined by the Group's overall performance, as measured in terms of operating margin, organic growth, cash

generation ratio, solutions development, customer satisfaction rates, corporate social responsibility and people development;

- 30% is based on the attainment of measurable individual performance targets.

Senior Executives benefit from Performance Shares under the annual long term incentive plan. Since December 2009, stock options are no longer allocated.

As part of this long term incentive plan, 100% of the shares and/or SARs allocated to members of the Management Board since January 2009 and to members of the Executive Committee since December 2011 are subject to performance conditions. The level of performance achievement is controlled by the external auditors and reviewed by the Remunerations, Appointments and Human Resources Committee and the Audit Committee.

Details of these long term incentives are set out on pages 263, 265, 279 and 280.

## Pension benefits\*\*

French members of the Executive Committee are covered by the Group's supplementary pension Scheme (article 39) and, with the exception of Jean-Pascal Tricoire, supplementary defined-contribution pension plans (article 83) for employees and/or Group executives. The annuities from defined-contribution plans are deducted from the pension supplement of the defined-benefit Scheme.

The defined-benefit Scheme is based on:

- a supplementary pension scheme for Schneider Electric senior executives implemented in 1995 (former scheme). This plan was closed to new entrants with effect from July 1, 2012. It was externalized in 2012 with AXA;
- a new supplementary pension scheme for senior executive members of the Executive Committee in force on April 30, 2012 (new scheme) and externalized with AXA.

Rights under the new scheme are gradually replacing those of the former scheme. They are not added.

The former scheme provides for a pension supplement of a maximum amount equal to 60% <sup>(1)</sup> of the difference between the average reference salary (i.e. the average of the base salary and bonus of the three calendar years prior to retirement) plus the total pension amounts granted under external plans (compulsory and other plans, where applicable). The pension plus the additional pensions from defined-contribution plans may not exceed 25% of the average reference salary. The former scheme, subject to conditions, a reversion right to 60% for the surviving spouse. Under the life & disability section, an annuity for the spouse is paid if the executive dies before the retirement age. In the event of

disability occurring in the course of business, the executive has a right to a pension supplement as of his/her sixtieth birthday.

The new scheme has been implemented in 2012. It is opened to Executive Committee and Board members. It provides for a progressive vesting of rights according to time of service in the Group and on the Executive Committee. Full rights are granted after 15 years of service for a new entrant to the scheme, apart for prior seniority within the Group. The new scheme is contingent upon completing a career in the Company with the same flexibility introduced by Social Security administration in 2004. Therefore, conditional assurance of an income is maintained in case of board termination, producing the same effects as employee redundancy, after 55 years of age without restarting an activity or for 2<sup>nd</sup> or 3<sup>rd</sup> category disability as defined by Social Security without restarting an activity.

For the rest, the new scheme includes the provisions of the former scheme, notably:

- limiting the top-hat pension to 25% of the reference salary considering the pension paid under article 83 plans implemented by the Group (unchanged from former plan);
- the right to a widow/widower's pension for the surviving partner;
- a spouse's pension if a senior executive dies before retirement age, although limited to rights acquired by the date of death;
- pension supplement paid to a senior executive from the retirement date after disability occurring during work activities.

Non-French members of the Board of Directors are covered by pension plans in line with local practices in their respective countries.



## Compensation of the Supervisory Board members

### Chairman of the Supervisory Board

Based on the recommendation of the Remunerations, Appointments and Human Resources Committee, at its meeting on April 22, 2010, the Supervisory Board decided to set the annual compensation of its Chairman at EUR500,000, not including the attendance fees paid to Supervisory Board members.

The Chairman of the Supervisory Board does not receive any stock option or performance share grant and will not be entitled to any payment on leaving the Board.

In 2012, Mr. Henri Lachmann was paid:

- in his capacity as Chairman of the Supervisory Board: EUR500,000;
- in attendance fees for 2012: EUR60,000;
- under the Company's pension plan for senior executives: EUR578,977.

Mr. Lachmann has a Company car and may also use the chauffeur-driven Company cars made available to the Group's Senior Management. This benefit in kind can be estimated for the entire financial year at EUR2,312.

(1) The maximum amount is defined as follows: 50% if the number of years of service is less than or equal to five years, plus 1% per year from the sixth year of service for Senior Manager status.

### Members of the Supervisory Board

The Annual Shareholders' Meeting set total attendance fees at EUR1 million. The Supervisory Board has decided to allocate these fees as follows:

- Board members and non-voting members resident in France receive a basic fee of EUR15,000 and members resident outside France receive double this amount;
- Board members receive an attendance fee of EUR5,000 for each meeting they attend;
- Board members who sit on the committees of the Board receive a fixed fee of EUR15,000, with the Audit Committee Chairman receiving double this amount.

On this basis, attendance fees paid in respect of 2011 and 2012 were as follows:

Supervisory Board members	Amounts paid for the financial year 2012 <sup>(1)</sup>	Amounts paid for the financial year 2011 <sup>(1)</sup>
<b>Mr. LACHMANN</b>		
Attendance fees	EUR60,000	EUR70,000
Other	EUR500,000	EUR500,000
<b>Mr. APOTHEKER</b>		
Attendance fees	EUR60,000	EUR75,000
Other		
<b>Ms. ATKINS</b>		
Attendance fees	EUR50,000	EUR61,000
Other		
<b>Mr. BÉBÉAR <sup>(2)</sup></b>		
Attendance fees	EUR15,000	EUR15,000
Other		
<b>Mr. BRIQUET</b>		
Attendance fees	EUR15,080	-
Other		
<b>Mr. FONTANET</b>		
Attendance fees	EUR90,000 <sup>(3)</sup>	-
Other		
<b>Mr. FORGEARD</b>		
Attendance fees	EUR60,000	EUR70,000
Other		
<b>Mr. GALLOT</b>		
Attendance fees	EUR20,160	EUR70,000
Other		
<b>Mr. GOSSET-GRAINVILLE</b>		
Attendance fees	EUR39,840	-
Other		
<b>Ms. HERBAUT</b>		
Attendance fees	EUR34,920	-
Other		
<b>Mr. KIM</b>		
Attendance fees	EUR60,000	EUR61,000
Other		
<b>Mr. KISSLING</b>		
Attendance fees	EUR75,000	EUR85,000
Other		
<b>Ms. KOPP</b>		
Attendance fees	EUR45,000	EUR50,000
Other		

<b>Mr. de La MARTINIÈRE</b>		
Attendance fees	EUR75,000	EUR85,000
Other		
<b>Mr. MAHINDRA <sup>(4)</sup></b>		
Attendance fees	-	EUR29,600
Other		
<b>Ms. SÉNÉQUIER</b>		
Attendance fees	EUR30,000	EUR40,000
Other		
<b>Mr. THOMAN</b>		
Attendance fees	EUR60,000	EUR65,000
Other		
<b>Mr. WEINBERG</b>		
Attendance fees	EUR60,000	EUR60,000
Other		

(1) Attendance fees for the year are paid at the beginning of the financial year n+1.

(2) Non-voting member.

(3) The Supervisory Board of December 18, 2012 decided to double the amount of the attendance fees of Mr. Xavier Fontanet to take into account the time that he dedicated to deepening his knowledge of the Group and its strategy, and the travel that he undertook to that end (China, United States, Spain and Grenoble).

(4) Mr. Mahindra resigned of his function on June 21, 2011.



## Compensation and Performance Shares for Management Board members

Based on the recommendation of the Remunerations, Appointments and Human Resources Committee, at its meetings on December 15, 2011, February 21, 2012 and February 20, 2013, the Supervisory Board set the annual compensation for the members of the Management Board.

### Chairman of the Management Board – Jean-Pascal Tricoire

At its meetings of December 15, 2011 and February 21, 2012, the Supervisory Board:

- decided to set the annual 2012 salary of Jean-Pascal Tricoire at EUR900,000 and his target variable remuneration at 110% of this amount, with a maximum of 220%;
- authorized, as part of the long-term incentive plan for 2012, an allocation of 50,000 performance shares under plan 13. The allocation of these shares is entirely dependent on attaining Group performance criteria, in compliance with the AFEP/MEDEF recommendations. These Performance Shares are also subject to lock-up arrangements (see page 262).

At its meeting of February 21, 2012 the Supervisory Board set the following targets:

- Group: one component of Group financial objectives (organic growth, adjusted EBITA, cash generation), one component of objectives aligned with the Connect company program and one component of objectives aligned with Corporate Social Responsibility;

- individuals: control profitability and cash conversion, implementation of the Connect Company program, implementation of the new organization, integration of acquisitions, develop and grow profitability of Solutions.

Based on these elements, at its meeting of February 20, 2013, the Supervisory Board set the variable remuneration for 2012 at 168.60% of base salary, which is EUR1,517,400.

### Member of the Management Board – Emmanuel Babeau

At its meetings of December 15, 2011 and February 21, 2012, the Supervisory Board:

- decided to set Mr. Babeau's total fixed annual salary for 2012 at EUR500,000 and his target variable remuneration at 90% of this amount, with a maximum of 180%;
- authorized, as part of the long-term incentive plan, an allocation of 22,000 performance shares under plan 13. The allocation of these shares is entirely dependent on attaining Group performance criteria, in compliance with the AFEP/MEDEF recommendations. These shares are also subject to lock-up arrangements (see page 262).

Based on these elements, at its meeting of February 20, 2013, the Supervisory Board set the variable remuneration for 2012 at 131.40% of base salary, which is EUR657,000.

## Overview of Management Board Global compensation and Performance shares

Summary of remunerations, stock options and shares granted to each corporate officer for the financial year

<b>Jean-Pascal Tricoire, Chairman of the Management Board</b>	<b>Financial year 2012</b>	<b>Financial year 2011</b>
Remuneration for the financial year	2,417,400	2,107,097
Valuation of options granted during the financial year	-	-
Value of performance shares <sup>(1)</sup> granted during the financial year	1,694,500	2,565,000
<b>TOTAL</b>	<b>4,111,900</b>	<b>4,666,097</b>

<b>Emmanuel Babeau, member of the Management Board</b>	<b>Financial year 2012</b>	<b>Financial year 2011</b>
Remuneration for the financial year	1,162,012	1,021,667
Valuation of options granted during the financial year	-	-
Value of performance shares <sup>(1)</sup> granted during the financial year	745,580	1,026,000
<b>TOTAL</b>	<b>1,907,592</b>	<b>2,047,667</b>

*(1) The valuation of performance shares correspond to a measurement carried out in application of IFRS 2 and not remuneration actually received during the financial year. Income from these performance shares is subject to the attainment of performance criteria.*

### Summary table of the remuneration of each corporate officer

<b>Jean-Pascal TRICOIRE</b>	<b>Financial year 2012</b>		<b>Financial year 2011</b>	
<b>Chairman of the Management Board</b>	<b>Amounts due for the financial year</b>	<b>Amounts paid during the financial year</b>	<b>Amounts due for the financial year</b>	<b>Amounts paid during the financial year</b>
Fixed remuneration	900,000	900,000	900,000	900,000
Variable remuneration	1,517,400	1,197,900	1,197,900	1,468,800
Exceptional remuneration	-	-	-	-
Attendance fees	-	-	-	-
Benefits in kind (Company car)	-	-	3,197	3,197
<b>TOTAL</b>	<b>2,417,400</b>	<b>2,097,900</b>	<b>2,101,097</b>	<b>2,371,997</b>

<b>Emmanuel BABEAU</b>	<b>Financial year 2012</b>		<b>Financial year 2011</b>	
<b>Member of the Management Board</b>	<b>Amounts due for the financial year</b>	<b>Amounts paid during the financial year</b>	<b>Amounts due for the financial year</b>	<b>Amounts paid during the financial year</b>
Fixed remuneration	500,000	500,000	500,000	500,000
Variable remuneration	657,000	516,150	516,150	709,650
Exceptional remuneration	-	-	-	-
Attendance fees	-	-	-	-
Benefits in kind (Company car)	5,012	5,012	5,517	5,517
<b>Total</b>	<b>1,162,012</b>	<b>1,021,162</b>	<b>1,021,667</b>	<b>1,215,167</b>

**Grant of options to purchase or subscribe shares during the financial year to each corporate officer by the issuer and by any company in the Group**

No option to subscribe new shares or purchase existing shares was granted during the 2012 financial year.

### Performance shares allocated during the financial year to each corporate officer by the issuer

No performance shares were granted for 2013 during the 2012 financial year. As a reminder, Schneider Electric's practice since 2005 is to implement, in December of each year, a long-term incentive plan in the framework of the following year. However, to allow alignment of allocations with a review of the personal situations of employees, it was decided to postpone the implementation of long-term incentive plans to the end of March.

For a complete understanding of the information reported in the summary of the compensation, performance shares received by each corporate officer (see page 134), the allocations made in 2011 (for 2012) are disclosed hereinafter.

	Plan no.	Plan date	Number of shares granted	Unit valuation IFRS 2	Vesting Date	Date of availability
Jean-Pascal TRICOIRE	13	12/16/2011	50,000	EUR33.89	03/17/2014	03/18/2016
Emmanuel BABEAU	13	12/16/2011	22,000	EUR33.89	03/17/2014	03/18/2016

	<b>Plan 13</b>					
Performance criteria	100% of the shares - 2012 and 2013 operating margin excluding restructuring costs and change in the Planet & Society Barometer at the end of 2013					



### Benefits received by members of the Management Board

Management Board corporate officers	Employment contract		Supplementary pension benefit		Payments or benefits may be due in the event of termination or change of function		Payments in relation to a non-compete agreement	
	Yes	No	Yes	No	Yes	No	Yes	No
Jean-Pascal TRICOIRE								
Chairman of the Management Board and CEO	See hereafter "Chairman of the Management Board and CEO"		See above "Pension benefits"		See hereafter "Chairman of the Management Board and CEO"		See hereafter "Chairman of the Management Board and CEO"	
May 3, 2009								
May 2, 2012								
Emmanuel BABEAU								
Member of the Management Board	See hereafter "member of the Management Board"		See above "Pension benefits" <sup>(1)</sup>		See hereafter "member of the Management Board"		See hereafter "member of the Management Board"	
May 3, 2009								
May 2, 2012								

(1) The contribution paid in 2012 to the defined contribution retirement plan was EUR23,562.



## Exercise of options and performance shares made available during the financial year

Exercise of options to purchase or subscribe shares during the financial year by each corporate officer

	Plan no.	Plan date	Number of options exercised	Strike price	Strike date
Jean-Pascal TRICOIRE	24	5/6/2004	40,838	EUR27.77	2/23/2012
	26	6/28/2005	201,962	EUR30.09	12/28/2012
	27	12/1/2005	201,962	EUR35.70	12/28/2012

Performance shares made available for each corporate officer

Name	Plan no.	Plan date	Number of shares made available during the financial year	Date of availability	Conditions of acquisition
Jean-Pascal TRICOIRE	3	12/19/2007	6,750	12/18/2012	50% of shares – operating margin and revenue for financial years 2008 and 2009
Emmanuel BABEAU			None		

### Chairman of the Management Board – Jean-Pascal Tricoire

In accordance with AFEP/MEDEF guidelines, Mr. Jean-Pascal Tricoire resigned from his employment contract when he was reappointed Chairman of the Management Board on May 3, 2009. The Supervisory Board has defined the benefits granted to him as Chairman of the Management Board. Under the terms of his new status according to TEPA Law, approved by the Annual Shareholders' Meeting of May 3, 2012, Mr. Jean-Pascal Tricoire:

1°) will continue to benefit from:

- the Schneider Electric SA and Schneider Electric Industries SAS employee benefit plan, which offers health, incapacity, disability and death cover,
- the supplementary health, incapacity, disability and death cover available to the Group's French senior executives. The benefits of these contingency and supplementary cover compensations are, however, subject to performance criteria,
- the Top-Hat pension scheme for the Group's Senior Management described in the Supervisory Board Chairman's report in accordance with article L.225-68 of the French Commercial Code (see page 131);

2°) Mr. Tricoire will be due compensation in the event of termination, capped at two years of the mathematical average of the effective annual remuneration (fixed and variable) for the last three years, taking into account compensation provided for in the non-compete agreement described below. The amount due will be subject to performance criteria.

Compensation will be due in the event that:

- (i) Mr. Tricoire resigns, is dismissed or is not reappointed as a member or Chairman of the Management Board in the 12 months following a material change in Schneider Electric's shareholder structure that could change the membership of the Supervisory Board,

(ii) Mr. Tricoire resigns, is dismissed or is not reappointed as a member or Chairman of the Management Board following a reorientation of the strategy pursued and promoted by him until that time, whether or not in connection with a change in Schneider Electric's shareholder structure as described above,

(iii) Mr. Tricoire is asked to resign, is dismissed or is not reappointed as a member or Chairman of the Management Board when the mathematical average of the rate of achievement of performance objectives used to calculate his variable bonus was 50% or higher in the four full financial years preceding his departure (or, if he has been a member and Chairman of the Management Board for less than four years, in the number of full financial years since his appointment). Nevertheless, the compensation will not be due if the dismissal or resignation requested is motivated by serious or gross misconduct according to the criteria adopted by case law. NB: This specification was included by the Supervisory Board of May 3, 2012. It is subject to the approval of the Shareholders' Meeting of April 25, 2013.

Payment of compensation will depend on the mathematical average of the rate of achievement of performance objectives used to determine the variable portion of Mr. Tricoire's remuneration for the three full years preceding the date of the Board meeting at which the decision is made.

If the mathematical average of Group performance objectives rate is:

- less than 50% of the target: no compensation will be paid,
- equal to 50% of the target: he will receive 75% of the Maximum Amount,
- equal to 100% of the target: he will receive 100% of the Maximum Amount,
- between 50% and 100%: he will receive between 75% and 100% of the Maximum Amount calculated on a straight-line basis according to the rate of achievement.

To date, the achievement rate of Group performance objectives for the previous three financial years is, on average, 134.8%. These objectives were based on the Group's overall performance (operating margin, organic growth, cash generation ratio and customer satisfaction rate);

- 3°) is bound by his non-compete agreement should he leave the Company, unless a mutually agreeable arrangement is found; the agreement is for a period of one year and is remunerated (60% of target remuneration: fixed and bonus);
- 4°) retains forthwith, subject to performance criteria, the benefit of his stock options, stock grants and performance shares granted to him or that will be granted to him, should he leave the Company. The performance condition is defined as follows; the average rate of attainment of the Group targets that determine Jean-Pascal Tricoire's variable remuneration calculated for the last three financial years at the time of his departure, which should be at least 50% of the target.

Travel and business expenses for Jean-Pascal Tricoire are assumed by the Group, as well as the costs of his professional and personal organization. He may use the chauffeur-driven Company cars made available to Group Senior Management.

### Emmanuel Babeau

Under his employment contract with Schneider Electric Industries SAS, Emmanuel Babeau is covered by the supplementary pension scheme for senior executives in France (see above) and is also entitled to a termination benefit should the employer terminate the contract or if, following a significant change in equity ownership, he decides to resign. This termination benefit, including the benefit provided for in the industry collective bargaining agreement (Convention Nationale des Ingénieurs et Cadres de la Métallurgie), is capped at two years of his target annual compensation (salary plus target variable bonus).

Should Mr. Babeau leave the Company for any reason, the Company may evoke the non-compete agreement in his employment contract and the provisions of the industry collective bargaining agreement (Convention Nationale des Ingénieurs et Cadres de la Métallurgie), which call for monthly payment of an amount equivalent to 50% or 60% of the average monthly compensation for the last twelve months of presence (salary plus paid bonus). This payment is due for one year, renewable once.

Mr. Babeau's travel and entertainment expenses are reimbursed by the Company. He may use the chauffeur-driven Company cars made available to Group Senior Management and also has the use of a Company car. This benefit in kind is estimated at EUR5,012.



## Compensation paid to members of Senior Management other than Management Board members

### Senior Management in 2012

The Senior Management team consists of the Management Board, assisted by the Executive Committee. The 14 member Executive Committee is chaired by the Chairman of the Management Board. In addition to the members of the Management Board, it comprises:

- the Executive Vice-Presidents of the Global Functions: Information System, Marketing, Strategy & Innovation, Global Human Resources – Global Supply Chain;
- the Executive Vice-Presidents of the businesses: Global Operations – North America Operations & Buildings, China Operations – Industry – Infrastructure – IT – Custom Sensors & Technologies.

### Senior Management compensation in 2012

In 2012, gross compensation, including benefits in kind, paid by Group companies to members of Senior Management other than Management Board members, amounted to EUR12.7 million, including EUR5.4 million in variable remuneration for the 2011 financial year. Group objectives for the financial year in question were:

- organic growth;
- operating margin;
- cash flow;
- customer satisfaction and dissatisfaction.

### Long term Incentives

No performance shares were granted in 2012. As a reminder, Schneider Electric's practice since 2005 is to implement, in December of each year, a long-term incentive plan in the framework of the following year. However, to allow alignment of allocations with a review of the personal situations of employees, it was decided to postpone the implementation of long-term incentive plans to the end of March.

As of December 31, 2012 as part of the annual long term incentive plan, members of Senior Management other than Management Board members held:

- 248,500 performance shares including 194,202 that are conditional;
- 407,148 options;
- 701,498 Stock Appreciation Rights (SARs), of which 291,360 are conditional.

## Transactions in Schneider Electric SA shares by Senior Management and corporate officers during the 2012 financial year

### Transactions disclosed in application of article 621-18-2 of the French Monetary and Financial Code

Date	Name	Transaction type	Unit price	Total transaction amount
12/28	Jean-Pascal Tricoire	Exercise of stock options	EUR35.70	EUR7,210,043
12/28	Jean-Pascal Tricoire	Exercise of stock options	EUR30.09	EUR6,077,037
12/24	Jean-Pascal Tricoire	Disposal	EUR55.2873	EUR1,409,826
12/19	Henri Lachmann	Exercise of stock options	EUR30.09	EUR9,027,000
11/21	Jeong H. Kim	Acquisition	EUR51.24	EUR11,936
11/19	Jeong H. Kim	Acquisition	EUR49.80	EUR13,398
12/7	Henri Lachmann	Exercise of stock options	EUR30.09	EUR1,066,390
12/5	Magali Herbaut	Disposal of shares resulting from stock options	EUR54.3378	EUR109,762
12/5	Magali Herbaut	Exercise of stock options	EUR30.09	EUR60,782
10/29	Dominique Sénéquier	Acquisition	EUR48.09	EUR24,045
10/4	Betsy Atkins	Acquisition	USD63.19	USD31,570
9/28	Antoine Gosset-Grainville	Acquisition	EUR48.32	EUR48,320
9/24	Xavier Fontanet	Acquisition	EUR48.4863	EUR36,365
9/26	Cathy Kopp	Acquisition	EUR48.2168	EUR21,697
9/4	Jean-Pascal Tricoire	Disposal	EUR50.18	EUR2,308
7/19	Henri Lachmann	FCPE subscription	EUR36.66	EUR230,000
7/19	Magali Herbaut	FCPE subscription	EUR36.66	EUR25,704
7/19	Jean-Pascal Tricoire	FCPE subscription	EUR36.66	EUR134,628
7/19	Emmanuel Babeau	FCPE subscription	EUR36.66	EUR4,652
6/1	Serge Weinberg	Acquisition	EUR42.14	EUR1,686
5/31	Xavier Fontanet	Acquisition	EUR42.565	EUR10,641
3/6	Henri Lachmann	Exercise of stock options	EUR27.77	EUR1,837,152
2/23	Jean-Pascal Tricoire	Disposal	EUR48.65	EUR1,986,769
2/23	Jean-Pascal Tricoire	Exercise of stock options	EUR27.77	EUR1,134,071

## > 9. Regulated Agreements

At its meeting of January 6, 2006, the Board of Directors authorized the signature of a shareholders' agreement between AXA and Schneider Electric SA. The agreement called for the continuation of stable cross-shareholdings between the two groups. In particular, Schneider Electric SA undertook to hold no less than 8.8 million AXA shares, or 0.4% of AXA's capital, while AXA undertakes to hold no less than 2.6 million Schneider Electric SA shares or 1% of Schneider Electric SA's capital. Each group also holds a call

option that may be exercised in the event of hostile takeover by the other group. This agreement was entered into for a period of one year and renewable tacitly. It was approved by the Annual Shareholders' Meeting of April 26, 2007. On December 22, 2011 AXA and Schneider Electric informed the AMF that they had decided not to renew this agreement. Consequently, it terminated on May 15, 2012. This cancellation was made public by the AMF on December 27, 2011.

As Jean-Pascal Tricoire agreed to resign from his employment contract with the Schneider Electric Group (where he had 22 years' seniority) when his term as Chairman of the Board was renewed in May 2009, the Supervisory Board defined his new status with his agreement. This status was approved at the Annual Shareholders' Meeting of April 23, 2009. In view of the renewal of his appointment as Chairman of the Management Board, the Supervisory Board decided to renew the status of Mr. Tricoire, but with two adjustments: first, to submit the benefit of supplementary contingency cover to performance conditions, and second, to provide that the benchmark for the calculation of involuntary severance pay is the arithmetic mean of the effective annual compensation for the last three years. This modified status of Jean-Pascal Tricoire was approved at the Annual Shareholders' Meeting of May 3, 2012. Under this status, Mr. Jean-Pascal Tricoire:

- benefits from the Top-hat Pension Benefit for Schneider Electric senior executives, the Schneider Electric SA employee benefit plan and the supplementary health, disability and death coverage available to the Group's senior executives;
- is bound by a non-compete agreement;
- is entitled to compensation in the event of termination, capped at twice the arithmetic mean of the effective annual compensation (fixed and variable) for the last three years, taking into account compensation provided for in the non-compete agreement provided for by the commitment described above and provided that he resigns, is dismissed or is not re-appointed following a material change in Schneider Electric's shareholder structure or a re-orientation of the strategy pursued and promoted by him until that time;

- retains, subject to performance criteria, all unvested stock options, stock grants and performance stock grants should he leave the Company.

At its meeting of May 3, 2012 the Supervisory Board made a change to this status. It decided to provide that involuntary severance pay will not be due if the dismissal or resignation requested of Mr. Tricoire is motivated by serious or gross misconduct according to the criteria adopted by jurisprudence.

At its meetings of April 23 and December 17, 2009, the Supervisory Board agreed that Emmanuel Babeau would continue to benefit from the top-hat pension benefit for senior executives provided under his employment contract with Schneider Electric Industries SAS. The Shareholders' Meeting of April 22, 2010 approved this benefit.

On February 21, 2012 the Supervisory Board gave the Management Board authorization to change the Top-hat Pension Benefit for the Schneider Group's directors to comply with the AFEP/MEDEF recommendations that provide for progressive acquisition of rights according to length of service. It has also given authorization for Management Board members to benefit from the modified plan.

The Supervisory Board of May 3, 2012 authorized the outsourcing of the old article 39 plans from AXA France Vie with effect from April 30, 2012. In addition, it authorized advancing the outsourcing of the new article 39 plan, which had been initially set for July 1, 2012, to that date of April 30, 2012 (see pages 273, 290 and 291).



## 10. Internal control and risk management\*\*

### 10.1 Definition and objectives of internal control and risk management

#### Definition and objectives

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

- compliance with laws and regulations;
- application of instructions and guidelines issued by Senior Management;
- the proper functioning of the Company's internal processes, notably as concerns asset preservation;
- the reliability of financial reporting;

and more generally, internal control helps the Group manage its businesses, run efficient operations and use its resources efficiently.

Internal control aims to prevent and manage risks related to the Group's business. These include accounting and financial risks,

the risk of fraud, as well as operating, financial and compliance risks. However, no system of internal control is capable of providing absolute assurance that these risks will be managed completely.

#### Scope of this report

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

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

### Internal control reference documents

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

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

### Information used to prepare this report

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

## 10.2 Organization and management: internal control key participants

In 2012, the Group's organizational chart rests on Senior Management, Global Functions and Operating Divisions defined in terms of businesses, geographical location, logistical or industrial responsibility. The Group's corporate governance bodies supervise the development of the internal control and risk management systems. The Audit Committee has particular responsibility for monitoring the system's effectiveness (see Committees of the Supervisory Board, Chapter 3 Section 4).

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

### Senior Management

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

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

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

### Internal Audit Department

The Internal Audit Department reports to the Management Board. It had an average staff of 15 people in 2012. The internal auditors are responsible for checking, at the level of each unit:

- the identification and control of risks;
- significant financial, management and operating information is accurate, reliable and timely;
- compliance with the Group's policies, standards, procedures and the applicable laws and regulations;
- compliance with the instructions of the head of the Group;
- acquisition of resources at a competitive cost, and their protection;
- correct integration and control of acquisitions.

Annual internal audit plans are drawn up based on risk and control concerns identified by Senior Management, taking into account the results of past audits, the work performed by the external auditors and the results of internal control self-assessments returned by the units. When necessary, the audit plan is adjusted during the year to include special requests from Senior Management. The internal audit process is described in Section "Control procedures" below.

After each internal audit, a report is issued setting out the auditors' findings and recommendations for the units or function audited. Measures are taken to monitor implementation of recommendations and specific audits are conducted if necessary.

The audit reports and the implementation of its recommendations are distributed to Senior Management and to the Audit Committee.

The external auditors also have access to the reports.

### Internal Control Department

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

- defining and updating the list of Key Internal Controls in close cooperation with the Global Functions and in line with the recommendation of the AMF reference framework;
- maintaining and leading a network:
  - internal business controllers in the Operating Divisions, with responsibility for ensuring the appropriation and implementation of the Key Internal Controls in the operating units within their scope – notably through training sessions and annual self-assessments,
  - internal regional controllers to carry out training in the units and on-site control of the accuracy of self-evaluations and the efficiency of the remediation plans implemented as a result of the previous year's self-evaluations, by the units coming within their geographic scope. After each internal control mission, a report is issued setting out findings and recommendations for the attention of the persons in charge of the unit audited,
  - the internal controllers in the Operating and Regional Divisions, in their respective assignments, act in close cooperation using standardized methods;



- organize and monitor the roll-out of self-assessment campaigns and internal audit, and implement action plans drawn up following the self-assessments and internal audit;
- analyzing and critically reviewing the results of these self-assessments to identify areas that require an action plan at the Group, Operating Division or Global Function level;
- leading the Internal Control Committee, comprising internal controllers from the Operating and Regional Divisions, as well as internal control correspondents from the Global Functions.

The Committee members work to improve internal control and adapt procedures in light of the results of self-assessments and changes in the business environment or organization.

### **Finance and Control - Legal Affairs Department**

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

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

- drafting and updating instructions designed to ensure that statutory and management accounting practices are consistent throughout the Group and compliant with applicable regulations;
- organizing period-end closing procedures;
- analyzing performance and tracking the achievement of targets assigned to the operating units.

The Management Control and Accounting unit is responsible for:

- the proper application of Group accounting principles and policies;
- the integrity of the consolidation system database;
- the quality of accounting and financial processes and data;
- training for finance staff in the form of specific seminars;
- drafting, updating and distributing the necessary documents for producing quality information.

The unit drafts and updates:

- a glossary of terms used by the Management Control and Accounting unit, including a definition of each term;
- the chart of accounts for reporting;
- a Group statutory and management accounting standards manual, which includes details of debit/credit pairings;
- a Group reporting procedures manual and a system user's guide;
- a manual describing the procedures to be followed to integrate newly acquired businesses in the Group reporting process;
- an intercompany reconciliation procedure manual;
- account closing schedules and instructions.

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

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

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

- the centralization of nearly all of the Treasury and Financing management of the Group;
- the distribution of rules for financial risk management and the security of incoming and outgoing payments;
- the annual review of balance-sheet changes and financial risks facing the Group's companies on an annual basis during formal financial review meetings.

Procedures for managing financial risk are described in "Risk Factors".

### **Operating Divisions and operating units**

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

All Group units report to one of the Operating Divisions, which are headed by an Executive Vice-President, supported by a financial controller.

The Executive Vice-Presidents of the Operating Divisions sit on the Executive Committee, which is chaired by the Chairman of the Management Board. The financial controllers report to the corporate Management Control and Accounting Unit.

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

A Management Committee led by the corporate Management Control and Accounting unit reviews the operations of the Operating Divisions on a monthly basis.

The Operating Divisions have teams of internal controllers who promote Key Internal Controls in the units within their scope and analyses the quality of the internal control self-assessments (including ratings and action plans) returned by the units.

They detect internal control issues that require action plans in some or all of the units under their responsibility. They also identify units that need specific assistance and either implement or oversee the implementation of the appropriate support.

They carry out monitoring of the remediation plans drawn up at the time of the self-evaluations and control assignments on site.

Lastly, the internal control teams offer suggestions for enhancing and updating the Key Internal Controls.

### **Global Functions (Human Resources, Purchasing, Manufacturing, Supply Chain, Information Systems, etc.)**

Schneider Electric centralizes decision-making and risk management at the corporate level through specific bodies such as the Group Acquisitions Committee (see "Risk Factors"), by combining certain





functions within the Finance and Control - Legal Affairs Department (see above) and through dedicated Global Functions.

An Innovation and Technology Council meets eight times per year to ensure cross-functional coordination among the Global Function for innovation and new products.

The Human Resources Department is responsible for deploying and ensuring the application of procedures concerning employee development, occupational health and work safety.

The Purchasing Department is responsible for establishing guidelines concerning purchasing organization and procedures; relationships between buyers and vendors; and procedures governing product

quality, service levels, and compliance with environmental standards and Group codes of conduct.

The Global Functions also issue, adapt and distribute policies, target procedures and instructions to units and individuals assigned to handle their specific duties.

The Global Functions have internal control correspondents who work with the Internal Control Department to establish and update the Key Internal Controls deployed across the Group. They analyze the results of self-assessments concerning the Key Internal Controls that fall within their Function's scope, identify internal control issues that require action plans and either implement or oversee the implementation of these plans.

### 10.3 Distributing information: benchmarks and guidelines

The main internal control benchmarks are available to all employees, notably on the Group intranet. The Global Functions send updates of these Reference Documents to the appropriate units and individuals through their networks of correspondents.

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

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

#### Principles of Responsibility

The Principles of Responsibility, initially published in 2002, were updated in 2009. Translated into the main languages used within the Group, given to all new employees and available on the Group's intranet, they are designed to guide employees in their decisions and actions. They define the Group's essential values and set out individual responsibility in respect of these values, laws and regulations. They also set out the interrogation and alert procedures. A Committee on Ethics and Responsibility has been set up, and correspondents appointed to steer action in this area, to make updates and to validate changes. The correspondents also answer employee questions that are not addressed in the document Our Principles of Responsibility or in the complementary documents that are available, or that managers are unable to answer (Companion guide, e-learning module, FAQ). (see "Sustainable development framework", Chapter 2 Section 2).

In addition, communication actions and Questioning and Alert process formalization actions have been undertaken since 2011, a "professional alert system" has been gradually implemented since 2011. The purpose of this new professional warning system is to allow all employees to launch an alert when in their judgment, they have been a witness to or victim of a breach of the rules of ethics and responsibility expressed in Our Principles of Liability.

In accordance with the legal requirements inherent in the use of such a system, an organization in charge of administration and of background investigation has been established. It is intended to ensure compliance with the protection of people and of those who issue alerts.

#### Insider code

This code sets out the rules to be followed by management and employees to prevent insider trading. It imposes an obligation of confidentiality on all employees who have access to confidential information and sets permanent restrictions on purchases and sales of Schneider Electric SA shares by persons who have access to price-sensitive information in the course of their work (see "Organizational and operating procedures of the Supervisory Board", Chapter 3 Section 2).

#### International internal auditing standards

The Schneider Electric internal auditors are committed to complying with the international standards published by the Institute of Internal Auditors (IIA) and other bodies.

#### International Financial Reporting Standards (IFRS)

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

The Group applies IFRS standards as adopted by the European Union as of December 31, 2012.

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

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

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

The Group statutory and management accounting standards manual and the IFRS principles are available on the Intranet.

### Commitment limits and authorizations

Current management practice applies the principle of subsidiarity, and commitment limits have been set for executives from Group level down to the individual units.

Thus, product or service purchase and sale contracts may only be signed by, or with the authorization of, operations correspondents who benefit from *ad hoc* authorizations which, in turn, are granted by their managers. Within this organizational framework, Business executives have the power to authorize the signature of product or service, purchase or sale contracts covering up to EUR10 million. Moreover, they enable their collaborators to authorize smaller amounts who they consider appropriate for the signature of such contracts.

Moreover, all transactions that may affect the Group's fundamental interests, due to their size or nature, must be authorized in advance by the Management Board or, in some cases, by the Supervisory Board. This rule applies in particular to all transactions affecting the scope of consolidation, purchases and sales of strategic assets, trademarks and patents, and off-balance sheet commitments.

### Statutory and management reporting principles

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

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

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

### Key Internal Controls

A list of Key Internal Controls was drawn up in 2008 and is expanded annually. Its 114 items cover:

- the control environment (Principles of Responsibility, Delegation of Powers, Separation of Functions, Business Continuity Plans and Retention of Records);
- operating processes (purchases, revenues, inventories, etc.);
- accounting and financial cycles;
- Human Resources, IT, Legal and Tax cycles.

The Key Internal Controls are available to all units on the Group Intranet, along with appendices with more detailed information, links to full policy descriptions on the Functions' Intranets, an explanation of the risks covered by each Key Internal Control and a self-assessment guide.

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



## 10.4 Risk identification and management

### General risks at the Group level

The Internal Audit Department uses interviews to update the list of general risks at the Group level each year. In 2012, 67 of the Group's top managers were interviewed.

The risks identified through these interviews are ranked by impact and probability of occurrence. The threat/opportunity aspect of each risk is also taken into account.

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

The risk matrix and the analysis of changes from one year to the next contribute to the development of an internal audit plan for the following year. The major and global risks were audited by the Internal Audit Department over a period of three years to assess action plans for managing and reducing these risks. In 2012, a third of the major and global risks identified at the end of 2011 were audited.

### Global risks at the Operating Division level

Each Operating Division assesses its global risks and ranks them by impact and probability of occurrence. It defines action plans for reducing the major risks identified.

The Internal Audit Department coordinates these assessments in the framework of the list of global risks at the Group level each year.

### Operating risks at the unit level

Operating risks are managed first and foremost by the units in liaison with the Operating Divisions, based on Group guidelines (notably the Key Internal Controls). Each subsidiary is responsible for implementing procedures providing an adequate level of internal control.

The Operating Divisions implement cross-functional action plans for operating risks identified as being recurrent in the units or as having a material impact at the Group level. The internal control system is adjusted to account for these risks as needed.

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

### Risk Solutions

The Risk Solutions Management Department defines and implements principles and tools designed to manage these risks.

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

### Risk management by the Risk and Insurance Department

The Risk and Insurance Department contributes to the internal control system by defining and deploying a Group-wide insurance strategy, as defined in "Risk Factors and Insurance Strategy." The insurance strategy includes the identification and assessment of the main insurable risks, the determination of levels of retention and transfer of such risks; it also defines and recommends measures to prevent these risks and protect assets.

### Risk management by the Safety Department

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

In this respect and in close cooperation with the Risk and Insurance Department, it is directly involved in assessing the nature of such risk as well as defining adequate prevention and protection measures.

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

It provides daily coordination with the Group's worldwide partner in the field of medical & security assistance (International SOS - start of contract in January 2011).

It brings its methodology to develop emergency plans (evacuation plans, crisis management plans, business continuity plans, etc.) and ensures coordination of the corporate crisis team (SEEC - Schneider Electric Emergency Coordination Center) each time that it is activated.

The Security Department is integrated in the "Fraud Committee" alongside the Internal Audit Department and the Legal Department and gets involved in combatting internal fraud (managing and carrying out internal investigations).

### Management of information system risks

An IT Security unit within the Information, Process and Organization Department defines and implements specific security policies for information systems. This department has specific skills in auditing the security of IT systems. After each site audit, a report is issued setting out findings and recommendations for the attention of the persons in charge of the unit audited.

## 10.5 Control procedures

This section describes specific measures taken in 2012 to improve the Group's control system.

### Operating units

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

Training in Key Internal Controls continued in 2012 for those involved for the first time in the annual self-evaluation process: newly promoted managers and units recently integrated. Operational units, trained by their line management undertook self-evaluation of compliance with the Key Internal Controls governing their scope of operations.

The self-assessments conducted during the 2012 campaign covered 90% of consolidated revenues and made it possible to define improvement plans in the operating units, when necessary. The ultimate goal is that these evaluations should cover at least 90% of consolidated revenue each year.

The self-assessments are conducted in the units by each process manager. Practices corresponding to the Key Internal Controls are described and performance is rated on a scale of 1 (non-compliance) to 4 (very good).

For all responses below 3 (compliance) on the scale, an action plan is defined and implemented to achieve compliance. These action plans are listed in the self-assessment report.

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

### Operating Divisions

To control the reliability of the financial statements and the alignment of performance with set targets, the Group relies on Senior Management's quarterly review process and procedures carried out by the Management Control and Accounting Unit to control the quality of accounting data provided by consolidated units (see "Internal Control organization and Management - Senior Management" and "Internal control procedures governing the production and processing of accounting and financial information").

In 2012, the Operating Divisions continued to provide training for the operating units on internal control issues and examined and challenged the self-assessments of internal control of these units. After analyzing the results, improvement plans were developed either for certain units or for certain Key Internal Controls at the Division level.

The regional internal controllers carried out controls on site as to the reliability of self-assessments of Internal Control and the efficiency of the remediation plans put in place as a result of the previous year's self-assessments.

## Global Functions

In 2012, the Global Functions continued to set guidelines, issue instructions and provide support.

For example:

- in 2012, the IT Security Department intensified its website tests referred to as "penetration testing". This skill set allows the vulnerability of websites to be identified and for remedial measures taken to limit the effects on any future attacks. In 2012, 15 sites were tested with the internal skill sets of the IT Security Department and 20 were tested using external expertise;
- in 2012, the IT Security Department created a platform to better address cyber threats. This platform can switch from a passive mode to a more proactive mode for detecting and responding to cyber-attacks. Under the project, equipment will be provided to about 200 sites, of which just over half had been carried out at the end of 2012;
- the Solution Risk Managers (Solution Risk Department) assist the Tender Managers in risk assessment and the definition of remediation measures during the preparation of offers. The offer approval circuit prior to submission of bids depends on the amount and nature of the residual risks;
- in 2012, the Security Department contributed to the creation of new Security Division in three areas:
  - Africa and the Middle East,
  - the Andes, comprised of Venezuela, Colombia and Ecuador,
  - India.

It has also formalized corporate governance for the protection of personal data in the form of Binding Corporate Rules (BCR). This governance was officially approved by the European personal data protection authorities in November 2012.

A network of "Personal Data Protection" country correspondents was also put in place for the implementation and operation of this governance;

- the Corporate Treasury Department has, to date, made the use of the Group secure payments tool available to 80 subsidiaries;
- a tool for issuing and managing bank guarantees was also developed to monitor these commitments, which are rapidly increasing with the growth of sales in the form of projects. The deployment of this tool primarily concerned companies in the Infrastructure Business and will be gradually extended to other Group companies concerned.

## Internal Control Department

Internal Control continued to deploy the Key Internal Controls – training and requests for self-assessments – throughout the Operating Divisions, with the scope extended to cover new units: 40% of the deficiencies identified during the 2011 campaign were deemed settled in 2012.

New deficiencies were identified owing to additional Key Internal Controls, which gave rise to further action plans.

Internal Control self-assessments were received and analyzed, which identified areas needing work in 2013 as part of the process of continuous improvement.

In addition to the analysis and action plans initiated by the Units and Operating Divisions, similar work is being carried out in the Global Functions. On the basis of the results obtained in their field, the various functions define and implement improvement actions as needed.

The list of Key Internal Controls continues to evolve. In 2012, the Key Internal Controls of certain processes (Purchasing, Information Systems, Credit Management, etc.) were modified according to the results of the self-assessments of the previous year and the adjustments necessary depending on changing activities and requirements.

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

The regional internal control organization introduced in 2011 consists in 2012 of 25 regional in-house controllers in three regions, who:

- perform the duties defined under Section Organization and management: key participant – Internal Control Department for the units in their regional scope, covering all Operational Departments;
- establish standardized procedures (e.g. for internal control assignments such as control cycles, documentation, scope definition, work programs etc.), in line with Internal Audit procedures;
- completed more than 80 on-site inspection missions in 2012 to assess the level of internal control and the adequacy of action plans, issuing the necessary recommendations when needed.

## Internal Audit Department

The Internal Audit Department contributes to the analysis and to strengthening the Internal Control System by:

- mapping global risks;
- verifying the effective application of Key Internal Controls during audit assignments;
- reviewing the audited unit's internal control self-assessment and related action plans.

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

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

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



In 2012, Internal Auditing performed 27 audits, including:

- audits of units;
- audits of a number of risks or operating processes;
- post-acquisition audits for newly acquired companies;
- analyses of control self-assessments by the audited units;
- follow-up audits to ensure recommendations are applied;
- assistance assignments.

### Committee on Ethics and Responsibility

The Committee on Ethics and Responsibility steers action in relation to the Principles of Responsibility, updates them and validates changes. It also answers employee questions that are not addressed in the companion guide to the Principles of Responsibility, or that managers are unable to answer. (see "Sustainable development framework", Chapter 2 Section 2).

### Fraud Committee

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

The limited Fraud Committee is composed of the Legal Director, the Security Director and the Internal Audit Director; it meets on a monthly basis.

It deals with cases of fraud, corruption, conflict of interest, breach of procedure, theft and related matters.

All reported cases of fraud are reported to the Fraud Committee.

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

For example, an error identified in the financial statements of a French entity resulting from irregularities carried out by one former employee with the purpose of presenting overstated revenues by deferring the booking of customers' rebates, several actions have been undertaken:

#### At the level of the unit concerned:

- audit of the main accounting and operational flows,
- strengthening of internal control over all flows involved, including the implementation of new controls, review of the segregation of duties followed by changes in reporting lines in order to ensure the proper segregation and elimination of conflicts identified and the implementation of new indicators to monitor the performance of the processes concerned and their control,
- a new follow-up audit will be carried out in 2013 to ensure the performance of this strengthened mechanism.

#### Group level feedback:

- implementation of an access rights management software in the main information system of the Group, called bridge,
- analysis of potential conflicts of the segregation of duties across more than 70 entities representing nearly 80% of the Group's consolidated revenues,
- follow-up of the recommendations resulting from this analysis;
- strengthened control of computer access rights,
- based on the control weaknesses identified in the unit in which the fraud occurred, audit of these key controls in five major countries to ensure the performance of these controls in these countries.

### 2012: the Internal Control System is now in continuous improvement mode

In 2012, further efforts were made to improve the identification and control of global risks, to step up periodic reviews of results and performance, and to enhance auditing practices. The year was marked, for the internal control system, by the items set out above, in particular:

- website security audits and the creation of a platform to better address cyber threats;
- the establishment of a "professional warning system" to allow all employees to launch an alert when in their judgment, they have been a witness to or victim of a breach of the rules of ethics and responsibility expressed in Our Principles of Liability;
- approval by the European personal data protection authorities of the governance of personal data protection and the establishment of a network of "Personal Data Protection" correspondent countries for the implementation and operation of this governance;
- internal control self-assessment questionnaires were sent out to cover 90% of the Group's consolidated revenues (training managers in internal control practices, defining and implementing remedial action plans if needed).



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

In addition to:

- its regulatory tasks;
- its responsibility for overseeing the close of accounts across the Group;
- its controls of the Group's results with respect to set targets (see "Internal Control Organization and Management: Finance and Control - Legal Affairs").

The Management Control and Accounting unit is tasked with overseeing:

- the quality of reporting packages submitted monthly by subsidiaries;
- the results of programmed procedures;
- the integrity of the consolidation system database.

The Management Control and Accounting unit ensures that:

- given that the Group consolidated financial statements are finalized a few weeks after the annual and half-year balance sheet date, subsidiaries perform a hard close at May 31 and November 30 of each year so that most closing adjustments for the period can be calculated in advance;
- the scope of consolidation as well as the Group's interest and the type of control (exclusive control, joint control, significant influence, etc.) of each subsidiary, from which the consolidation method results, are determined in cooperation with the Legal Affairs Department;

- instructions are issued for the closing process, including reporting deadlines, required data and any necessary adjustments;
- the Group's consolidated financial statements are analyzed in detail, to understand and check the main contributions by subsidiaries, as well as the substance of transactions reflected in the accounts;
- accounting classifications are verified;
- the preparation and approval of the statement of changes in equity and the cash flow statement are the key control points.

The internal controls used to confirm the existence, completeness and value of assets and liabilities are based on:

- each subsidiary's responsibility for implementing procedures providing an adequate level of internal control;
- defining levels of responsibility for authorizing and checking transactions;
- segregating tasks to help ensure that all transactions are justified;
- the integration of statutory and management reporting systems developed to guarantee the completeness of transaction data recorded in the accounts;
- all of the subsidiaries apply IFRS with regard to recognition principles, measurement and accounting methods, impairment and verification;
- and the Management Control and Accounting unit performs checks and analyses as described above.



## 10.7 Report of the Statutory Auditors on the internal control procedure

*This is a free translation into English of a report issued in French language and is provided solely for the convenience of English-speaking users. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable for France.*

### **Statutory Auditors' report, prepared in accordance with article L.225-235 of French Commercial Code (Code de commerce), on the report prepared by the Chairman of the Supervisory Board of the Company Schneider Electric SA.**

To the shareholders,

In our capacity as Statutory Auditors of Schneider Electric SA and in accordance with article L.225-235 of the French Commercial Code (*Code de commerce*), we hereby report on the report prepared by the Chairman of your company in accordance with article L.225-68

of the French Commercial Code (*Code de commerce*) for the year ended December 31, 2012.

It is the Chairman's responsibility to prepare and submit for the Supervisory Board's approval a report on internal control and risk management procedures implemented by the Company and to provide the other information required by article L.225-68 of the French Commercial Code (*Code de commerce*) relating to matters such as corporate governance.

Our role is to:

- report on any matters as to the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information;
- confirm that the report also includes the other information required by article L.225-68 of the French Commercial Code (*Code de commerce*). It should be noted that our role is not to verify the fairness of this other information.

We conducted our work in accordance with professional standards applicable in France.



### Information on internal control and risk management procedures relating to the preparation and processing of accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consist mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and of the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our work are properly disclosed in the Chairman's report.

On the basis of our work, we have no matters to report on the information relating to the Company's internal control and risk management procedures relating to the preparation and processing of the accounting and financial information contained in the report prepared by the Chairman of the Supervisory Board in accordance with article L.225-68 of the French Commercial Code (*Code de commerce*).

### Other information

We confirm that the report prepared by the Chairman of the Supervisory Board also contains the other information required by article L.225-68 of the French Commercial Code (*Code de commerce*).

Courbevoie and Paris-La Défense, March 20, 2013

The Statutory Auditors

*French original signed by*

**Mazars**

David Chaudat

**ERNST & YOUNG et Autres**

Yvon Salaün

## > 11. Application of the AFEP/MEDEF corporate governance guidelines\*\*

Schneider Electric applies the AFEP/MEDEF corporate governance guidelines with the following exceptions:

Recommendations	Schneider Electric practice
<b>Deadline for Audit Committee review of the financial statements</b> The Audit Committee should review the financial statements at least two days before they are reviewed by the Board.	At Schneider Electric, in order not to extend delays between the closing of financial statements by the Management Board and the review by Supervisory Board, the Audit Committee which reviews the Financial Statements meets after the Management Board meeting that approves the Financial Statements and the day before the Board Director's meeting. However, the Committee members receive a meeting file with the draft Financial Statements four to five days before the meeting to the members of the Supervisory Board.
<b>Compensation and benefits paid to corporate officers</b> Fixed salary should be revised only after a relatively long period, such as three years.	The Management Board members' fixed salary is revised each year. When Jean-Pascal Tricoire became Chairman of the Management Board, his compensation was not (and still is not) aligned with that of CEOs of comparable companies. The Board decided to reduce the gap gradually through annual salary revisions after reviewing Mr. Tricoire's performance.
<b>Top-hat pension Scheme</b> The increase in potential rights should correspond to a limited percentage of the beneficiary's compensation.	Under the top-hat pension Scheme for the Group's Senior Management (see page 125), most rights are acquired at the outset. However, the scheme complies with the recommendation's intention, given that: <ul style="list-style-type: none"> <li>• the rights are capped at 25% of average compensation;</li> <li>• current members still have many years of service to perform before they can receive benefits.</li> </ul> Furthermore, the Management Board has changed this plan to conform with the AFEP/MEDEF recommendations. This change has been approved by the annual shareholders meeting on May 3, 2012 (see pages 291 and 292)



# Business review

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# > 1. Trends in Schneider Electric's core markets

## Industries and machine manufacturers

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 downscapes. 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

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

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

### 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

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.





## Consolidated financial statements at December 31, 2012

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## > 1. Consolidated statement of income

<i>(in millions of euros except for earnings per share)</i>	Note	Full year 2012	Full year 2011*
<b>Revenue</b>	3	<b>23,946</b>	<b>22,345</b>
Cost of sales		(14,889)	(13,958)
<b>Gross profit</b>		<b>9,057</b>	<b>8,387</b>
Research and development	4	(507)	(539)
Selling, general and administrative expenses		(5,035)	(4,658)
<b>EBITA adjusted**</b>		<b>3,515</b>	<b>3,190</b>
Other operating income and expenses	6	(10)	(8)
Restructuring costs	7	(164)	(145)
<b>EBITA***</b>		<b>3,341</b>	<b>3,037</b>
Amortization and impairment of purchase accounting intangibles	8	(475)	(226)
<b>Operating income</b>		<b>2,866</b>	<b>2,811</b>
Interest income		36	30
Interest expense		(385)	(331)
<b>Finance costs, net</b>		<b>(349)</b>	<b>(301)</b>
Other financial income and expense	9	(56)	(114)
<b>Net financial income/(loss)</b>		<b>(405)</b>	<b>(415)</b>
<b>Profit before tax</b>		<b>2,461</b>	<b>2,396</b>
Income tax expense	10	(568)	(547)
Share of profit/(loss) of associates		34	28
<b>PROFIT FOR THE PERIOD</b>		<b>1,927</b>	<b>1,877</b>
• attributable to owners of the parent		1,840	1,793
• attributable to non-controlling interests		87	84
Basic earnings (attributable to owners of the parent) per share <i>(in euros per share)</i>	21.3	3.39	3.34
Diluted earnings (attributable to owners of the parent) per share <i>(in euros per share)</i>		3.36	3.30

\* The 2011 figures were restated for the item disclosed in note 1.2 of the consolidated financial statements

\*\* EBITA adjusted (Earnings Before Interests, Taxes, Amortization of purchase accounting intangibles and Restructuring costs) EBITA adjusted corresponds to operating profit before amortization and impairment of purchase accounting intangible assets, before goodwill impairment, before other operating income and expenses and before restructuring costs.

\*\*\* EBITA (Earnings Before Interests, Taxes and Amortization of purchase accounting intangibles) EBITA corresponds to operating profit before amortization and impairment of purchase accounting intangible assets and before goodwill impairment.

The accompanying notes are an integral part of the consolidated financial statements.

## Other comprehensive income

<i>(in millions of euros)</i>	<b>Full year 2012</b>	<b>Full year 2011*</b>
<b>Profit for the year</b>	<b>1,927</b>	<b>1,877</b>
<b>Other comprehensive income:</b>		
Translation adjustment	(220)	159
Cash-flow hedges	35	(87)
Net gains (losses) on available-for-sale financial assets	(25)	(60)
Actuarial gains (losses) on defined benefits plans	(318)	(275)
Income tax effect of other comprehensive income	85	129
<b>Other comprehensive income for the year, net of tax</b>	<b>(443)</b>	<b>(134)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>1,484</b>	<b>1,743</b>
Attributable:		
• to owners of the parent	1,422	1,667
• to non-controlling interests	62	76

\* The 2011 figures were restated for the item disclosed in note 1.2 of the consolidated financial statements  
The accompanying notes are an integral part of the consolidated financial statements.



## > 2. Consolidated statement of cash flows

<i>(in millions of euros)</i>	Note	Full year 2012	Full year 2011*
Profit for the year		1,927	1,877
Share of (profit)/losses of associates, net of dividends received		(34)	(28)
<i>Adjustments to reconcile net profit to net cash flows provided by operating activities:</i>			
Depreciation of property, plant and equipment	13	394	386
Amortization of intangible assets other than goodwill	12	420	380
Impairment losses on non-current assets	5	241	31
Increase/(decrease) in provisions	23	(77)	(89)
Losses/(gains) on disposals of fixed assets		(16)	12
Difference between tax paid and tax expense		(122)	(80)
Other non-cash adjustments		69	48
<b>Net cash provided by operating activities before changes in operating assets and liabilities</b>		<b>2,802</b>	<b>2,537</b>
Decrease/(increase) in accounts receivable		(127)	(230)
Decrease/(increase) in inventories and work in process		210	(38)
(Decrease)/increase in accounts payable		(5)	(41)
Change in other current assets and liabilities		(79)	24
<b>Change in working capital requirement</b>		<b>(1)</b>	<b>(285)</b>
<b>Total I - Cash flows from operating activities</b>		<b>2,801</b>	<b>2,252</b>
Purchases of property, plant and equipment	13	(472)	(515)
Proceeds from disposals of property, plant and equipment		58	52
Purchases of intangible assets	12	(315)	(297)
Proceeds from disposals of intangible assets		10	14
<b>Net cash used by investment in operating assets</b>		<b>(719)</b>	<b>(746)</b>
Net financial investments	2	(242)	(2,873)
Proceeds from sale of financial assets	15.1	121	-
Purchases of other long-term investments		(14)	(54)
Increase in long-term pension assets		(79)	(64)
<b>Sub-total</b>		<b>(214)</b>	<b>(2,991)</b>
<b>Total II - Cash flows from/(used in) investing activities</b>		<b>(933)</b>	<b>(3,737)</b>
Issuance of bonds	24	601	1,692
Repayment of bonds	24	-	(500)
Sale/(purchase) of own shares		-	-
Increase/(reduction) in other financial debt		(585)	432
Proceeds from issuance of shares		221	210
Dividends paid: Schneider Electric SA		(919)	(856)
Non-controlling interests		(72)	(69)
<b>Total III - Cash flows from/(used in) financing activities</b>		<b>(754)</b>	<b>909</b>

# CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2012

## CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(in millions of euros)</i>	Note	Full year 2012	Full year 2011*
<b>IV - Net foreign exchange difference:</b>		<b>(51)</b>	<b>(166)</b>
<b>Increase/(decrease) in cash and cash equivalents: I + II + III + IV</b>		<b>1,063</b>	<b>(742)</b>
Cash and cash equivalents at January 1 <sup>st</sup>		2,554	3,296
Increase/(decrease) in cash and cash equivalents		1,063	(742)
<b>CASH AND CASH EQUIVALENTS AT DECEMBER 31</b>	<b>20</b>	<b>3,617</b>	<b>2,554</b>

\* The 2011 figures were restated for the item disclosed in note 1.2 of the consolidated financial statements.  
The accompanying notes are an integral part of the consolidated financial statements.



## 3. Consolidated balance sheet

### Assets

<i>(in millions of euros)</i>	Note	Dec. 31, 2012	Dec. 31, 2011*
<b>Non-current assets</b>			
Goodwill, net	11	12,904	12,773
Intangible assets, net	12	4,519	4,704
Property, plant and equipment, net	13	2,622	2,573
Total tangible and intangible assets		7,141	7,277
Investments in associates	14	511	489
Available-for-sale financial assets	15.1	213	296
Other non-current financial assets	15.2	108	261
Non-current financial assets		321	557
Deferred tax assets	16	1,745	1,468
<b>Total non-current assets</b>		<b>22,622</b>	<b>22,564</b>
<b>Current assets</b>			
Inventories and work in progress	17	3,090	3,349
Trade and other operating receivables	18	5,289	5,402
Other receivables and prepaid expenses	19	1,291	1,638
Current financial assets	15.3	127	104
Cash and cash equivalents	20	3,737	2,771
<b>Total current assets</b>		<b>13,534</b>	<b>13,264</b>
<b>TOTAL ASSETS</b>		<b>36,156</b>	<b>35,828</b>

\* The 2011 figures were restated for the item disclosed in note 1.2 of the consolidated financial statements  
The accompanying notes are an integral part of the consolidated financial statements.

## Liabilities

<i>(in millions of euros)</i>	Note	Dec. 31, 2012	Dec. 31, 2011*
<b>Equity</b>	21		
Share capital		2,222	2,196
Additional paid-in capital		6,885	6,690
Retained earnings		7,583	6,819
Translation reserve		(48)	148
<b>Equity attributable to owners of the parent</b>		<b>16,642</b>	<b>15,853</b>
Non-controlling interests		174	192
<b>Total equity</b>		<b>16,816</b>	<b>16,045</b>
<b>Non-current provisions</b>			
Pensions and other post-employment benefit obligations	22	1,976	1,723
Other non-current provisions	23	785	680
<b>Total non-current provisions</b>		<b>2,761</b>	<b>2,403</b>
<b>Non-current financial liabilities</b>			
Bonds	24	5,513	5,540
Other non-current debt	24	893	1,387
Non-current financial liabilities		6,406	6,927
Deferred tax liabilities	16	1,014	944
Other non-current liabilities	25	195	235
<b>Total non-current liabilities</b>		<b>10,376</b>	<b>10,509</b>
<b>Current liabilities</b>			
Trade and other operating payables		4,190	4,094
Accrued taxes and payroll costs		1,827	2,307
Current provisions	23	930	960
Other current liabilities		291	803
Current debt	24	1,726	1,110
<b>Total current liabilities</b>		<b>8,964</b>	<b>9,274</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>36,156</b>	<b>35,828</b>

\* The 2011 figures were restated for the item disclosed in note 1.2 of the consolidated financial statements.  
The accompanying notes are an integral part of the consolidated financial statements.





## > 4. Consolidated statement of changes in equity

<i>(in millions of euros except for number of shares)</i>	<b>Number of shares (thousands)</b>	<b>Capital</b>	<b>Additional paid-in capital</b>	<b>Treasury shares</b>	<b>Retained earnings</b>	<b>Translation reserve</b>	<b>Equity attributable to owners of the parent</b>	<b>Non-controlling interests</b>	<b>Total</b>
<b>January 1, 2011*</b>	<b>271,959</b>	<b>2,176</b>	<b>6,495</b>	<b>(74)</b>	<b>6,189</b>	<b>(19)</b>	<b>14,767</b>	<b>204</b>	<b>14,971</b>
Profit for the year*					1,793		1,793	84	<b>1,877</b>
Other comprehensive income					(293)	167	(126)	(8)	<b>(134)</b>
Comprehensive income for the year					1,500	167	1,667	76	<b>1,743</b>
Division of the nominal value by two	271,959								
Capital increase	3,856	15	162				178		<b>178</b>
Exercise of stock options	1,169	5	33				37		<b>37</b>
Dividends					(856)		(856)	(69)	<b>(925)</b>
Share-based compensation expense					51		51		<b>51</b>
Other <sup>(1)</sup>					9		9	(19)	<b>(10)</b>
<b>December 31, 2011*</b>	<b>548,943</b>	<b>2,196</b>	<b>6,690</b>	<b>(74)</b>	<b>6,893</b>	<b>148</b>	<b>15,853</b>	<b>192</b>	<b>16,045</b>
Profit for the year					1,840		1,840	87	<b>1,927</b>
Other comprehensive income					(222)	(196)	(418)	(25)	<b>(443)</b>
Comprehensive income for the year					1,618	(196)	1,422	62	<b>1,484</b>
Capital increase	3,522	14	109				123		<b>123</b>
Exercise of stock options	2,952	12	86				98		<b>98</b>
Dividends					(919)		(919)	(72)	<b>(991)</b>
Share-based compensation expense					57		57		<b>57</b>
Other					8		8	(8)	
<b>December 31, 2012</b>	<b>555,417</b>	<b>2,222</b>	<b>6,885</b>	<b>(74)</b>	<b>7,657</b>	<b>(48)</b>	<b>16,642</b>	<b>174</b>	<b>16,816</b>

(1) Of which EUR9 million in connection with the employee share purchase plan and a negative EUR19 million for the Areva D PPA adjustment.

\* The 2011 figures were restated for the item disclosed in note 1.2 of the consolidated financial statements  
 The accompanying notes are an integral part of the consolidated financial statements.

## > 5. Notes to the consolidated financial statements

All amounts in millions of euros unless otherwise indicated.

The following notes are an integral part of the consolidated financial statements.

The Schneider Electric Group's consolidated financial statements for the financial year ended December 31, 2012 were drawn up by the Management Board on February 18, 2013 and reviewed by the Supervisory Board on February 20, 2013. They will be submitted to shareholders for approval at the Annual General Meeting of April 25, 2013.

The Group's main businesses are described in chapter 1 of the Registration Document.

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## Note 1 Accounting Policies

### 1.1 – Accounting standards

The consolidated financial statements have been prepared in compliance with the international accounting standards (IFRS) as adopted by the European Union as of December 31, 2012. The same accounting methods were used as for the consolidated financial statements for the year ended December 31, 2011.

The following standards and interpretations that were applicable during the period did not have a material impact on the consolidated financial statements as of December 31, 2012:

- IFRS 7 – *Disclosures – Transfer of Financial assets*.

There are no differences in practice between the standards applied by Schneider Electric as of December 31, 2012 and the IFRS issued by the International Accounting Standards Board (IASB), since the application of standards and interpretations that are mandatory for reporting periods beginning on or after January 1, 2012 but not yet adopted by the European Union would not have a material impact.

Lastly, the Group did not apply the following standards and interpretations that had not yet been adopted by the European Union as of December 31, 2012 or that are mandatory at some point subsequent to December 31, 2012:

- standards adopted:
  - amendment to IAS 1 – *Presentation of Items of Other Comprehensive Income*,
  - IAS 19 revised – *Employee benefits*,
  - amendment to IAS 12 – *Recovery of Underlying Assets*,
  - IAS 28 revised – *Investments in associates and joint-ventures*,
  - amendments to IAS 32 – *Offsetting Financial assets and Financial liabilities*,
  - amendments to IFRS 7 – *Disclosures – Transfer of Financial assets*,
  - IFRS 10 – *Consolidated Financial Statements*,
  - IFRS 11 – *Joint Arrangements*,
  - IFRS 12 – *Disclosure of Interests in Other entities*,
  - IFRS 13 – *Fair value Measurement*,
  - amendment to IFRS 1 – *Severe Hyperinflation and Removal of Fixed dates for First-Time Adopters*,
  - IFRIC 20 – *Stripping Costs in the Production Phase of a Surface Mine*;

- standards not yet adopted:

- IFRS 9 – *Financial instruments*,
- *Transition Guidance* (Amendments to IFRS 10, IFRS 11 and IFRS 12),
- *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27),
- *Improvements to IFRSs 2009-2011* (May 2012),
- *Government Loans* (Amendments to IFRS 1).

Schneider Electric is currently assessing their potential impact on the Group's consolidated financial statements. In accordance with IAS 19 revised in June 2011, the expected return on long term plan assets in 2013 will be equal to discount rate at December 31, 2012 closing date. The assessment of the expected effect in 2013 is EUR39 million as a reduction of financial income; moreover, IAS 19 revised require the recycling through equity of past service costs, of which the amortization was a gain of about EUR1 million by year, that will have a n expected effect of EUR17 million at January 1, 2013.

At this stage of analysis, the Group does not expect other impact on its consolidated financial statements to be material, except for IFRS 10 and IFRS 11 for which impacts are being assessed, notably on entities currently consolidated with proportional consolidation, and except for IFRS 9 due to uncertainties surrounding the adoption process in Europe.

### 1.2 – Restated 2011 comparative statement of income, other comprehensive income, statement of cash flows, balance sheet and statement of changes in equity

A specific internal control review of one entity was conducted in 2012 that resulted in identifying an accounting error in customer rebates accrual recognition. This error resulted from irregularities carried out by one former employee with the purpose of presenting overestimated revenues by deferring the booking of customer rebates. As presented below in the income statement, customers' rebate accrual booked in 2011 were underestimated (thus revenues were overestimated) by EUR42 million. At December 31, 2011, trade receivables were overestimated by EUR82 million (amount including VAT). In accordance with IAS 8, the Group restated its 2011 comparative information in the consolidated financial statements at December 31, 2012.

An action plan has been implemented in order to reinforce preventive and detective controls.

The effect of the restatement on 2011 statement of income is as follows:

<i>(in millions of euros except for earnings per share)</i>	<b>FY 2011 published</b>	<b>Restatement</b>	<b>FY 2011 restated</b>
<b>Revenue</b>	<b>22,387</b>	<b>(42)</b>	<b>22,345</b>
<b>Gross profit</b>	<b>8,429</b>	<b>(42)</b>	<b>8,387</b>
<b>EBITA adjusted</b>	<b>3,232</b>	<b>(42)</b>	<b>3,190</b>
<b>EBITA</b>	<b>3,079</b>	<b>(42)</b>	<b>3,037</b>
<b>Operating income</b>	<b>2,853</b>	<b>(42)</b>	<b>2,811</b>
<b>Net financial income/(loss)</b>	<b>(415)</b>		<b>(415)</b>
<b>Profit before tax</b>	<b>2,438</b>	<b>(42)</b>	<b>2,396</b>
Income tax expense	(562)	15	(547)
Share of profit/(loss) of associates	28		28
<b>PROFIT FOR THE PERIOD</b>	<b>1,904</b>	<b>(27)</b>	<b>1,877</b>
• attributable to owners of the parent	1,820	(27)	1,793
• attributable to non-controlling interests	84		84
Basic earnings (attributable to owners of the parent) per share <i>(in euros per share)</i>	3.39		3.34
Diluted earnings (attributable to owners of the parent) per share <i>(in euros per share)</i>	3.35		3.30

The effect of the restatement on the 2011 other comprehensive income is as follows:

<i>(in millions of euros)</i>	<b>FY 2011 published</b>	<b>Restatement</b>	<b>FY 2011 restated</b>
<b>Profit for the year</b>	<b>1,904</b>	<b>(27)</b>	<b>1,877</b>
<b>Other comprehensive income for the year, net of tax</b>	<b>(134)</b>		<b>(134)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>1,770</b>	<b>(27)</b>	<b>1,743</b>
Attributable:			
• to owners of the parent	1,694	(27)	1,667
• to non-controlling interests	76		76



The effect of the restatement on the 2011 statement of cash-flows is as follows:

<i>(in millions of euros)</i>	<b>FY 2011 published</b>	<b>Restatement</b>	<b>FY 2011 restated</b>
Profit for the year	1,904	(27)	1,877
Share of (profit)/losses of associates, net of dividends received	(28)		(28)
<i>Adjustments to reconcile net profit to net cash flows provided by operating activities:</i>			
Depreciation of property, plant and equipment	386		386
Amortization of intangible assets other than goodwill	380		380
Impairment losses on non-current assets	31		31
Increase/(decrease) in provisions	(89)		(89)
Losses/(gains) on disposals of fixed assets	12		12
Difference between tax paid and tax expense	(65)	(15)	(80)
Other non-cash adjustments	48		48
<b>Net cash provided by operating activities before changes in operating assets and liabilities</b>	<b>2,579</b>	<b>(42)</b>	<b>2,537</b>
Decrease/(increase) in accounts receivable	(280)	50	(230)
Decrease/(increase) in inventories and work in process	(38)		(38)
(Decrease)/increase in accounts payable	(41)		(41)
Change in other current assets and liabilities	32	(8)	24
<b>Change in working capital requirement</b>	<b>(327)</b>	<b>42</b>	<b>(285)</b>
<b>Total I - Cash flows from operating activities</b>	<b>2,252</b>	<b>-</b>	<b>2,252</b>
<b>Total II - Cash flows from/(used in) investing activities</b>	<b>(3,737)</b>		<b>(3,737)</b>
<b>Total III - Cash flows from/(used in) financing activities</b>	<b>909</b>		<b>909</b>
<b>IV - Net foreign exchange difference:</b>	<b>(166)</b>		<b>(166)</b>
<b>Increase/(decrease) in cash and cash equivalents: I + II + III + IV</b>	<b>(742)</b>	<b>-</b>	<b>(742)</b>
Cash and cash equivalents at January 1	3,296		3,296
Increase/(decrease) in cash and cash equivalents	(742)		(742)
<b>CASH AND CASH EQUIVALENTS AT DECEMBER 31</b>	<b>2,554</b>		<b>2,554</b>

The effect of the restatement on the 2011 balance sheet is as follows:

<i>(in millions of euros)</i>	<b>Dec. 31, 2011 published</b>	<b>Restatement</b>	<b>Dec. 31, 2011 restated</b>
<b>Non-current assets</b>			
Goodwill, net	12,773		12,773
Total tangible and intangible assets, net	7,277		7,277
Investments in associates	489		489
Non-current financial assets	557		557
Deferred tax assets	1,444	24	1,468
<b>Total non-current assets</b>	<b>22,540</b>	<b>24</b>	<b>22,564</b>
<b>Current assets</b>			
Inventories and work in progress	3,349		3,349
Trade and other operating receivables	5,484	(82)	5,402
Other receivables and prepaid expenses	1,638		1,638
Current financial assets	104		104
Cash and cash equivalents	2,771		2,771
<b>Total current assets</b>	<b>13,346</b>	<b>(82)</b>	<b>13,264</b>
<b>TOTAL ASSETS</b>	<b>35,886</b>	<b>(58)</b>	<b>35,828</b>

<i>(in millions of euros)</i>	Dec. 31, 2011 published	Restatement	Dec. 31, 2011 restated
<b>Equity</b>			
Share capital	2,196		2,196
Additional paid-in capital	6,690		6,690
Retained earnings	6,864	(45)	6,819
Translation reserve	148		148
<b>Equity attributable to owners of the parent</b>	<b>15,898</b>	<b>(45)</b>	<b>15,853</b>
Non-controlling interests	192		192
<b>Total equity</b>	<b>16,090</b>	<b>(45)</b>	<b>16,045</b>
<b>Total non-current liabilities</b>	<b>10,509</b>		<b>10,509</b>
<b>Current liabilities</b>			
Trade and other operating payables	4,094		4,094
Accrued taxes and payroll costs	2,320	(13)	2,307
Current provisions	960		960
Other current liabilities	803		803
Current debt	1,110		1,110
<b>Total current liabilities</b>	<b>9,287</b>	<b>(13)</b>	<b>9,274</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>35,886</b>	<b>(58)</b>	<b>35,828</b>

The effect of the restatement on the 2011 statement of changes in equity is as follows:

<i>(in millions of euros except for number of shares)</i>	Number of shares (thousands)	Capital	Additional paid-in capital	Treasury shares	Retained earnings	Translation reserve	Equity Attributable to owners of the parent	Non-control- ling interests	Total
<b>Dec. 31, 2011 published</b>	<b>548,943</b>	<b>2,196</b>	<b>6,690</b>	<b>(74)</b>	<b>6,938</b>	<b>148</b>	<b>15,898</b>	<b>192</b>	<b>16,090</b>
Restatement					(45)		(45)		(45)
<b>Dec. 31, 2011 restated</b>	<b>548,943</b>	<b>2,196</b>	<b>6,690</b>	<b>(74)</b>	<b>6,893</b>	<b>148</b>	<b>15,853</b>	<b>192</b>	<b>16,045</b>

### 1.3 – Basis of presentation

The financial statements have been prepared on a historical cost basis, with the exception of derivative instruments and available-for-sale financial assets, which are measured at fair value. Financial liabilities are measured using the amortized cost model. The book value of hedged assets and liabilities, under fair-value hedge, corresponds to their fair value, for the part corresponding to the hedged risk.

### 1.4 – Use of estimates and assumptions

The preparation of financial statements requires Group and subsidiary management to make estimates and assumptions that are reflected in the amounts of assets and liabilities reported in the consolidated balance sheet, the revenues and expenses in the statement of income and the obligations created during the reporting period. Actual results may differ.

These assumptions mainly concern:

- the measurement of the recoverable amount of goodwill, property, plant and equipment and intangible assets (note 1.11) and the measurement of the goodwill impairment (note 8);
- the measurement of the recoverable amount of non-current financial asset (note 1.12 and note 15);
- the realizable value of inventories and work in process (note 1.13);
- the recoverable amount of accounts receivable (note 1.14);
- the valuation of share-based payments (note 1.20);
- the calculation of provisions for contingencies, in particular for warranties (note 1.21);
- the measurement of pension and other post-employment benefit obligations (note 22).



### 1.5 – Consolidation principles

Subsidiaries, over which the Group exercises exclusive control, either directly or indirectly, are fully consolidated. Exclusive control is control by all means, including ownership of a majority voting interest, significant minority ownership, and contracts or agreements with other shareholders.

Group investments in entities controlled jointly with a limited number of partners, such as joint ventures and alliances, are proportionally consolidated in accordance with the recommended treatment under IAS 31 – *Interests in Joint Ventures*.

Companies over which the Group has significant influence (“associates”) are accounted for by the equity consolidation method. Significant influence is presumed to exist when more than 20% of voting rights are held by the Group.

Companies acquired or sold during the year are included in or removed from the consolidated financial statements as of the date when effective control is acquired or relinquished.

Intra-group balances and transactions are eliminated.

The list of consolidated subsidiaries and associates can be found in note 32.

The reporting date for all companies included in the scope of consolidation is December 31, with the exception of certain associates accounted for by the equity method. For the latter however, financial statements up to September 30 of the financial year have been used (maximum difference of three months in line with the standards).

### 1.6 – Business combinations

Business combinations are accounted for using the acquisition method, in accordance with IFRS 3 – *Business Combinations*. In accordance with the option provided by IFRS 1 – *First-Time Adoption of IFRS* – business combinations recorded before January 1, 2004 have not been restated. Material acquisition costs are presented under “Other operating income and expenses” in the statement of income.

All acquired assets, liabilities and contingent liabilities of the buyer are recognized at their fair value at the acquisition date, the fair value that can be adjusted during a measurement period that can last for up to 12 months from the date of acquisition.

The excess of the cost of acquisition over the Group’s share in the fair value of assets and liabilities at the date of acquisition is recognized in goodwill. Where the cost of acquisition is lower than the fair value of the identified assets and liabilities acquired, the negative goodwill is immediately recognized in the statement of income.

Goodwill is not amortized, but tested for impairment at least annually and whenever there is an indication that it may be impaired (see note 1.11 below). Any impairment losses are recognized under “Amortization and impairment of purchase accounting intangibles”.

### 1.7 – Translation of the financial statements of foreign subsidiaries

The consolidated financial statements are prepared in euros.

The financial statements of subsidiaries that use another functional currency are translated into euros as follows:

- assets and liabilities are translated at the official closing rates;
- income statement and cash flow items are translated at weighted-average annual exchange rates.

Gains or losses on translation are recorded in consolidated equity under “Cumulative translation adjustments”. In accordance with IFRS 1 – *First Time Adoption of IFRS* – cumulative translation adjustments were reset to zero at January 1, 2004 by adjusting opening retained earnings, without any impact on total equity.

### 1.8 – Foreign currency transactions

Foreign currency transactions are recorded using the official exchange rate in effect at the date the transaction is recorded or the hedging rate. At the balance sheet date, foreign currency payables and receivables are translated into the functional currency at the closing rates or the hedging rate. Gains or losses on translation of foreign currency transactions are recorded under “Net financial income/(loss)”. Foreign currency hedging is described below, in note 1.23.

### 1.9 – Intangible assets

#### Intangible assets acquired separately or as part of a business combination

Intangible assets acquired separately are initially recognized in the balance sheet at historical cost. They are subsequently measured using the cost model, in accordance with IAS 38 – *Intangible Assets*.

Intangible assets (mainly trademarks and customer lists) acquired as part of business combinations are recognized in the balance sheet at fair value at the combination date, appraised externally for the most significant assets and internally for the rest, and that represents its historical cost in consolidation. The valuations are performed using generally accepted methods, based on future inflows. The assets are regularly tested for impairment.

Intangible assets are amortized on a straight-line basis over their useful life or, alternatively, over the period of legal protection. Amortized intangible assets are tested for impairment when there is any indication that their recoverable amount may be less than their carrying amount.

Amortization and impairment losses on intangible assets acquired in a business combination are presented on a separate statement of income line item, “Amortization and impairment of purchase accounting intangibles”.

#### Trademarks

Trademarks acquired as part of a business combination are not amortized when they are considered to have an indefinite life.

The criteria used to determine whether or not such trademarks have indefinite lives and, as the case may be, their lifespan, are as follows:

- brand awareness;
- outlook for the brand in light of the Group's strategy for integrating the trademark into its existing portfolio.

Non-amortized trademarks are tested for impairment at least annually and whenever there is an indication they may be impaired. When necessary, an impairment loss is recorded.

## Internally-generated intangible assets

### Research and development costs

Research costs are expensed in the statement of income when incurred.

Systems were set up to track and capitalize development costs in 2004. As a result, only development costs for new products launched since 2004 are capitalized in the IFRS accounts.

Development costs for new projects are capitalized if, and only if:

- the project is clearly identified and the related costs are separately identified and reliably tracked;
- the project's technical feasibility has been demonstrated and the Group has the intention and financial resources to complete the project and to use or sell the resulting products;
- the Group has allocated the necessary technical, financial and other resources to complete the development;
- it is probable that the future economic benefits attributable to the project will flow to the Group.

Development costs that do not meet these criteria are expensed in the financial year in which they are incurred.

Capitalized development projects are amortized over the lifespan of the underlying technology, which generally ranges from three to ten years. The amortization of such capitalized projects is included in the cost of the related products and classified into "Cost of sales" when the products are sold.

### Software implementation

External and internal costs relating to the implementation of enterprise resource planning (ERP) applications are capitalized when they relate to the programming, coding and testing phase. They are amortized over the applications' useful lives. In accordance with paragraph 98 of IAS 38, the SAP bridge application currently being rolled out within the Group is amortized using the production unit method to reflect the pattern in which the asset's future economic benefits are expected to be consumed. Said units of production correspond to the number of users of the rolled-out solution divided by the number of target users at the end of the roll-out.

## 1.10 – Property, plant and equipment

Property, plant and equipment is primarily comprised of land, buildings and production equipment and is carried at cost, less accumulated depreciation and any accumulated impairment losses, in accordance with the recommended treatment in IAS 16 – *Property, plant and equipment*.

Each component of an item of property, plant and equipment with a useful life that differs from that of the item as a whole is depreciated separately on a straight-line basis. The main useful lives are as follows:

- Buildings: 20 to 40 years;
- Machinery and equipment: 3 to 10 years;
- Other: 3 to 12 years.

The useful life of property, plant and equipment used in operating activities, such as production lines, reflects the related products' estimated life cycles.

Useful lives of items of property, plant and equipment are reviewed periodically and may be adjusted prospectively if appropriate.

The depreciable amount of an asset is determined after deducting its residual value, when the residual value is material.

Depreciation is expensed in the period or included in the production cost of inventory or the cost of internally-generated intangible assets. It is recognized in the statement of income under "Cost of sales", "Research and development costs" or "Selling, general and administrative expenses", as the case may be.

Items of property, plant and equipment are tested for impairment whenever there is an indication they may have been impaired. Impairment losses are charged to the statement of income under "Other operating income and expenses".

### Leases

The assets used under leases are recognized in the balance sheet, offset by a financial debt, where the leases transfer substantially all the risks and rewards of ownership to the Group.

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. The related payments are recognized as an expense on a straight-line basis over the lease term.

### Borrowing costs

In accordance with IAS 23 R – *Borrowing costs* (applied as of January 1, 2009), borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably. Other borrowing costs are recognized as an expense for the period. Prior to January 1, 2009, borrowing costs were systematically expensed when incurred.

## 1.11 – Impairment of assets

In accordance with IAS 36 – *Impairment of Assets* – the Group assesses the recoverable amount of its long-lived assets as follows:

- for all property, plant and equipment subject to depreciation and intangible assets subject to amortization, the Group carries out a review at each balance sheet date to assess whether there is any indication that they may be impaired. Indications of impairment are identified on the basis of external or internal information. If such an indication exists, the Group tests the asset for impairment by comparing its carrying amount to the higher of fair value minus costs to sell and value in use;

- non-amortizable intangible assets and goodwill are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Value in use is determined by discounting future cash flows that will be generated by the tested assets. These future cash flows are based on Group management's economic assumptions and operating forecasts presented in forecasts over a period generally not exceeding 5 years, then extrapolated based on a perpetuity growth rate. The discount rate corresponds to the Group's weighted average cost of capital (WACC) at the measurement date plus a risk premium depending on the region in question. The WACC stood at 7.7% at December 31, 2012, a slight decrease on the 8.1% at December 31, 2011. This rate is based on (i) a long-term interest rate of 3.4%, corresponding to the average interest rate for 10 year OAT treasury bonds over the past few years, (ii) the average premium applied to financing obtained by the Group in the fourth quarter of 2012, and (iii) the weighted country risk premium for the Group's businesses in the countries in question.

The perpetuity growth rate was 2%, unchanged on the previous financial year.

Impairment tests are performed at the level of the cash-generating unit (CGU) to which the asset belongs. A cash-generating unit is the smallest group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets. The cash-generating units in 2012, as in 2011, are Power, Infrastructure, Industry, IT, Buildings and CST CGUs. Net assets were reallocated to the CGUs at the lowest possible level on the basis of the CGU activities to which they belong; the assets belonging to several activities were allocated to each CGU (Power, Infrastructure and Industry mainly) pro-rata to their revenue in that CGU.

The WACC used to determine the value in use of each CGU was 7.8% for CST, 8.6% for Industry, 8.5% for Power and IT, 8.0% for Buildings and 8.7% for Infrastructure.

Goodwill is allocated 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.

Where the recoverable amount of an asset or CGU is lower than its book value, an impairment loss is recognized for the excess of the book value over the recoverable value. The recoverable value is defined as the highest value between the value in use and the realizable value net of costs. Where the tested CGU comprises goodwill, any impairment losses are firstly deducted there from.

### 1.12 – Non-current financial assets

Investments in non-consolidated companies are classified as available-for-sale financial assets. They are initially recorded at their cost of acquisition and subsequently measured at fair value, when fair value can be reliably determined.

The fair value of investments listed in an active market may be determined reliably and corresponds to the listed price at balance sheet date (Level 1 from the fair value hierarchy as per IFRS 7).

In cases where fair value cannot be reliably determined on observable markets, the investments are measured at cost net of any accumulated impairment losses. The recoverable amount is determined either by assessing the Group's share in the entity's net assets or the expected future cash-flows representative of management expectation in this investment. This rule is applied in particular to unlisted shares.

Changes in fair value are accumulated as other comprehensive income in the comprehensive income statement and, in balance sheet, in equity under "Other reserves" up to the date of sale, at which time they are recognized in the income statement. Unrealized losses on assets that are considered to be permanently impaired are recorded at the statement of income under financial loss.

Loans, recorded under "Other non-current financial assets", are carried at amortized cost and tested for impairment where there is an indication that they may have been impaired. Non-current financial receivables are discounted when the impact of discounting is considered significant.

### 1.13 – Inventories and work in process

Inventories and work in progress are measured at the lower of their initial recognition cost (acquisition cost or production cost generally determined by the weighted average price method) or of their estimated net realizable value.

Net realizable value corresponds to the estimated selling price net of remaining expenses to complete and/or sell the products.

Inventory impairment losses are recognized in "Cost of sales".

The cost of work in progress, semi-finished and finished products, includes the cost of materials and direct labor, subcontracting costs, all production overheads based on normal manufacturing capacity and the portion of research and development costs that are directly related to the manufacturing process (corresponding to the amortization of capitalized projects in production and product and range of products maintenance costs).

### 1.14 – Trade and other operating receivables

Depreciations for doubtful accounts are recorded when it is probable that receivables will not be collected and the amount of the loss can be reasonably estimated. Doubtful accounts are identified and the related depreciations determined based on historical loss experience, the aging of the receivables and a detailed assessment of the individual receivables along with the related credit risks. Once it is known with certainty that a doubtful account will not be collected, the doubtful account and its related depreciation are written off through the Income Statement.

Accounts receivable are discounted in cases where they are due in over one year and the impact of adjustment is significant.

### 1.15 – Assets held for sale

Assets held for sale are no longer amortized or depreciated and are recorded separately in the balance sheet under “Assets held for sale” at the lowest of its amortized cost or net realizable value.

### 1.16 – Deferred taxes

Deferred taxes, related to temporary differences between the tax basis and accounting basis of consolidated assets and liabilities, are recorded using the balance sheet liability method. Deferred tax assets are recognized when it is probable that they will be recovered at a reasonably determinable date.

Future tax benefits arising from the utilization of tax loss carry forwards (including amounts available for carry forward without time limit) are recognized only when they can reasonably be expected to be realized.

Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities related to the same unit and which are expected to reverse in the same period of time are netted off.

### 1.17 – Cash and cash equivalents

Cash and cash equivalents presented in the balance sheet consist of cash, bank accounts, term deposits of three months or less and marketable securities traded on organized markets. Marketable securities are short-term, highly-liquid investments that are readily convertible to known amounts of cash at maturity. They notably consist of commercial paper, mutual funds and equivalents. In light of their nature and maturities, these instruments represent insignificant risk of changes in value and are treated as cash equivalents.

### 1.18 – Schneider Electric SA shares

Schneider Electric SA shares held by the parent company or by fully consolidated companies are measured at acquisition cost and deducted from equity. They are held at their acquisition cost until sold.

Gains (losses) on the sale of own shares are added (deducted) from consolidated reserves, net of tax.

### 1.19 – Pensions and other employee benefit obligations

Depending on local practices and laws, the Group's subsidiaries participate in pension, termination benefit and other long-term benefit plans. Benefits paid under these plans depend on factors such as seniority, compensation levels and payments into mandatory retirement programs.

### Defined contribution plans

Payments made under defined contribution plans are recorded in the income statement, in the year of payment, and are in full settlement of the Group's liability.

In most countries, the Group participates in mandatory general plans, which are accounted for as defined contribution plans.

### Defined benefit plans

Defined benefit plans are measured using the projected unit credit method.

Expenses recognized in the statement of income are split between operating income (for current service costs) and net financial income/(loss) (for financial costs and expected return on plan assets).

The amount recognized in the balance sheet corresponds to the present value of the obligation, adjusted for unrecognized past service cost and net of plan assets.

Where this is an asset, the recognized asset is limited to the present value of any economic benefit due in the form of plan refunds or reductions in future plan contributions.

Changes resulting from periodic adjustments to actuarial assumptions regarding general financial and business conditions or demographics (*i.e.*, changes in the discount rate, annual salary increases, return on plan assets, years of service, etc.) as well as experience adjustments are immediately recognized in the balance sheet as a separate component of equity in “Other reserves” and in comprehensive income as other comprehensive income/loss.

### Other commitments

Provisions are funded and expenses recognized to cover the cost of providing health-care benefits for certain Group retirees in Europe and the United States. The accounting policies applied to these plans are similar to those used to account for defined benefit pension plans.

The Group also funds provisions for all its subsidiaries to cover seniority-related benefits (primarily long service awards for its French subsidiaries). Actuarial gains and losses on these benefit obligations are fully recognized in profit or loss.

### 1.20 – Share-based payments

The Group grants different types of share-based payments to senior executives and certain employees. These include:

- Schneider Electric SA stock options;
- stock grants;
- stock appreciation rights, based on the Schneider Electric SA stock price.



Only plans set up after November 7, 2002 that did not vest prior to January 1, 2005 are affected by the application of IFRS 2 – *Share-based payments*.

Pursuant to this standard, these plans are measured on the date of grant and an employee benefits expense is recognized on a straight-line basis over the vesting period, in general three or four years depending on the country in which it is granted.

The Group uses the Cox, Ross, Rubinstein binomial model to measure these plans.

For stock grants and stock options, this expense is offset in the own share reserve. In the case of stock appreciation rights, a liability is recorded corresponding to the amount of the benefit granted, re-measured at each balance sheet date.

As part of its commitment to employee share ownership, Schneider Electric gave its employees the opportunity to purchase shares at a discount (note 21.5).

### 1.21 – Provisions for contingencies and pension accruals

A provision is recorded when the Group has an obligation to a third party prior to the balance sheet date, and where the loss or liability is likely and can be reliably measured. If the loss or liability is not likely and cannot be reliably estimated, but remains possible, the Group discloses it as a contingent liability. Provisions are calculated on a case-by-case or statistical basis and discounted when due in over a year. The discount rate used for long-term provisions was 2.05% at December 31, 2012 versus 3.42% at December 31, 2011.

Provisions are primarily set aside to cover:

- economic risks:  
these provisions cover tax risks arising from tax audits performed by local tax authorities and financial risks arising primarily on guarantees given to third parties in relation to certain assets and liabilities;
- customer risks:  
these provisions are primarily established to covers risks arising from products sold to third parties. This risk mainly consists of claims based on alleged product defects and product liability;
- product risks:  
these provisions comprise:
  - statistical provisions for warranties: the Group funds provisions on a statistical basis for the residual cost of Schneider Electric product warranties not covered by insurance,
  - provisions to cover disputes concerning defective products and recalls of clearly identified products;
- environmental risks:  
these provisions are primarily funded to cover cleanup costs;

- restructuring costs, when the Group has prepared a detailed plan for the restructuring and has either announced or started to implement the plan before the end of the year.

### 1.22 – Financial liabilities

Financial liabilities primarily comprise bonds and short and long-term bank borrowings. These liabilities are initially recorded at fair value, from which are deducted any direct transaction costs. Subsequently, they are measured at amortized cost based on their effective interest rate.

### 1.23 – Financial instruments and derivatives

Risk hedging management is centralized. The Group's policy is to use derivative financial instruments exclusively to manage and hedge changes in exchange rates, interest rates or prices of certain raw materials. The Group accordingly uses instruments such as swaps, options and futures, depending on the nature of the exposure to be hedged.

#### Foreign currency hedges

The Group periodically buys foreign currency derivatives to hedge the currency risk associated with foreign currency transactions. Some of these instruments hedge operating receivables and payables carried in the balance sheets of Group companies. The Group does not apply hedge accounting to these instruments because gains and losses on this hedging is immediately recognized. At year-end, the hedging derivatives are marked to market and gains or losses are recognized in "Net financial income/(loss)", offsetting the gains or losses resulting from the translation at end-of-year rates of foreign currency payables and receivables, in accordance with IAS 21 – *The Effects of Changes in Foreign Exchange Rates*.

The Group also hedges future cash flows, including recurring future transactions, intra-group foreign currency loans or planned acquisitions or disposals of investments. In accordance with IAS 39, these are treated as cash flow hedges. These hedging instruments are recognized in the balance sheet and are measured at fair value at the end of the year. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is accumulated in equity, under "Other reserves", and then recognized in the income statement when the hedged item affects profit or loss. The ineffective portion of the gain or loss on the hedging instrument is recognized in "Net financial income/(loss)".

In addition, certain long-term receivables and loans to subsidiaries are considered to be part of a net investment in a foreign operation, as defined by IAS 21 – *The Effects of Changes in Foreign Exchange Rates*. In accordance with the rules governing hedges of net investments, the impact of exchange rate fluctuations is recorded in equity and recognized in the statement of income when the investment is sold.



### Interest rate swaps

Interest rate swaps allow the Group to manage its exposure to interest rate risk. The derivative instruments used are financially adjusted to the schedules, rates and currencies of the borrowings they cover. They involve the exchange of fixed and floating-rate interest payments. The differential to be paid (or received) is accrued (or deferred) as an adjustment to interest income or expense over the life of the agreement. The Group applies hedge accounting as described in IAS 39 for interest rate swaps. Gains and losses on re-measurement of interest rate swaps at fair value are recognized in equity (for cash flow hedges) or in profit or loss (for fair value hedges).

### Commodity contracts

The Group also purchases commodity derivatives including forward purchase contracts, swaps and options to hedge price risks on all or part of its forecast future purchases. Under IAS 39, these qualify as cash flow hedges. These instruments are recognized in the balance sheet and are measured at fair value at the period-end. The effective portion of the hedge is recognized separately in equity (under "Other reserves") and then recognized in income (gross margin) when the hedged item affects consolidated income. The effect of this hedging is then incorporated in the cost price of the products sold. The ineffective portion of the gain or loss on the hedging instrument is recognized in "Net financial income/(loss)".

Cash flows from financial instruments are recognized in the consolidated statement of cash flows in a manner consistent with the underlying transactions.

### Put options granted to minority shareholders

In line with the AMF's recommendation of November 2009 and in the absence of a specific IFRS rule, the Group elected to retain the accounting treatment for minority put options applied up to December 31, 2009 (involving puts granted to minority shareholders prior to this date). In this case, the Group elected to recognize the difference between the purchase price of the minority interests and the share of the net assets acquired as goodwill, without re-measuring the assets and liabilities acquired. Subsequent changes in the fair value of the liability are recognized by adjusting goodwill.

The Group elected in 2011 to recognize the subsequent changes in the fair value of the liability against equity.

## 1.24 – Revenue recognition

The Group's revenues primarily include merchandise sales and revenues from services and contracts.

### Merchandise sales

Revenue from sales is recognized when the product is shipped and risks and benefits are transferred (standard shipping terms are FOB).

Provisions for the discounts offered to distributors are set aside when the products are sold to the distributor and recognized as a deduction from revenue.

Certain Group subsidiaries also offer cash discounts to distributors. These discounts and rebates are deducted from sales.

Consolidated revenue is presented net of these discounts and rebates.

### Service contracts

Revenue from service contracts is recorded over the contractual period of service. It is recognized when the result of the transaction can be reliably determined, by the percentage of completion method.

### Long-term contracts

Income from long-term contracts is recognized using the percentage-of-completion method, based either on the percentage of costs incurred in relation to total estimated costs of the entire contract, or on the contract's technical milestones, notably proof of installation or delivery of equipment. When a contract includes performance clauses in the Group's favor, the related revenue is recognized at each project milestone and a provision is set aside if targets are not met.

Losses at completion for a given contract are provided for in full as soon as they become probable. The cost of work-in-process includes direct and indirect costs relating to the contracts.

## 1.25 – Earnings per share

Earnings per share are calculated in accordance with IAS 33 – *Earnings Per Share*.

Diluted earnings per share are calculated by adjusting profit attributable to equity holders of the parent and the weighted average number of shares outstanding for the dilutive effect of the exercise of stock options outstanding at the balance sheet date. The dilutive effect of stock options is determined by applying the "treasury stock" method, which consists of taking into account the number of shares that could be purchased, based on the average share price for the year, using the proceeds from the exercise of the rights attached to the options.

## 1.26 – Statement of cash flows

The consolidated statement of cash flows has been prepared using the indirect method, which consists of reconciling net profit to net cash provided by operations. The opening and closing cash positions include cash and cash equivalents, comprised of marketable securities, (note 1.20) net of bank overdrafts and facilities.





## Note 2 Changes in the scope of consolidation

The Group's consolidated financial statements for the year ended December 31, 2012 can be summarized as follows:

Number of active companies	Dec. 31, 2012	Dec. 31, 2011
Parent company and fully consolidated subsidiaries	582	590
Proportionally consolidated companies	3	1
Companies accounted for by the equity method	6	5
<b>TOTAL</b>	<b>591</b>	<b>596</b>

### 2.1 – Follow-up on 2011 acquisitions

In accordance with IFRS3 R, Schneider Electric valued the assets acquired and liabilities assumed at their fair value on the date of acquisition.

The final allocation of the acquisition price of Summit Energy (April 14, 2011), of DIGILINK (May 13, 2011), of Luminous (June 1, 2011), of Steck (July 20, 2011), of Telvent (August 31, 2011), and of Leader & Harvest (October 11, 2011) led principally to the recognition of intangible assets in the amount of EUR406 million

(technology, backlog, inventories and customer relationships) and to revaluations of property, plant and equipment in the amount of EUR7 million; these assets were valued by independent experts. Asset write-offs, contingent liabilities and indemnification assets were recognized for respectively a total amount of EUR290 million, EUR146 million and EUR2 million.

Comparative data in 2011 did not require a change in 2012 because the impacts related to changes in fair value recognized as part of the acquisition were not significant across the Schneider Group balance sheet and income statement also.

### 2.2 – Acquisitions during the year

The total amount of acquisitions during the year came to EUR249 million, net of cash and cash equivalents acquired.

	Dec. 31, 2012	Dec. 31, 2011
Acquisitions	(249)	(2,873)
Cash and cash equivalents paid	(268)	(2,953)
Cash and cash equivalents paid acquired	19	80
Disposals	7	6
Other operations	-	(6)
<b>NET FINANCIAL INVESTMENT</b>	<b>(242)</b>	<b>(2,873)</b>

It is mainly related to the acquisition of M&C Energy Group (June 12, 2012).

The provisional allocation from acquisitions of M&C Energy Group led principally to the recognition of intangible assets in the amount of EUR19 million (customer relationships).

On December 31, 2012, the main elements of the provisional computation are:

- contingent liabilities, for the identification of risks are not completed at the closing date;
- tangible assets, because the estimated fair value of these assets is in progress;
- intangible assets, because the assumptions used to value these assets will be refined in 2013.

### Note 3 Segment information

The Group is organized in 5 businesses (Power, Infrastructure, Industry, IT, Buildings).

The five businesses are:

- **Power**, which includes the activities of Low Voltage (electrical distribution), LifeSpace (wiring devices and associated interface devices) and Renewables (conversion and connection to the grid); the business is in charge of the end-customer segments Residential and Marine when it relates to solutions integrating the offers of several activities from the Group;
- **Infrastructure**, combines all Medium Voltage activities including those from Areva Distribution, as well as Telvent; the business is in charge of the end-customer segments Oil and Gas and Utilities when it relates to solutions integrating the offers of several activities from the Group;
- **Industry**, which includes Automation & Control and three end-customer segments: OEMs, Water Treatment and Mining, Minerals & Metals when it relates to solutions integrating the offers of several activities from the Group, as well as Custom Sensors & Technologies business (Sensors & Automotives);

- **IT**, which covers Critical Power & Cooling Services and two end-customer segments: Data Centers and Financial Services when it relates to solutions integrating the offers of several activities from the Group;

- **Buildings**, which includes Building Automation and Security and four end-customer segments: Hotels, Hospitals, Office Buildings and Retail Buildings.

Data concerning General Management that cannot be allocated to a particular segment are presented under "Corporate costs".

Operating segment data is identical to that presented to the Management Board, which has been identified as the main decision-making body for allocating resources and evaluating segment performance. Performance assessments used by the Management Board are notably based on Adjusted EBITA. Share-based payment is presented under "Corporate costs". The Management Board does not review assets and liabilities by Business.

The same accounting principles governing the consolidated financial statements apply to segment data.

Details are provided in Chapter 4 of the Registration Document (Business Review).

#### 3.1 – Information by operating segment

Full year 2012

	Power	Infrastructure	Industry	IT	Buildings	Corporate costs	Total
Revenue	8,738	5,366	4,483	3,677	1,682	-	23,946
Adjusted EBITA*	1,813	575	823	698	107	(501)	3,515
%	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
%	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 (of which Costs of acquisition, integration and separation).

Revenue related to solutions amounts to 39% of total revenue in 2012.



**Full year 2011\***

	<b>Power</b>	<b>Infrastructure</b>	<b>Industry</b>	<b>IT</b>	<b>Buildings</b>	<b>Corporate costs</b>	<b>Total</b>
Revenue	8,262	4,897	4,397	3,237	1,552	-	<b>22,345</b>
Adjusted EBITA**	1,705	511	774	523	145	(468)	<b>3,190</b>
%	20.6%	10.4%	17.6%	16.2%	9.3%	-	<b>14.3%</b>
Other operating income and expense	49	(27)	4	(17)	(8)	(9)	<b>(8)</b>
Restructuring costs	(75)	(19)	(24)	(9)	(11)	(7)	<b>(145)</b>
EBITA	1,679	465	754	497	126	(484)	<b>3,037</b>
%	20.3%	9.5%	17.1%	15.4%	8.1%	-	<b>13.6%</b>

\* 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 (of which Costs of acquisition, integration and separation).

### 3.2 – Information by region

The geographic regions covered by the Group are:

- Western Europe;
- North America: United States, Canada and Mexico;
- Asia-Pacific;
- Rest of the World (Eastern Europe, Middle East, Africa, South America).

Non-current assets include net goodwill, net intangible assets and net property, plant and equipment.

**Dec. 31, 2012**

	<b>Western Europe</b>	<b>of which France</b>	<b>North America</b>	<b>of which USA</b>	<b>Asia-Pacific</b>	<b>of which China</b>	<b>Rest of the world</b>	<b>Total</b>
Revenue by country market	7,073	1,822	5,949	4,966	6,507	3,036	4,417	<b>23,946</b>
Non-current assets	8,194	1,801	6,591	6,404	4,389	1,205	871	<b>20,045</b>

**Dec. 31, 2011\***

	<b>Western Europe</b>	<b>of which France</b>	<b>North America</b>	<b>of which USA</b>	<b>Asia-Pacific</b>	<b>of which China</b>	<b>Rest of the world</b>	<b>Total</b>
Revenue by country market	7,142	1,916	5,208	4,360	5,933	2,798	4,062	<b>22,345</b>
Non-current assets	7,361	1,710	7,466	7,310	4,413	1,095	811	<b>20,051</b>

Moreover, the Group follows the share of new economies in revenue:

	<b>Full year 2012</b>		<b>Full year 2011</b>	
Revenue – Mature countries	14,186	59%	13,512	60%
Revenue – New economies	9,760	41%	8,833	40%
<b>TOTAL</b>	<b>23,946</b>	<b>100%</b>	<b>22,345</b>	<b>100%</b>

\* The 2011 figures were restated for the item disclosed in note 1.2 of the consolidated financial statements.

### 3.3 – Degree of dependence in relation to main customers

No single customer accounts for more than 10% of consolidated revenue.

## Note 4 Research and development

Research and development costs break down as follows:

	Full year 2012	Full year 2011
Research and development costs in cost of sales	265	206
Research and development costs in commercial expenses	-	-
Research and development costs in R&D costs <sup>(1)</sup>	507	539
Capitalized development costs	286	234
<b>TOTAL RESEARCH AND DEVELOPMENT COSTS OF THE YEAR</b>	<b>1,058</b>	<b>979</b>

(1) Of which EUR43 million research and development tax credit in December 2012 and EUR29 million in December 2011.

Amortization of capitalized development costs amounted to EUR133 million for the 2012 financial year, compared with EUR112 million in 2011.

## Note 5 Depreciation and amortization expenses

Depreciation and amortization expenses recognized in operating expenses were as follows:

	Full year 2012	Full year 2011
<b>Included in cost of sales:</b>		
Depreciation and amortization	(433)	(398)
<b>Included in selling, general and administrative expenses:</b>		
Depreciation and amortization	(150)	(133)
<b>DEPRECIATION AND AMORTIZATION EXPENSES</b>	<b>(583)</b>	<b>(531)</b>

Moreover, the net amount of impairment of non-current assets totaled EUR241 million, of which mainly EUR250 million in goodwill impairment (note 8).

## Note 6 Other operating income and expenses

Other operating income and expenses break down as follows:

	Full year 2012	Full year 2011
Impairment losses on assets	(16)	-
Gains on asset disposals	8	8
Losses on asset disposals	(10)	(9)
Costs of acquisitions	(52)	(99)
Pension plan curtailments	21	42
Others	39	50
<b>OTHER OPERATING INCOME AND EXPENSES</b>	<b>(10)</b>	<b>(8)</b>

The costs of acquisitions are the costs of acquisition, integration and separation related to major acquisitions in 2011 and 2012.

The line "Pension plan curtailments" includes mainly a provision release for medical care in the US of EUR21 million.

The line "Others" includes mainly a reversal of provision for litigation or claims expired on December 2012. In 2011, the line "Others" includes mainly a reversal of provision for litigation or claims expired.

Additionally, in 2012, provisions in an amount of EUR27 million were recorded in other operating income and expenses.

## Note 7 Restructuring costs

Restructuring costs totaled EUR164 million over the period. They mainly relate to industrial and support function reorganizations in Europe (approximately EUR97 million) and in North America (approximately EUR24 million).

## Note 8 Amortization and impairment of purchase accounting intangibles

	Full year 2012	Full year 2011
Amortization of purchase accounting intangibles	(224)	(208)
Impairment of purchase accounting intangibles	(1)	(3)
Goodwill impairment	(250)	(15)
<b>AMORTIZATION AND IMPAIRMENT OF PURCHASE ACCOUNTING INTANGIBLES</b>	<b>(475)</b>	<b>(226)</b>

The migration of the Group's brands towards the Schneider Electric brand (One Brand project) has led to the amortization from January 1, 2010 of the Xantrex, TAC and MGE brands over a six-year period. The corresponding amortization expense totaled EUR61 million over the year.

The Buildings business segment faced challenging trading environment in the past few years following the construction downturn in its key mature markets, affecting its financial performance. When conducting the annual impairment tests at year-end, the Group had to book a goodwill impairment of Buildings CGU by EUR250 million before tax effect. The sensitivity analysis on the test hypothesis would lead to book an additional impairment on Buildings CGU assets of:

- 7% of assets for a 0.5 point increase of the discount rate;

- 4% of assets for a 1.0 point decrease of the growth rate;
- 4% of assets for a 0.5 point decrease of margin rate.

Impairment tests performed on the other Group's CGUs have not led to impairment losses being recognized. The sensitivity analysis on the test hypothesis shows that no impairment losses would be recognized in the following scenarios:

- a 0.5 point increase of the discount rate;
- a 1.0 point decrease of the growth rate;
- a 0.5 point decrease of margin rate.

Impairment losses totaling EUR15 million were recognized on goodwill relating to two small businesses in Europe sold in 2011.

## Note 9 Other financial income and expense

	Full year 2012	Full year 2011
Exchange gains and losses, net	(21)	(40)
Financial component of defined benefit plan costs	(43)	(45)
Dividends received	12	9
Net gains/(losses) on disposal of long-term investments	12	(1)
Other financial expense, net	(16)	(37)
<b>OTHER FINANCIAL INCOME AND EXPENSE</b>	<b>(56)</b>	<b>(114)</b>

Dividends are mainly received on AXA shares. Net gain on investment disposal comes from AXA divestment.

## Note 10 Income tax expense

Whenever possible, Group entities file consolidated tax returns. Schneider Electric SA has chosen this option for the French subsidiaries it controls directly or indirectly through Schneider Electric Industries SAS.

### 10.1 – Analysis of income tax expense

	Full year 2012	Full year 2011*
<b>Current taxes</b>		
France	(19)	(190)
International	(657)	(718)
<b>Total</b>	<b>(676)</b>	<b>(908)</b>
<b>Deferred taxes</b>		
France	24	(85)
International	84	446
<b>Total</b>	<b>108</b>	<b>361</b>
<b>INCOME TAX (EXPENSE)/BENEFIT</b>	<b>(568)</b>	<b>(547)</b>

\* The 2011 figures were restated for the item disclosed in note 1.2 of the consolidated financial statements.



## 10.2 – Tax proof

	Full year 2012	Full year 2011*
<b>Profit attributable to owners of the parent</b>	<b>1,840</b>	<b>1,793</b>
Income tax (expense)/benefit	(568)	(547)
Non-controlling interests	(87)	(84)
Share of profit of associates	34	28
<b>Profit before tax</b>	<b>2,461</b>	<b>2,396</b>
Statutory tax rate	34.43%	34.43%
<b>Income tax expense calculated at the statutory rate</b>		
<b>Reconciling items:</b>	<b>(847)</b>	<b>(825)</b>
Difference between French and foreign tax rates	257	220
Tax credits and other tax reductions	118	87
Impact of tax losses	(10)	(28)
Other permanent differences	(87)	(1)
Income tax (expense)/benefit	(568)	(547)
<b>EFFECTIVE TAX RATE</b>	<b>23.1%</b>	<b>22.8%</b>

\* The 2011 figures were restated for the item disclosed in note 1.2 of the consolidated financial statements.

## Note 11 Goodwill

### 11.1 – Main items of goodwill

Group goodwill is broken down by business as follows:

	Dec. 31, 2012, net	Dec. 31, 2011, net
<i>Power</i>	3,943	3,906
<i>Industry</i>	2,244	2,176
<i>Buildings</i>	1,469	1,642
<i>ITB</i>	3,015	3,061
<i>Infrastructure</i>	2,233	1,987
<b>TOTAL</b>	<b>12,904</b>	<b>12,773</b>

Square D goodwill was allocated to each business in proportion to operating income:

	<i>Power</i>	<i>Industry</i>
Square D Company	82%	18%

## 11.2 – Movements during the year

The main movements during the year are summarized as follows:

	Full year 2012	Full year 2011
<b>Net goodwill at opening</b>	<b>12,773</b>	<b>10,213</b>
Acquisitions*	195	2,356
Disposals	-	(21)
Impairment	(250)	-
Translation adjustment	(108)	142
Reclassifications	294	83
<b>Net goodwill at year end</b>	<b>12,904</b>	<b>12,773</b>
<b>Included cumulative impairment</b>	<b>(413)</b>	<b>(178)</b>

\* On the basis of the exchange rate at acquisition date.

### Acquisitions

There is a 12 month period after the date of acquisition for the Group to finalize the allocation of goodwill to these entities. The corresponding goodwill is therefore provisional.

Goodwill generated by acquisitions made during the year totaled EUR195 million and corresponds partly to the UK group M&C Energy.

Goodwill generated by acquisitions in 2011 totaled EUR2,353 million and corresponds principally to Telvent (EUR1,213 million), the

Chinese group Leader & Harvest (EUR464 million) and the Indian group Luminous (EUR222 million).

### Impairment

Impairment tests performed on all the Group's CGUs led to the recognition of a EUR250 million impairment loss before tax on Buildings CGU.

### Other changes

Translation adjustments concern principally goodwill on US dollars.

## Note 12 Intangible assets

### 12.1 – Change in intangible assets

	Trademarks	Software	Development projects (R&D)	Other	Total
<b>GROSS VALUE</b>					
<b>Dec. 31, 2010</b>	<b>2,621</b>	<b>800</b>	<b>1,085</b>	<b>1,510</b>	<b>6,016</b>
Acquisitions	-	25	217	54	296
Disposals	-	(30)	(19)	(8)	(57)
Translation adjustments	80	4	21	46	151
Reclassification	1	4	(16)	(25)	(36)
Changes in scope of consolidation and other	84	24	4	338	450
<b>Dec. 31, 2011</b>	<b>2,786</b>	<b>827</b>	<b>1,292</b>	<b>1,915</b>	<b>6,820</b>
Acquisitions	4	21	286	4	315
Disposals	-	(48)	(43)	(50)	(141)
Translation adjustments	(56)	(3)	(25)	(16)	(100)
Reclassification	2	(33)	37	11	17
Changes in scope of consolidation and other	13	36	(15)	29	63
<b>Dec. 31, 2012</b>	<b>2,749</b>	<b>800</b>	<b>1,532</b>	<b>1,892</b>	<b>6,974</b>



	Trademarks	Software	Development projects (R&D)	Other	Total
<b>ACCUMULATED AMORTIZATION AND IMPAIRMENT</b>					
<b>Dec. 31, 2010</b>	<b>(195)</b>	<b>(593)</b>	<b>(367)</b>	<b>(603)</b>	<b>(1,758)</b>
Depreciation and impairment	(60)	(61)	(112)	(151)	(384)
Recapture	-	29	9	1	39
Translation adjustments	(2)	(5)	(11)	(22)	(40)
Reclassification	-	13	3	(3)	13
Changes in scope of consolidation and other	-	1	(5)	18	14
<b>Dec. 31, 2011</b>	<b>(257)</b>	<b>(616)</b>	<b>(483)</b>	<b>(760)</b>	<b>(2,116)</b>
Depreciation and impairment	(64)	(58)	(138)	(145)	(405)
Recapture	-	49	12	-	61
Translation adjustments	5	3	15	15	38
Reclassification	-	31	(30)	1	2
Changes in scope of consolidation and other	-	(42)	37	(30)	(35)
<b>Dec. 31, 2012</b>	<b>(316)</b>	<b>(633)</b>	<b>(587)</b>	<b>(919)</b>	<b>(2,455)</b>

	Trademarks	Software	Development projects (R&D)	Other	Total
<b>NET VALUE</b>					
<b>Dec. 31, 2010</b>	<b>2,426</b>	<b>207</b>	<b>718</b>	<b>907</b>	<b>4,258</b>
<b>Dec. 31, 2011</b>	<b>2,529</b>	<b>211</b>	<b>809</b>	<b>1,155</b>	<b>4,704</b>
<b>Dec. 31, 2012</b>	<b>2,433</b>	<b>167</b>	<b>945</b>	<b>974</b>	<b>4,519</b>

In 2012, changes in scope of consolidation of other intangible assets mainly include recognized intangibles relating to Telvent (EUR250 million), to Leader & Harvest (EUR85 million) and to

Steck (EUR23 million) acquired in 2011, to M&C Energy Group (EUR19 million) acquired in 2012.

The amortization and impairment of intangible assets other than goodwill retreated at statutory cash flow were as follows:

<i>Cash impact</i>	<b>Dec. 31, 2012</b>	<b>Dec. 31, 2011</b>
Amortization of intangible assets other than goodwill	420	380
Impairment on intangible assets other than goodwill and others	(15)	4
<b>TOTAL*</b>	<b>405</b>	<b>384</b>

\* Includes amortization & depreciation of intangibles assets from purchase price allocation for EUR225 million for the year 2012 and EUR208 million for the year 2011 (disclosed in note 8).

## 12.2 – Trademarks

At December 31, 2012, the main trademarks recognized were as follows:

	Dec. 31, 2012	Dec. 31, 2011
APC	1,406	1,406
Pelco	380	388
Clipsal	200	200
MGE	100	167
TAC	63	82
Juno	87	88
Digital	48	54
Other	149	144
<b>NET</b>	<b>2,433</b>	<b>2,529</b>

Brands recognized on acquisition realized in 2011 (Telvent, Luminous, Steck) amount to EUR78 million. They are recorded in line Other.

The migration of the Group's brands towards the Schneider Electric brand (*One Brand project*) has led to the amortization from January 1, 2010 of the Xantrex, TAC and MGE brands over a six-year period. The corresponding amortization expense totaled EUR61 million over the year.

## Note 13 Property, plant and equipment

### 13.1 – Change in tangible assets

	Land	Buildings	Machinery and equipment	Other	Total
<b>GROSS VALUE</b>					
<b>Dec. 31, 2010</b>	<b>231</b>	<b>1,480</b>	<b>3,678</b>	<b>832</b>	<b>6,221</b>
Acquisitions	11	104	168	233	<b>516</b>
Disposals	(1)	(18)	(105)	(46)	<b>(170)</b>
Translation adjustments	2	11	21	1	<b>35</b>
Reclassification	3	33	42	(141)	<b>(63)</b>
Changes in scope of consolidation and other	(24)	122	18	33	<b>149</b>
<b>Dec. 31, 2011</b>	<b>222</b>	<b>1,732</b>	<b>3,822</b>	<b>912</b>	<b>6,688</b>
Acquisitions	-	78	148	262	<b>488</b>
Disposals	(7)	(32)	(137)	(111)	<b>(287)</b>
Translation adjustments	(4)	(13)	(21)	(4)	<b>(41)</b>
Reclassification	-	31	105	(127)	<b>9</b>
Changes in scope of consolidation and other	(1)	(14)	(5)	10	<b>(10)</b>
<b>Dec. 31, 2012</b>	<b>210</b>	<b>1,782</b>	<b>3,912</b>	<b>942</b>	<b>6,846</b>



	Land	Buildings	Machinery and equipment	Other	Total
<b>ACCUMULATED AMORTIZATION AND IMPAIRMENT</b>					
<b>Dec. 31, 2010</b>	<b>(14)</b>	<b>(702)</b>	<b>(2,697)</b>	<b>(471)</b>	<b>(3,884)</b>
Depreciation and impairment	(1)	(76)	(250)	(58)	(385)
Recapture	-	11	121	27	159
Translation adjustments	-	(6)	(20)	(2)	(28)
Reclassification	3	4	38	11	56
Changes in scope of consolidation and other	(3)	(23)	6	(13)	(33)
<b>Dec. 31, 2011</b>	<b>(15)</b>	<b>(792)</b>	<b>(2,802)</b>	<b>(506)</b>	<b>(4,115)</b>
Depreciation and impairment	(10)	(75)	(257)	(60)	(402)
Recapture	-	21	174	64	259
Translation adjustments	-	5	9	3	17
Reclassification	-	(5)	2	(1)	(4)
Changes in scope of consolidation and other	-	12	9	-	21
<b>Dec. 31, 2012</b>	<b>(25)</b>	<b>(834)</b>	<b>(2,865)</b>	<b>(500)</b>	<b>(4,224)</b>

	Land	Buildings	Machinery and equipment	Other	Total
<b>NET VALUE</b>					
<b>Dec. 31, 2010</b>	<b>217</b>	<b>778</b>	<b>981</b>	<b>361</b>	<b>2,337</b>
<b>Dec. 31, 2011</b>	<b>207</b>	<b>940</b>	<b>1,020</b>	<b>406</b>	<b>2,573</b>
<b>Dec. 31, 2012</b>	<b>185</b>	<b>948</b>	<b>1,047</b>	<b>442</b>	<b>2,622</b>

Reclassifications primarily correspond to assets put into use.

The cash impact of purchase of purchases of property, plant and equipment in 2012 was as follows:

<b>Cash impact of purchases of property, plant and equipment</b>	<b>Dec. 31, 2012</b>	<b>Dec. 31, 2011</b>
Increase in tangible assets	(488)	(516)
Change in receivables and liabilities on tangible assets	16	1
<b>TOTAL</b>	<b>(472)</b>	<b>(515)</b>

The depreciation and impairment of tangible assets retreated at statutory cash flow were as follows:

<b>Cash impact</b>	<b>Dec. 31, 2012</b>	<b>Dec. 31, 2011</b>
Depreciation of property, plant and equipment	394	386
Impairment on tangible assets	8	(1)
<b>TOTAL</b>	<b>402</b>	<b>385</b>

### 13.2 – Finance leases

Tangible assets primarily comprise the following finance leases:

	Dec. 31, 2012	Dec. 31, 2011
Land	1	1
Buildings	45	44
Machinery and equipment	31	31
Other tangible assets	2	2
Accumulated depreciation	(68)	(67)
<b>ASSETS UNDER FINANCE LEASE, NET</b>	<b>11</b>	<b>11</b>

Future minimal rental commitments on finance lease properties at December 31, 2012 break down as follows:

	Minimum payments	Discounted minimum payments
Less than one year	11	11
Between one and five years	10	10
Five years and more	1	1
<b>TOTAL COMMITMENTS</b>	<b>23</b>	<b>23</b>
Discounting effect	-	
<b>Discounted minimum payments</b>	<b>23</b>	

### 13.3 – Operating leases

Rental expense breaks down as follows:

	Full year 2012	Full year 2011
Minimum rentals	121	110
Conditional rentals	-	1
Sub-lease rentals	4	(7)
<b>TOTAL RENTAL EXPENSE</b>	<b>125</b>	<b>104</b>

Operating lease commitments break down as follows at December 31, 2012:

	Minimum payments	Discounted minimum payments
Less than one year	136	134
Between one and five years	374	350
Five years and more	214	183
<b>TOTAL COMMITMENTS</b>	<b>724</b>	<b>667</b>
Discounting effect	(57)	
<b>Discounted minimum payments</b>	<b>667</b>	





## Note 14 Investments in associates

Investments in associates can be analyzed as follows:

	% interest		Share net assets		Share in net profit	
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
Delta Dore Finance	20.0%	20.0%	16	15	1	2
Electroshield TM Samara	50.0%	50.0%	303	276	17	14
Sunten Electric Equipment	50.0%	50.0%	100	96	5	-
Fuji Electric FA Components & Systems	36.8%	36.8%	86	96	12	12
Other	N/A	N/A	6	6	(1)	-
<b>TOTAL</b>		-	<b>511</b>	<b>489</b>	<b>34</b>	<b>28</b>

## Note 15 Financial assets

### 15.1 – Available-for-sale financial assets

Available-for-sale financial assets, primarily comprising investments, are detailed below:

	% interest	Dec. 31, 2012			Dec. 31, 2011
		Gross value	Revaluation/ impairment	Fair value	Fair value
<b>I – Listed available-for-sale financial assets</b>					
AXA	-	-	-	-	107
NVC Lighting	9.2%	113	(56)	57	82
Gold Peak Industries Holding Ltd	4.4%	6	(3)	3	2
<b>Total listed AFS</b>		<b>119</b>	<b>(59)</b>	<b>60</b>	<b>191</b>
<b>II – Unlisted available-for-sale financial assets</b>					
Citec, SEAT <sup>(2)</sup>	-	-	-	-	6
FCPR & SICAV	100%	57	13	70	55
SCL Elements Inc. <sup>(1)</sup>	100%	20	-	20	
SE Buildings Energy Efficiency <sup>(1)</sup>	100%	17	-	17	
Inversion	35%	10	-	10	4
FCPR SESS	100%	5	(2)	3	10
Simak <sup>(2)</sup>	-	-	-	-	5
SE Venture	100%	5	(5)	-	-
Others <sup>(3)</sup>		36	(3)	33	25
<b>Total unlisted AFS</b>		<b>150</b>	<b>3</b>	<b>153</b>	<b>105</b>
<b>TOTAL AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>		<b>269</b>	<b>(56)</b>	<b>213</b>	<b>296</b>

(1) Companies purchased in 2012.

(2) Removed from the scope of consolidation – in liquidation.

(3) Gross unit value of less than EUR5 million.

The investment in AXA was sold in September 2012 for proceeds net of fees of EUR121 million.

The fair value of investments quoted in an active market corresponds to the price on the balance sheet date. The revaluation of listed investments over the year has had a negative impact on other equity reserves of EUR60 million before tax.

NVC Lighting investment was acquired in July 2011 in the framework of a partnership that gives Schneider Electric an exclusive access to NVC Lighting's diffused and well established channels. The cumulated change in fair value of NVC Lighting investment determined on its price share and corresponding to a loss of EUR56 million at December 31, 2012, was recorded in equity, as "Other Comprehensive Income". The Group did not recognize this change in fair value in the income statement at December 31, 2012, because it assessed the Group considers that the decrease observed of share price is correlated to concerns from investors point of view about the changes occurred in NVC Lighting

governance in May 2012 that had led to a temporary suspension of trading of the share in July 2012. Those governance changes were solved in the last quarter of 2012 and NVC Lighting share price is recovering progressively. However, the Group estimates that the share price does not reflect the economic intrinsic value of NVC Lighting yet and will assess the necessity of a potential impairment through income statement in 2013.

## 15.2 – Other non-current financial assets

Non Current financial assets total EUR108 million at December 31, 2012.

## 15.3 – Current financial assets

Current financial assets total EUR127 million at December 31, 2012 and include short-term investments.

## Note 16 Deferred taxes by type

Deferred taxes by type can be analyzed as follows:

	Dec. 31, 2012	Dec. 31, 2011*
<b>Deferred tax assets</b>		
Tax credits and tax loss carryforwards	354	294
Provisions for pensions and other post-retirement benefit obligations	615	553
Impairment of receivables and inventory	166	187
Non-deductible provisions for contingencies and accruals	59	84
Other	551	350
<b>TOTAL DEFERRED TAX ASSETS</b>	<b>1,745</b>	<b>1,468</b>
<b>Deferred tax liabilities</b>		
Differences between tax and accounting depreciation	(82)	(113)
Trademarks and other intangible assets	(321)	(430)
Capitalized development costs (R&D)	(60)	(55)
Other	(551)	(346)
<b>TOTAL DEFERRED TAX LIABILITIES</b>	<b>(1,014)</b>	<b>(944)</b>

\* The 2011 figures were restated for the item disclosed in note 1.2 of the consolidated financial statements.

Deferred tax assets recorded in respect of tax loss carryforwards at December 31, 2012 essentially concern France (EUR167 million) and Belgium (EUR77 million).



## Note 17 Inventories and work in progress

Inventories and work in process changed as follows:

	Dec. 31, 2012	Dec. 31, 2011
<b>Cost:</b>		
Raw materials	1,478	1,604
Production work in process	323	362
Semi-finished and finished products	1,512	1,564
Goods	67	75
Solution work in process	106	132
<b>INVENTORIES AND WORK IN PROCESS AT COST</b>	<b>3,486</b>	<b>3,737</b>
<b>Impairment:</b>		
Raw materials	(200)	(191)
Production work in process	(8)	(10)
Semi-finished and finished products	(169)	(167)
Goods	(13)	(12)
Solution work in process	(7)	(8)
<b>IMPAIRMENT LOSS</b>	<b>(396)</b>	<b>(387)</b>
<b>Net:</b>		
Raw materials	1,279	1,413
Production work in process	315	353
Semi-finished and finished products	1,342	1,397
Goods	54	63
Solution work in process	100	124
<b>INVENTORIES AND WORK IN PROCESS, NET</b>	<b>3,090</b>	<b>3,349</b>

## Note 18 Trade accounts receivable

	Dec. 31, 2012	Dec. 31, 2011*
Accounts receivable	5,310	5,360
Notes receivable	193	185
Advances to suppliers	92	116
<b>Accounts receivable at cost</b>	<b>5,595</b>	<b>5,744</b>
Impairment	(306)	(259)
<b>Accounts receivable, net</b>	<b>5,289</b>	<b>5,402</b>
Of which:		
On time	4,291	4,364
Less than one month past due	395	400
One to two months past due	187	168
Two to three months past due	88	112
Three to four months past due	76	93
More than four months past due	252	265
<b>ACCOUNTS RECEIVABLE, NET</b>	<b>5,289</b>	<b>5,402</b>

\* The 2011 figures were restated for the item disclosed in note 1.2 of the consolidated financial statements.

Accounts receivable result from sales to end-customers, who are widely spread both geographically and economically. Consequently, the Group believes that there is no significant concentration of credit risk.

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.

Changes in provisions for impairment of short and long-term trade accounts receivable were as follows:

	Full year 2012	Full year 2011
<b>Provisions for impairment on January 1</b>	<b>(259)</b>	<b>(198)</b>
Additions	(53)	(34)
Utilizations	22	31
Reversals of surplus provisions	2	3
Translation adjustments	3	3
Other	(21)	(64)
<b>PROVISIONS FOR IMPAIRMENT ON DECEMBER 31</b>	<b>(306)</b>	<b>(259)</b>

## Note 19 Other receivables and prepaid expenses

	Dec. 31, 2012	Dec. 31, 2011
Other receivables	308	337
Other tax credits	641	1,039
Derivative instruments	170	82
Prepaid expenses	172	180
<b>TOTAL</b>	<b>1,291</b>	<b>1,638</b>

## Note 20 Cash and cash equivalents

	Dec. 31, 2012	Dec. 31, 2011
Marketable securities	1,720	634
Negotiable debt securities and short-term deposits	443	622
Cash and cash equivalents	1,574	1,515
<b>Total cash and cash equivalents</b>	<b>3,737</b>	<b>2,771</b>
Bank overdrafts	(120)	(217)
<b>NET CASH AND CASH EQUIVALENTS</b>	<b>3,617</b>	<b>2,554</b>

Non-recourse factoring of trade receivables were realized during the second semester of 2012 for a total amount of EUR112 million, compared with EUR135 million during the second semester of 2011.

Moreover, the Group had factored without recourse to a bank during the second semester of 2012 an income tax carry-back receivable of EUR93 million.

## Note 21 Equity

### 21.1 – Capital

#### Share capital

At the Annual General Meeting held on April 21, 2011 Schneider Electric shareholders approved the division of the nominal value of the shares by two. The operation took effect on September 2, 2011 and resulted in the issuance of 271,959,091 new shares.

The Company's share capital at December 31, 2012 amounted to EUR2,221,668,056, represented by 555,417,014 shares with a par value of EUR4, all fully paid up.

At December 31, 2012, a total of 555,417,014 voting rights were attached to the 600,506,571 shares outstanding.

Schneider Electric's capital management strategy is designed to:

- ensure Group liquidity;
- optimize its financial structure;
- optimize the weighted average cost of capital.

The strategy must also ensure the Group has access to different capital markets under the best possible conditions. Factors taken into account for decision-making purposes include objectives expressed in terms of earnings per share, ratings or balance sheet stability. Finally, decisions may be implemented depending on specific market conditions.

#### Changes in share capital

Changes in share capital since December 31, 2010 were as follows:

	Cumulative number of shares	Total (in euros)
<b>Capital at Dec. 31, 2010</b>	<b>271,959,091</b>	<b>2,175,672,728</b>
Division of the par value by two	271,959,091	-
Exercise of stock options	1,169,210	4,676,840
Employee share issue	3,855,632	15,422,528
<b>Capital at Dec. 31, 2011</b>	<b>548,943,024</b>	<b>2,195,772,096</b>
Exercise of stock options	2,952,154	11,808,616
Employee share issue	3,521,836	14,087,344
<b>CAPITAL AT DEC. 31, 2012</b>	<b>555,417,014</b>	<b>2,221,668,056</b>

The share premium account increased by EUR195,532,623 following the exercise of options and the increases in capital.

### 21.2 – Ownership structure

	Dec. 31, 2012				Dec. 31, 2011	
	Capital %	Number of shares	Voting rights %	Number of voting rights	Capital %	Voting rights %
Capital Research and Management Company <sup>(1)</sup>	7.5	41,643,226	6.9	41,643,226	9.4	8.9
CDC	3.7	20,349,002	6.5	38,803,092	3.7	4.6
Employees	4.4	24,652,612	6.8	40,660,345	4.6	7.1
Own shares <sup>(2)</sup>	0.0	1,058	-	-	0.0	-
Treasury shares	1.5	8,580,080	-	-	1.7	-
Public	82.9	460,191,036	78.4	470,818,770	80.6	78.0
<b>TOTAL</b>	<b>100.0</b>	<b>555,417,014</b>	<b>100.0</b>	<b>600,506,571</b>	<b>100.0</b>	<b>100.0</b>

(1) To the best of the Company's knowledge.

(2) Number of voting rights as defined in article 223-11 of the AMF general regulations, which includes shares stripped of voting rights.

No shareholders' pact was in effect as of December 31, 2012.

## 21.3 – Earnings per share

### Determination of the share base used in calculation

<i>(in thousands of shares)</i>	Full year 2012		Full year 2011	
	Basic	Diluted	Basic	Diluted
Common shares*	543,042	543,042	537,422	537,422
Stock grants	-	3,281	-	2,890
Stock options	-	1,376	-	2,623
<b>Average weighted number of shares</b>	<b>543,042</b>	<b>547,698</b>	<b>537,422</b>	<b>542,935</b>

\* Net of treasury shares and own shares.

### Earnings per share

<i>(in euros)</i>	Full year 2012		Full year 2011*	
	Basic	Diluted	Basic	Diluted
Profit before tax	4.53	4.49	4.46	4.41
<b>EARNINGS PER SHARE</b>	<b>3.39</b>	<b>3.36</b>	<b>3.34</b>	<b>3.30</b>

\* The 2011 figures were restated for the item disclosed in note 1.2 of the consolidated financial statements.

## 21.4 – Dividends paid and proposed

In 2012, the Group paid out the 2011 dividend of EUR1.70 per share (with a nominal value of EUR4), for a total of EUR919 million.

In 2011, the Group paid out the 2010 dividend of EUR1.60 per share (with a nominal value of EUR4), for a total of EUR856 million.

At the Shareholders' Meeting of April 25, 2013, shareholders will be asked to approve a dividend of EUR1.87 per share for 2012. At December 31, 2012 Schneider Electric SA had distributable reserves in an amount of EUR1,780 million (versus EUR96 million at the previous year-end), not including profit for the year.





## 21.5 – Share-based payments

### Current stock option and stock grant plans

The Board of Directors of Schneider Electric SA and later the Management Board have set up stock option and stock grant plans for senior executives and certain employees of the Group. The main features of these plans were as follows at December 31, 2012:

#### Stock option plans

Plan no.	Date of Board meeting	Type of plan <sup>(1)</sup>	Starting date of exercise period	Expiration date	Price (in euros)	Number of options initially granted	Options cancelled because targets not met
18	03/24/2000	P	03/24/2003	03/23/2008	32.62	2,842,400	1,373,200
19	04/04/2001	S	04/04/2005	04/03/2009	34.06	3,115,700	N/A <sup>(2)</sup>
20	12/12/2001	S	12/12/2005	12/11/2009	25.63	3,200,000	333,600
21	02/05/2003	S	02/05/2007	02/04/2011	22.60	4,000,000	283,800
22	02/05/2003	S	06/05/2003	02/04/2011	22.60	222,000	N/A <sup>(2)</sup>
23	05/06/2004	S	10/01/2004	05/05/2012	27.77	214,000	N/A <sup>(2)</sup>
24	05/06/2004	S	05/06/2008	05/05/2012	27.77	4,121,400	188,600
25	05/12/2005	S	10/01/2005	05/11/2013	28.23	277,000	N/A <sup>(2)</sup>
26	06/28/2005	S	06/28/2009	06/27/2013	30.09	4,007,600	-
27	12/01/2005	S	12/01/2009	11/30/2013	35.70	3,229,800	-
28	12/21/2006	S or P	12/21/2010	12/20/2016	40.67	2,514,240	-
29	04/23/2007	S or P	04/23/2011	04/22/2017	48.52	166,300	-
30	12/19/2007	S or P	12/19/2011	12/18/2017	46.00	1,889,852	980,926
31	01/05/2009	S or P	01/05/2013	01/04/2019	26.06	1,358,000	-
32	08/21/2009	S or P	08/21/2013	08/20/2019	31.30	10,000	-
33	12/21/2009	S or P	12/21/2013	12/20/2019	37.92	1,652,686	-
<b>TOTAL</b>						<b>32,820,978</b>	<b>3,160,126</b>

(1) S = Options to subscribe new shares. P = Options to purchase existing shares.

(2) Not applicable because no vesting conditions were set.

Rules governing the stock option plans are as follows:

- to exercise the option, the grantee must be an employee or corporate officer of the Group. Vesting is also conditional on the achievement of performance criteria;
- the options expire after eight to ten years;
- the vesting period is three or four years in the United States and four years in the rest of the world.

## Stock grants

Plan no.	Date of Board meeting	Vesting Date	Expiration Date	Number of shares granted originally	Grants cancelled because targets not met
1	12/21/2006	12/21/2009	12/21/2011	104,012	-
2	04/23/2007	04/23/2010	04/23/2012	4,428	-
3	12/19/2007	12/19/2010	12/19/2012	132,788	69,434
4	12/19/2007	12/19/2011	12/19/2011	114,500	58,176
5	01/05/2009	01/05/2012	01/05/2014	287,430	-
6	01/05/2009	01/05/2013	01/05/2013	424,702	-
7	08/21/2009	08/21/2012	08/21/2014	2,500	-
8	12/21/2009	12/21/2011	12/21/2013	319,506	-
9	12/21/2009	12/21/2013	12/21/2013	780,790	-
10	12/17/2010	03/17/2013	03/17/2015	665,524	-
11	12/17/2010	12/17/2014	12/17/2014	1,161,696	-
10 bis	07/26/2011	07/26/2013	07/26/2015	3,000	-
11 bis	07/26/2011	07/26/2015	07/26/2015	5,882	-
12	07/26/2011	07/26/2015	07/26/2015	19,850	-
13	12/16/2011	12/16/2013	12/16/2015	645,443	-
14	12/16/2011	12/16/2015	12/16/2015	1,387,800	-
13 ter	07/27/2012	07/27/2014	07/27/2016	625	-
14 ter	07/27/2012	07/27/2016	07/27/2016	1,500	-
<b>TOTAL</b>				<b>6,061,976</b>	<b>127,610</b>

Rules governing the stock grant plans are as follows:

- to receive the stock, the grantee must be an employee or corporate officer of the Group. Vesting is also conditional on the achievement of performance criteria;
- the vesting period is two to four years;
- the lock-up period is zero to two years.

## Outstanding options and grants

### Change in the number of options

Plan no.	Number of options outstanding Dec. 31, 2011	Number of options exercised and/or created in 2012	Number of options cancelled in 2012 <sup>(1)</sup>	Number of options outstanding Dec. 31, 2012
23	22,292	(11,992)	(10,300)	
24	571,390	(432,438)	(138,952)	
25	44,068	(16,448)	(10)	27,610
26	1,647,570	(1,187,295)	(28,684)	431,591
27	1,899,410	(760,201)	(32,924)	1,106,285
28	1,800,722	(408,292)	(44,882)	1,347,548
29	144,300	(14,400)	(19,000)	110,900
30	841,960	(112,700)	(18,020)	711,240
31	1,253,300		(177,530)	1,075,770
32	10,000			10,000
33	1,624,636		(59,110)	1,565,526
<b>TOTAL</b>	<b>9,859,648</b>	<b>(2,943,766)</b>	<b>(529,412)</b>	<b>6,386,470</b>

(1) Including potential cancellations due to targets not being met or options being granted to employees without being exercised.



To exercise the options granted under plans 26 to 33, and the SARs, the grantee must be an employee or corporate officer of the Group. In addition, exercise of some options is generally conditional on the achievement of annual objectives based on financial indicators.

In respect of subscription vesting conditions for current stock option plans, Schneider Electric SA has created 2,952,154 shares in 2012.

### Change in the number of stock grants

Plan no.	Number of stock grants at Dec. 31, 2011	Number of existing or new shares grants in 2012	Number of shares cancelled in 2012	Number of shares outstanding at Dec. 31, 2012
4				
5	272,830	(272,830)		
6	393,748		(30,952)	362,796
7	2,500	(2,500)		
8	317,962	(317,962)		
9	750,410	(3,600)	(32,920)	713,890
10	661,980		(4,028)	657,952
11	1,136,076	(2,324)	(26,926)	1,106,826
10 bis	3,000			3,000
11 bis	5,882			5,882
12	19,850			19,850
13	645,443	2,500	(1,200)	646,743
13 ter		625		625
14	1,387,800	(1,575)	(31,839)	1,354,386
14 ter		1,500	(900)	600
<b>TOTAL</b>	<b>5,597,481</b>	<b>(596,166)</b>	<b>(128,765)</b>	<b>4,872,550</b>

For stock grants to vest, the grantee must be an employee or corporate officer of the Group. In addition, vesting of some stock grants is conditional on the achievement of annual objectives based on financial indicators.

### 21.5.1 Valuation of share-based payments

#### Stock option valuation

In accordance with the accounting policies described in note 1.20, the stock option plans have been valued on the basis of an average

estimated life of between seven and ten years using the following assumptions:

- expected volatility of between 20% and 28%, corresponding to capped historical volatility;
- a payout rate of between 3.0% and 4.5%;
- a discount rate of between 2.9% and 4.5%, corresponding to a risk-free rate over the life of the plans (source: Bloomberg).

Based on these assumptions, the amount recorded under "Selling, general and administrative expenses" for stock grant plans set up after November 7, 2002 breaks down as follows:

	Full year 2012	Full year 2011
Plan 30	-	1
Plan 31	1	2
Plan 32	-	-
Plan 33	3	4
<b>TOTAL</b>	<b>4</b>	<b>7</b>

### Valuation of stock grants

In accordance with the accounting policies described in note 1.20, the stock grant plans have been valued on the basis of an average

estimated life of between four and five years using the following assumptions:

- a payout rate of between 3.0% and 4.5%;
- a discount rate of between 1.6% and 4.5%, corresponding to a risk-free rate over the life of the plans (source: Bloomberg).

Based on these assumptions, the amount recorded under "Selling, general and administrative expenses" for stock grant plans set up after November 7, 2002 breaks down as follows:

	Full year 2012	Full year 2011
Plan 5	-	2
Plan 6	1	2
Plan 7	-	-
Plan 8	-	5
Plan 9	5	6
Plan 10	14	16
Plan 11	12	13
Plan 10 bis	-	-
Plan 11 bis	-	-
Plan 12	-	-
Plan 13	11	-
Plan 14	10	-
<b>TOTAL</b>	<b>53</b>	<b>44</b>

### 21.5.2 Worldwide Employee Stock Purchase Plan

Schneider Electric gives its employees the opportunity to become group shareholders thanks to employee share issues. Employees in countries that meet legal and fiscal requirements have the choice between a classic and a leveraged plan.

Under the classic plan, employees may purchase Schneider Electric shares at a 15% to 20% discount to the price quoted for the shares on the stock market. Employees must then hold their shares for five years, except in certain cases provided for by law. The share-based payment expense recorded in accordance with IFRS 2 is measured by reference to the fair value of the discount on the locked-up shares. The lock-up cost is determined on the basis of a two-step strategy that involves first selling the locked-up shares on the forward market and then purchasing the same number of shares on the spot market (*i.e.*, shares that may be sold at any time) using a bullet loan.

This strategy is designed to reflect the cost that, the employee would incur during the lock-up period to avoid the risk of carrying the shares subscribed under the classic plan. The borrowing cost corresponds to the cost of borrowing for the employees concerned, as they are the sole potential buyers in this market. It is based on the average interest rate charged by banks for an ordinary, non-revolving personal loan with a maximum maturity of five years granted to an individual with an average credit rating.

Under the leveraged plan, employees may also purchase Schneider Electric shares at a 15% to 20% discount from the price quoted on the stock market. However, the leveraged plan offers a different yield profile as a third-party bank tops up the employee's initial investment, essentially multiplying the amount paid by the employee. The total

is invested in Schneider Electric shares at a preferential price. The bank converts the discount transferred by the employee into funds with a view to securing the yield for the employee and increasing the indexation on a leveraged number (factor of 4.4 in 2012) of directly subscribed shares.

As with the classic plan, the share-based payment expense is determined by reference to the fair value of the discount on the locked-up shares (see above). In addition, it includes the value of the benefit corresponding to the issuer's involvement in the plan, which means that employees have access to share prices with a volatility profile adapted to institutional investors rather than to the prices and volatility profile they would have been offered if they had purchased the shares through their retail banks. The volatility differential is treated as a discount equivalent that reflects the opportunity gain offered to employees under the leveraged plan.

As regards the first semester 2012, Schneider Electric offers to its employees the opportunity to purchase shares at a price of EUR36.66 or EUR34.50 per share, depending on the country, as part of its commitment to employee share ownership, on June 14, 2012. This represented a 15% to 20% discount to the reference price of EUR43.12 calculated as the average opening price quoted for the share during the 20 days preceding the Management Board's decision to launch the employee share issue.

Altogether, 3.5 million shares were subscribed, increasing the Company's capital by EUR124 million as of July 19, 2012. Due to significant changes in valuation assumptions, specifically the interest rate available to market participant, the value of the lock-up period is higher than the discount cost. Therefore the Group did not recognize any cost related to the transaction.



The tables below summarize the main characteristics of the plans, the amounts subscribed, the valuation assumptions and the plans' cost for 2012 and 2011.

	Full year 2012		Full year 2011	
	%	Value	%	Value
<b>Nonleveraged plans</b>				
<b>Plan characteristics</b>				
Maturity ( <i>years</i> )		5		5
Reference price ( <i>euros</i> )		43.12		56.11
Subscription price ( <i>euros</i> ):				
between		36.66		47.69
and		34.5		44.89
Discount:				
between	15.0%		15.0%	
and	20.0%		20.0%	
Amount subscribed by employees		75.9		72.0
Total amount subscribed		75.9		72.0
Total number of shares subscribed ( <i>millions of shares</i> )		2.1		1.6
<b>Valuation assumptions</b>				
Interest rate available to market participant ( <i>bullet loan</i> ) <sup>(1)</sup>	5.5%		4.8%	
Five year risk-free interest rate (euro zone)	1.5%		2.8%	
Annual interest rate ( <i>repo</i> )	1.0%		1.0%	
<b>(a) Value of discount:</b>				
between	15.0%	6.4	15.0%	7.9
and	20.0%	10.0	20.0%	6.7
<b>(b) Value of the lock-up period for market participant</b>	<b>26.2%</b>	<b>24.1</b>	<b>14.9%</b>	<b>12.9</b>
<b>Total expense for the Group (a-b)</b>		<b>0</b>		<b>1.8</b>
<b>Sensitivity</b>				
• decrease in interest rate for market participant <sup>(2)</sup>	(0.5%)	2.5	(0.5%)	2.0

Amounts in millions of euros, unless otherwise stated.

(1) Average interest rate charged on an ordinary, non-revolving personal loan, with a five-year maturity to an individual with an average credit rating.

(2) A decline in the interest rate for market participants reduces the lock-up cost and increases the expense booked by the issuer.

Leveraged plans	Full year 2012		Full year 2011	
	%	Value	%	Value
<b>Plan characteristics</b>				
Maturity ( <i>years</i> )		5		5
Reference price ( <i>euros</i> )		43.12		56.11
Subscription price ( <i>euros</i> ):				
between		36.66		47.69
and		34.50		44.89
Discount :				
between	15.0%		15.0%	
and	20.0%		20.0%	
Amount subscribed by employees		4.8		10.6
Total amount subscribed		47.8		105.7
Total number of shares subscribed ( <i>millions of shares</i> )		1.4		2.4
<b>Valuation assumptions</b>				
Interest rate available to market participant ( <i>bullet loan</i> ) <sup>(1)</sup>	5.5%		4.8%	
Five year risk-free interest rate (euro zone)	1.5%		2.8%	
Annual dividend rate	3.0%		3.0%	
Annual interest rate ( <i>repo</i> )	1.0%		1.0%	
Retail/institutional volatility spread	5.0%		5.0%	
<b>(a) Value of discount:</b>				
between	15.0%	0	15.0%	5.9
and	20.0%	11.9	20.0%	18.1
<b>(b) Value of the lock-up period for market participant</b>	<b>26.2%</b>	<b>15.6</b>	<b>14.9%</b>	<b>19.3</b>
<b>(c) Value of the opportunity gain <sup>(2)</sup></b>	<b>1.3%</b>	<b>1.2</b>	<b>2.0%</b>	<b>2.6</b>
<b>Total expense for the Group (a-b+c)</b>		<b>0</b>		<b>7.3</b>
<b>Sensitivity</b>				
• decrease in interest rate for market participant <sup>(3)</sup>	(0.5%)	1.6	(0.5%)	3.1

Amounts in millions of euros, unless otherwise stated.

(1) Average interest rate charged on an ordinary, non-revolving personal loan, with a five-year maturity to an individual with an average credit rating.

(2) Calculated using a binomial model.

(3) A decline in the interest rate for market participants reduces the lock-up cost and increases the expense booked by the issuer.

(4) In some countries, due to local law, employees subscribe for undiscounted sums while the bank subscribes at a discount to provide the leverage.





## 21.6 – Schneider Electric SA shares

At December 31, 2012, the Group held 8,580,080 Schneider Electric shares in treasury stock, which have been recorded as a deduction from retained earnings.

## 21.7 – Tax on equity

Total income tax recorded in Equity amounts to EUR414 million as of December 31, 2012 and can be analyzed as follows:

	Dec. 31, 2012	Dec. 31, 2011	Change in tax
Cash-flow hedges	89	100	(11)
Available-for-sale financial assets	(8)	(3)	(5)
Actuarial gains (losses) on defined benefits	335	233	102
Other	(2)	(1)	(1)
<b>TOTAL</b>	<b>414</b>	<b>329</b>	<b>85</b>

## Note 22 Pensions and other post-employment benefit obligations

The Group has set up various post-employment benefit plans for employees covering pensions, termination benefits, healthcare, life insurance and other benefits, as well as long-term benefit plans

for active employees, primarily long service awards and similar benefits, mainly in France.

Actuarial valuations are generally performed each year. The assumptions used vary according to the economic conditions prevailing in the country concerned, as follows:

	Weighted average rate		Of which US	
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
Discount rate	3.5%	4.3%	3.75%	4.6%
Rate of compensation increases	2.4%	2.5%	N/A	N/A
Expected return on plan assets <sup>(1)</sup>	6.3%	6.9%	7.5%	8.0%

(1) Corresponding to the 2011 and 2012 rates.

The discount rate is determined on the basis of the interest rate for investment-grade (AA) corporate bonds or, if a liquid market does not exist, government bonds with a maturity that matches the duration of the benefit obligation. In the United States, the average discount rate is determined on the basis of a yield curve for investment-grade (AA and AAA) corporate bonds.

The discount rate currently stands at 2.80% for 10 years duration and 3.10% for 15 years duration in the euro zone, 3.75% in the United States and 4.30% in the United Kingdom.

A 0.5 point increase in the discount rate would reduce pension and termination benefit obligations by around EUR202 million and the service cost by EUR4 million. A 0.5 point decrease would increase pension and termination benefit obligations by EUR226 million and the service cost by EUR4 million.

The post-employment healthcare obligation mainly concerns the United States. A one point increase in the healthcare costs rate would increase the post-employment healthcare obligation by EUR39 million and the sum of the service cost and interest cost by EUR2 million. A one point decrease in healthcare costs rate would decrease the post-employment healthcare obligation by EUR33 million and the sum of the service cost and interest cost by EUR2 million.

In 2012, the rate of healthcare cost increases in the United States is based on a decreasing trend from 7.67% in 2013 to 4.5% in 2023.

In 2011, the rate of healthcare cost increase is based on a decreasing trend from 8% in 2012 to 4.5% in 2023. The rate in France was estimated at 4% in 2012 and estimated at 4.5% in 2011.

## Pensions and termination benefits

Pension obligations primarily concern the Group's North American and European subsidiaries. These plans feature either a lump-sum payment on the employee's retirement or regular pension payments after retirement. The amount is based on years of service, grade and end-of-career salary. They also include top-hat payments granted to certain senior executives guaranteeing supplementary retirement income beyond that provided by general, mandatory pension schemes.

The majority of benefit obligations under these plans, which represent 83% of the Group's total commitment or EUR2,550 million at December 31, 2012, are partially or fully funded through payments to external funds. These funds are not invested in Group assets.

External funds are invested in equities (around 32%), bonds (around 57%), real estate (around 5%) and cash (around 6%).

Main contributions amounted to EUR79 million in 2012.

Contributions are estimated at EUR52 million for 2013.

At December 31, 2012, provisions for pensions and termination benefits totaled EUR1,488 million, compared with EUR1,263 million in 2011. These provisions have been included in non-current liabilities, as the current portion was not considered material in relation to the total liability.

Payments made under defined contribution plans are recorded in the income statement in the year of payment and are in full settlement

of the Group's liability. Defined contribution plan payments totaled EUR70 million in 2012 and EUR61 million in 2011.

## Other post-employment and long-term benefits: including healthcare, life insurance and long service awards

The North American subsidiaries pay certain healthcare costs and provide life insurance benefits to retired employees who fulfill certain criteria in terms of age and years of service. These post-employment benefit obligations are unfunded.

Healthcare coverage for North American employees represents 79% of this obligation.

The assumptions used to determine post-employment benefit obligations related to healthcare and life insurance are the same as those used to estimate pension benefit obligations in the country concerned.

Other long-term benefit obligations include healthcare coverage plans in Europe, for EUR76 million, and long-service awards due by subsidiaries in France, for EUR15 million.

At December 31, 2012, provisions for these benefit obligations totaled EUR488 million, compared with EUR460 million at December 31, 2011. These provisions have been included in non-current liabilities, as the current portion was not considered material in relation to the total liability.

## 22.1 – Changes in provisions for pensions and other post-employment benefit obligations

Changes in provisions for pensions and other post-employment benefit obligations (net of plan assets) were as follows:

	<b>Pensions and termination benefits</b>	<i>Of which SE USA</i>	<b>Other post-employment and long-term benefits</b>	<i>Of which SE USA</i>	<b>Provisions for pensions &amp; other post-employment benefits</b>
<b>Dec. 31, 2010</b>	<b>1,032</b>	<b>299</b>	<b>472</b>	<b>387</b>	<b>1,504</b>
Net cost recognized in the statement of income	70	3	(22)	(29)	48
Benefits paid	(28)	-	(21)	(20)	(49)
Plan participants' contributions	(83)	(66)	2	2	(81)
Actuarial items recognized in equity	247	143	20	-	267
Translation adjustment	20	17	9	9	29
Changes in the scope of consolidation	(10)	-	(1)	-	(11)
Other changes	15	(1)	1	-	16
<b>Dec. 31, 2011</b>	<b>1,263</b>	<b>395</b>	<b>460</b>	<b>349</b>	<b>1,723</b>
Net cost recognized in the statement of income	74	(2)	11	(9)	85
Benefits paid	(33)	-	(29)	(20)	(62)
Plan participants' contributions	(103)	(9)	2	2	(101)
Actuarial items recognized in equity	291	116	29	14	320
Translation adjustment	(10)	(10)	(7)	(6)	(17)
Changes in the scope of consolidation	6	-	21	-	27
Other changes	-	-	1	2	1
<b>Dec. 31, 2012</b>	<b>1,488</b>	<b>490</b>	<b>488</b>	<b>332</b>	<b>1,976</b>



Changes in gross items recognized in equity were as follows:

	Pensions and termination benefits	Other post-employment and long-term benefits	Provisions for pensions & other post-employment benefits
<b>Dec. 31, 2010</b>	<b>462</b>	<b>(53)</b>	<b>409</b>
Actuarial (gains)/losses on projected benefit obligation	222	18	240
Actuarial (gains)/losses on plan assets	25	-	25
Effect of the asset ceiling	-	-	-
<b>Dec. 31, 2011</b>	<b>709</b>	<b>(35)</b>	<b>674</b>
Actuarial (gains)/losses on projected benefit obligation	340	28	368
Actuarial (gains)/losses on plan assets	(49)	-	(49)
Effect of the asset ceiling	-	-	-
<b>Dec. 31, 2012</b>	<b>1,000</b>	<b>(7)</b>	<b>993</b>

## 22.2 – Provisions for pensions and termination benefit obligations

Annual changes in obligations, the market value of plan assets and the corresponding assets and provisions recognized in the consolidated financial statements can be analyzed as follows:

	<b>Dec. 31, 2012</b>		<b>Dec. 31, 2011</b>	
	<i>Of which SE USA</i>		<i>Of which SE USA</i>	
<b>1. Reconciliation of balance sheet items</b>				
Pension assets	-	-	-	-
Provisions for pensions and other post-employment benefit	(1,488)	(490)	(1,263)	(395)
<b>NET ASSET/(LIABILITY) RECOGNIZED IN THE BALANCE SHEET</b>	<b>(1,488)</b>	<b>(490)</b>	<b>(1,263)</b>	<b>(395)</b>

	<b>Full year 2012</b>		<b>Full year 2011</b>	
	<i>Of which SE USA</i>		<i>Of which SE USA</i>	
<b>2. Components of net cost recognized in the statement of income</b>				
Service cost	48	3	41	2
Past service cost	1	-	1	-
Curtailments and settlements	-	-	4	4
Interest cost (effect of discounting)	116	55	110	53
Expected return on plan assets	(91)	(60)	(86)	(56)
<b>NET COST RECOGNIZED IN THE STATEMENT OF INCOME</b>	<b>74</b>	<b>(2)</b>	<b>70</b>	<b>3</b>

	Full year 2012		Full year 2011	
	Of which SE USA		Of which SE USA	
<b>3. Change in projected benefit obligation</b>				
Projected benefit obligation at beginning of year	2,685	1,210	2,340	1,034
Service cost	48	3	41	2
Past service cost	1	-	1	4
Curtailments and settlements	-	-	4	-
Interest cost (effect of discounting)	116	55	110	53
Plan participants' contributions	4	-	4	-
Benefits paid	(119)	(54)	(100)	(47)
Changes in the scope of consolidation	8	-	(18)	-
Actuarial (gains)/losses recognized in equity	340	157	222	120
Translation adjustments	(17)	(27)	62	44
Other	(5)	-	19	-
<b>PROJECTED BENEFIT OBLIGATION AT END OF YEAR</b>	<b>3,061</b>	<b>1,344</b>	<b>2,685</b>	<b>1,210</b>

Actuarial gains and losses have been fully recognized in other reserves.

They stem mainly from changes in actuarial assumptions (primarily discount rates) used to measure obligations in the United States, the United Kingdom and the euro zone.

At December 31, 2012, actuarial losses relative to the effects of experience on pension and termination benefit obligations totaled EUR20 million for the Group.

At December 31, 2011, actuarial losses relative to the effects of experience totaled EUR20 million for the Group compared to actuarial gains relative to the effects of experience totaled EUR49 million as at December 31, 2010.

At December 31, 2009, actuarial gains relative to the effects of experience totaled EUR64 million for the Group compared to actuarial losses relative to the effects of experience totaled EUR445 million as at December 31, 2008.

	Full year 2012		Full year 2011	
	Of which SE USA		Of which SE USA	
<b>4. Change in fair value of plan assets</b>				
Fair value of plan assets at beginning of year	1,421	814	1,304	735
Expected return on plan assets	91	60	86	56
Plan participants' contribution	4	-	4	-
Employer contributions	103	9	83	66
Benefits paid	(86)	(54)	(72)	(47)
Actuarial gains/(losses) recognized in equity	49	41	(25)	(23)
Changes in the scope of consolidation	2	-	(8)	-
Translation adjustments	(7)	(17)	42	27
Curtailments and settlements	-	-	-	-
Other	(5)	-	7	-
<b>FAIR VALUE OF PLAN ASSETS AT END OF YEAR</b>	<b>1,572</b>	<b>853</b>	<b>1,421</b>	<b>814</b>

The actual return on plan assets was EUR140 million.

Actuarial gains and losses have been fully recognized in other reserves.

They stem mainly from the differential between the effective and expected return on plan assets in the US and Switzerland.



	Dec. 31, 2012		Dec. 31, 2011	
	<i>Of which SE USA</i>		<i>Of which SE USA</i>	
<b>5. Funded status</b>				
Projected benefit obligation	(3,061)	(1,344)	(2,685)	(1,210)
Fair value on plan assets	1,572	853	1,421	814
Surplus/(Deficit)	(1,489)	(491)	(1,264)	(396)
Effect of the asset ceiling	-	-	-	-
Deferred items:				
Unrecognized past service cost	1	1	1	1
<b>(LIABILITIES)/NET ASSET RECOGNIZED IN THE BALANCE SHEET</b>	<b>(1,488)</b>	<b>(490)</b>	<b>(1,263)</b>	<b>(395)</b>

Amounts related to pensions and termination benefit obligations as of 2012 and the five previous periods are as follows:

	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
<b>6. Historical data</b>					
Projected benefit obligation	(3,061)	(2,685)	(2,340)	(2,055)	(2,036)
Fair value on plan assets	1,572	1,421	1,304	1,112	1,010
Surplus/(Deficit)	(1,489)	(1,264)	(1,036)	(943)	(1,026)
Effect of the asset ceiling	-	-	-	(1)	(2)
Deferred items:					
Unrecognized past service cost	1	1	4	-	1
<b>(LIABILITIES)/NET ASSET RECOGNIZED IN THE BALANCE SHEET</b>	<b>(1,488)</b>	<b>(1,263)</b>	<b>(1,032)</b>	<b>(944)</b>	<b>(1,027)</b>

## 22.3 – Provisions for healthcare costs, life insurance benefits and other post-employment benefits

Changes in provisions for other post-employment and long-term benefits were as follows:

	Full year 2012	Full year 2011
<b>1. Components of net cost recognized in the statement of income</b>		
Service cost	17	7
Interest cost (effect of discounting)	18	20
Expected return on plan assets	-	-
Past service cost	(2)	(7)
Curtailments and settlements	(23)	(42)
Amortization of actuarial gains & losses	1	-
<b>NET COST RECOGNIZED IN THE STATEMENT OF INCOME</b>	<b>11</b>	<b>(22)</b>

Amortization of actuarial gains and losses concerns long-term benefits for active employees, notably long service awards in France.

In 2012, healthcare plan curtailment in the US decreased the benefit obligation of EUR23 million.

	Full year 2012	Full year 2011
<b>2. Change in projected benefit obligation</b>		
Projected benefit obligation at beginning of year	440	445
Service cost	17	7
Interest cost (effect of discounting)	18	20
Plan participants' contribution	2	2
Benefits paid	(29)	(21)
Actuarial (gains)/losses recognized in equity	29	20
Past service cost	(23)	(41)
Changes in the scope of consolidation	21	(1)
Translation adjustments	(7)	9
Other (including curtailments and settlements)	2	-
<b>PROJECTED BENEFIT OBLIGATION AT END OF YEAR</b>	<b>470</b>	<b>440</b>

Actuarial gains and losses have been fully recognized in Other reserves except for long-term benefits for active employees, notably long service awards in France, for which all actuarial gains and losses are recognized in the income statement. Actuarial gains and losses stem from changes in actuarial assumptions (primarily discount rates).

At December 31, 2012, actuarial losses relative to the effects of experience on healthcare costs, life insurance and other post-employment benefits totaled EUR11 million for the Group. Actuarial losses totaled EUR21 million at December 31, 2011.

	Dec. 31, 2012	Dec. 31, 2011
<b>3. Funded status</b>		
Projected benefit obligation	(470)	(440)
Deferred items:		
Unrecognized past service cost	(18)	(20)
<b>PROVISION RECOGNIZED IN BALANCE SHEET</b>	<b>(488)</b>	<b>(460)</b>

Amounts related to healthcare costs and other post-employment obligations as of 2012 and the five previous periods are as follows:

	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
<b>4. Historical data</b>					
Projected benefit obligation	(470)	(440)	(445)	(406)	(401)
Deferred items:					
Unrecognized past service cost	(18)	(20)	(27)	(29)	(35)
<b>PROVISION RECOGNIZED IN BALANCE SHEET</b>	<b>(488)</b>	<b>(460)</b>	<b>(472)</b>	<b>(435)</b>	<b>(436)</b>





## Note 23 Provisions

	Economic risks	Customer risks	Products risks	Environmental risks	Restructuring	Other risks	Provisions
<b>Dec. 31, 2010</b>	<b>614</b>	<b>86</b>	<b>409</b>	<b>55</b>	<b>124</b>	<b>176</b>	<b>1,464</b>
<i>Long-term portion</i>	275	35	104	26	21	127	588
Additions	159	5	143	8	87	69	471
Discounting effect	1	-	-	-	-	-	1
Utilizations	(82)	(8)	(109)	(5)	(77)	(60)	(341)
Reversals of surplus provisions	(53)	(6)	(29)	(1)	(9)	(38)	(136)
Translation adjustments	8	1	3	-	-	2	14
Changes in the scope of consolidation and other	92	9	3	-	12	51	167
<b>Dec. 31, 2011</b>	<b>739</b>	<b>87</b>	<b>420</b>	<b>57</b>	<b>137</b>	<b>200</b>	<b>1,640</b>
<i>Long-term portion</i>	388	34	81	28	18	131	680
Additions	121	14	150	3	112	126	526
Discounting effect	-	-	-	-	-	6	6
Utilizations	(65)	(12)	(143)	(13)	(90)	(107)	(430)
Reversals of surplus provisions	(94)	(7)	(40)	-	(22)	(14)	(177)
Translation adjustments	(21)	(1)	(4)	-	-	(5)	(31)
Changes in the scope of consolidation and other	20	15	27	23	(5)	101	181
<b>Dec. 31, 2012</b>	<b>700</b>	<b>96</b>	<b>410</b>	<b>70</b>	<b>132</b>	<b>307</b>	<b>1,715</b>
<i>Long-term portion</i>	430	44	93	55	12	151	785

### (a) Economic risks

These provisions cover, in particular, tax risks arising from audits performed by local tax authorities and financial risks arising primarily on guarantees given to third parties in relation to certain assets and liabilities.

### (b) Customer risks

These provisions are primarily established to covers risks arising from products sold to third parties. This risk consists of claims based on alleged product defects and product liability.

Provisions for customer risks also integrate the provisions for losses at completion for some of long term contracts, for EUR36 million.

### (c) Product risks

These provisions comprise:

- statistical provisions for warranties: the Group funds provisions on a statistical basis for the residual cost of Schneider Electric product warranties not covered by insurance;
- provisions for disputes over defective products;
- provisions to cover disputes related to recalls of clearly identified products.

### (d) Environmental risks

These provisions are primarily funded to cover cleanup costs.

The increase and decrease in provisions retreated at statutory cash flow were as follows:

Provision	Dec. 31, 2012
Increase of provision	526
Utilization of provision	(430)
Reversal of surplus provision	(177)
<b>Provision total</b>	<b>(81)</b>
Pension and other long term liabilities	4
<b>TOTAL</b>	<b>(77)</b>

## Note 24 Total (current and non-current) financial liabilities

Non-current financial liabilities break down as follows:

	Dec. 31, 2012	Dec. 31, 2011
Bonds	6,100	5,540
Bank and other borrowings	1,373	1,464
Lease liabilities	11	7
Employees profit sharing	13	12
Short-term portion of convertible and non-convertible bonds	(587)	-
Short-term portion of long-term debt	(504)	(96)
<b>NON-CURRENT FINANCIAL LIABILITIES</b>	<b>6,406</b>	<b>6,927</b>

Current financial liabilities break down as follows:

	Dec. 31, 2012	Dec. 31, 2011
Commercial paper	-	190
Accrued interest	147	132
Other short-term borrowings	368	475
Drawdown of funds from lines of credit	-	-
Bank overdrafts	120	217
Short-term portion of convertible and non-convertible bonds	587	-
Short-term portion of long-term debt	504	96
<b>Short-term debt</b>	<b>1,726</b>	<b>1,110</b>
<b>TOTAL CURRENT AND NON-CURRENT FINANCIAL LIABILITIES</b>	<b>8,132</b>	<b>8,037</b>



## 24.1 – Breakdown by maturity

	Dec. 31, 2012			Dec. 31, 2011
	Nominal	Interests	Swaps	Nominal
2012	-	-	-	1,110
2013	1,726	274	3	1,181
2014	1,083	202	5	1,158
2015	1,061	153	2	998
2016	761	140	-	792
2017	1,148	110	-	1,049
2018 and beyond	2,353	165	-	1,749
<b>TOTAL</b>	<b>8,132</b>	<b>1,044</b>	<b>10</b>	<b>8,037</b>

## 24.2 – Breakdown by currency

	Dec. 31, 2012	Dec. 31, 2011
Euro	5,993	6,272
US Dollar	1,266	728
Japanese yen	312	384
Brazilian real	204	147
Chinese yuan	100	78
Indian rupee	95	233
Indonesian rupiah	32	16
Other	130	179
<b>TOTAL</b>	<b>8,132</b>	<b>8,037</b>

## 24.3 – Bonds

	Dec. 31, 2012	Dec. 31, 2011	Effective interest rate	Maturity
Schneider Electric SA 2013	587	605	CMS 10+1.000% variable and 6.750% fixed	July 2013
Schneider Electric SA 2014	726	730	Libor USD + 0.490% variable and 4.500% fixed	January 2014
Schneider Electric SA 2015	749	749	5.375% fixed	January 2015
Schneider Electric SA 2016	708	736	Euribor + 0.600% variable and 0.849%, 0.846%, 2.875% fixed	July, November, December 2016
Schneider Electric SA 2017	994	987	4.000% fixed	August 2017
Schneider Electric SA 2018	744	743	3.750% fixed	July 2018
Schneider Electric SA 2019	496	495	3.500% fixed	January 2019
Schneider Electric SA 2020	495	495	3.625% fixed	July 2020
Schneider Electric SA 2022	601	-	2.950% fixed	September 2022
<b>TOTAL</b>	<b>6,100</b>	<b>5,540</b>		

Schneider Electric SA has issued bonds on different markets:

- in the United States, through a private placement offering following SEC 144A rule, for USD800 million worth of bonds issued in September 2012, at a rate of 2.950%, due in September 2022;
- as part of its Euro Medium Term Notes (EMTN) programme, which bonds are traded on the Luxembourg stock exchange. Issues that were not yet due as of December 31, 2012 are as follows:
  - JPY22.5 billion worth of bonds issued in 2011, comprising a first JPY12.5 billion tranche at a rate of 0.849% issued in November and due in November 2016 and a second JPY10 billion tranche at a rate of 0.84625% issued in December due in December 2016,
  - EUR500 million worth of bonds issued in September 2011, at a rate of 3.5%, due in January 2019,
  - EUR750 million worth of bonds issued in July 2011, at a rate of 3.75%, due in July 2018,
  - USD300 million worth of bonds issued in July 2011, at a rate variable rate indexed on the three-month USD Libor, due in July 2014,
  - EUR300 and EUR200 million worth of bonds issued successively in July and October 2010, at a rate of 2.875%, due on July 20, 2016,
  - EUR500 million worth of bonds issued in July 2010, at a rate of 3.625%, due on July 20, 2020,
  - EUR150 million worth of bonds issued in May 2009 to top up the EUR600 million twelve-year tranche, due January 8, 2015, at a rate of 5.375% issued on October 2007, raising the total issue to EUR750 million,
  - EUR250 million worth of bonds issued in March 2009 to top up the EUR780 million twelve-year tranche, at a rate of 4%, issued in August 2005, raising the total issue to EUR1.03 billion,
  - EUR750 million worth of bonds issued in January 2009 at a rate of 6.75%, due on July 16 2013; in July 2010, this borrowing was partially repaid with EUR263 million,

- EUR100 million worth of bonds issued in July 2008 indexed to the 10-year Constant Maturity Swap (CMS) rate, due July 31, 2013,
- EUR12 million corresponding to the discounted present value of future interest payments on a EUR177 million eight year bond issue (July 25, 2008 to July 25, 2016) indexed to the three month Euribor. The nominal value of the bonds is not recognized in debt because the bond holder has waived its right to repayment of the principal in exchange for the transfer, on a no-recourse basis, of the future cash flows corresponding to the requested refund of a tax receivable,
- EUR180 million worth of bonds issued in April 2008 to top up the EUR600 million twelve-year tranche, at a rate of 4%, issued in August 2005, raising the total issue to EUR780 million,
- EUR600 million worth of bonds issued in October 2007, at a rate of 5.375%, due on January 8, 2015,
- EUR1 billion worth of bonds issued in July 2006, comprising a EUR500 million five-year variable rate tranche indexed to the three month Euribor and a EUR500 million 7 1/2-year tranche at 4.5%. On July 17, 2011 the first tranche was reimbursed,
- EUR600 million worth of bonds issued in August 2005, at a rate of 4%, due on August 2017.

For all those transactions, issue premium and issue costs are amortized according to the effective interest method.

## 24.4 – Other information

At December 31, 2012 Schneider Electric had confirmed credit lines of EUR2.4 billion, all unused.

Loan agreements and committed credit lines do not include any financial covenants nor credit rating triggers.

## Note 25 Other non-current liabilities

	Dec. 31, 2012	Dec. 31, 2011
Debt related to 2010 acquisitions*	25	25
Electroshield TM Samara acquisition debt	50	50
Debt on Luminous valuation	72	76
Other	48	84
<b>OTHER NON-CURRENT LIABILITIES</b>	<b>195</b>	<b>235</b>

\* Acquisition of D5X, Vizelia and Energy Pool.

The debt on Luminous valuation corresponds to the Group commitments on the minority interest (26%) in Luminous.



## Note 26 Financial instruments

The Group uses financial instruments to manage its exposure to fluctuations in interest rates, exchange rates and metal prices.

Due to the fact that a significant proportion of Group's transactions are denominated in currencies other than the euro, the Group is exposed to currency risk. The main exposures in terms of currency exchange risk are related to the U.S. dollar and the Chinese yuan. The Group uses derivative instruments to hedge its exposure to exchange rates mainly through futures and natural hedge.

Fluctuations in interest rates impact the Group interest expenses and income and the value of the Group's financial liabilities and assets. 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. The Group uses derivative instruments to hedge its exposure to interest rates through swaps.

The Group is exposed to fluctuations in raw material prices, including, the prices of steel, copper, aluminium, silver, lead, nickel, zinc and plastics. The Group is also exposed to fluctuations in energy prices. The Group uses derivative instruments to hedge its exposure to energy and raw material price fluctuations through futures and options.

Exposure to these risks is described in the chapter on risk factors in the Registration Document.

### 26.1 – Carrying amount and nominal amount of derivative financial instruments

	Dec. 31, 2011					Dec. 31, 2012	Dec. 31, 2012	
	Change over the period						Nominal amount	
	IFRS designation	Carrying amount	Statement of income <sup>(1)</sup>	Equity <sup>(2)</sup>	Other		Carrying amount	Sale
Foreign exchange								
Futures - cash flow hedges	CFH*	(59)	33	1	1	(24)	-	(738)
Futures - net investment hedges	NIH*	(50)	4	76	-	30	1,007	(199)
Futures - hedges of balance sheet items	Trading/ FVH*	(84)	117	1	-	34	3,386	(2,268)
Metal prices								
Futures and options	CFH*	(12)	-	10	-	(2)	-	(236)
Share-based payment								
Call options	CFH*	34	30	8	(2)	70	-	(141)
Interest rates								
Interest rates Swaps	CFH*/FVH*	(14)	(10)	10	-	(14)	-	(1,126)
DERIVATIVES FINANCIAL INSTRUMENTS								
		(185)	174	106	(1)	94		

\* Cash flow hedge/Fair value hedge/Net investment hedge.

(1) Gains and losses on hedging instruments for the period are offset by changes in the fair value of the underlying items, which are also recognized in net result.

(2) Reported in equity under Retained earnings or Translation adjustment.

(3) 3,317,727 Schneider Electric stocks are hedged in relation to Stock Appreciation Rights granted to US employees.

The carrying amount reflects the fair value of financial instruments.

## 26.2 – Currency risk

Positions of futures hedges of balance sheet items and net investment by currency

	Dec. 31, 2012		
	Sales	Purchases	Net
USD	2,664	(1,460)	1,204
SGD	392	(246)	146
HKD	278	(116)	162
GBP	300	(80)	220
AUD	253	(109)	144
NOK	129	(2)	127
AED	104	(5)	99
HUF	46	(61)	(15)
SAR	94	(8)	86
CAD	-	(65)	(65)
PLN	3	(32)	(29)
SEK	4	(30)	(26)
DKK	34	-	34
CHF	17	(16)	1
RUB	30	-	30
JPY	3	(23)	(20)
Others	41	(213)	(172)
<b>TOTAL</b>	<b>4,392</b>	<b>(2,466)</b>	<b>1,926</b>

Theses forward currency hedging positions include EUR1,586 million in hedges of loans and borrowings of a financial nature (net sales) and EUR340 million in hedges of operating cash flows (net sales).

Other cash-flow hedge contracts are mainly related to the following currencies: USD, BRL and JPY.

## 26.3 – Impact of financial instruments

Dec. 31, 2012	Impact on income and expense	Impact on Equity		
		Fair value	Translation adjustment	Other
Available-for-sale financial assets	24	(25)	9	-
Loans and accounts receivable	36	-	(85)	-
Financial liabilities measured at amortized cost	(385)	-	(104)	-
Derivative instruments	174	106	(1)	-
<b>TOTAL</b>	<b>(151)</b>	<b>81</b>	<b>(181)</b>	<b>-</b>

Dec. 31, 2011	Impact on income and expense	Impact on Equity		
		Fair value	Translation adjustment	Other
Available-for-sale financial assets	6	(60)	9	-
Loans and accounts receivable	30	-	78	-
Financial liabilities measured at amortized cost	(331)	-	(158)	-
Derivative instruments	(38)	(73)	(2)	-
<b>TOTAL</b>	<b>(333)</b>	<b>(133)</b>	<b>(73)</b>	<b>-</b>



The impact of financial instruments, by category, on profit and equity was as follows:

- the main impact on profit concerned interest income and expense;

- the impact on equity primarily stemmed from the measurement of available-for-sale financial assets and derivative instruments at fair value and from translation adjustments to foreign currency loans, receivables and liabilities.

## 26.4 – Maturities of financial assets and liabilities

	Up to 1 year	1 to 5 years	> 5 years
Financial liabilities	(1,726)	(4,052)	(2,354)
Financial assets	3,737	60	-
<b>NET POSITION BEFORE HEDGING</b>	<b>2,011</b>	<b>(3,992)</b>	<b>(2,354)</b>

## 26.5 – Balance sheet amounts for financial instruments by category

(in millions of euros)	Dec. 31, 2012		Breakdown by category			
	Carrying amount	Fair value	Fair value through P&L	Available-for-sale financial assets	Loans, receivables and financial liabilities at amortized cost	Derivative instruments
<b>ASSETS</b>						
Available-for-sale financial assets	213	213	-	213	-	-
Other non-current financial assets	108	108	-	-	108	-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>321</b>	<b>321</b>	<b>-</b>	<b>213</b>	<b>108</b>	<b>-</b>
<b>Current assets:</b>						
Trade accounts receivable	5,289	5,289	-	-	5,289	-
Other receivables	170	170	-	-	-	170
Current financial assets	127	127	127	-	-	-
Marketable securities	1,720	1,720	1,720	-	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>7,306</b>	<b>7,306</b>	<b>1,847</b>	<b>-</b>	<b>5,289</b>	<b>170</b>
<b>LIABILITIES</b>						
<b>Non-current liabilities:</b>						
Other long-term debt	6,406	6,934	-	-	6,934	-
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>6,406</b>	<b>6,934</b>	<b>-</b>	<b>-</b>	<b>6,934</b>	<b>-</b>
<b>Current liabilities</b>						
Trade accounts payable	4,190	4,190	-	-	4,190	-
Other	112	112	-	-	36	76
Short-term debt	1,726	1,742	-	-	1,742	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>6,028</b>	<b>6,044</b>	<b>-</b>	<b>-</b>	<b>5,968</b>	<b>76</b>

	Dec. 31, 2011		Breakdown by category			
	Carrying amount	Fair value	Fair value through P&L	Available-for-sale financial assets	Loans, receivables and financial liabilities at amortized cost	Derivative instruments
<i>(in millions of euros)</i>						
<b>ASSETS</b>						
Available-for-sale financial assets	296	296	-	296	-	-
Other non-current financial assets	261	261	-	-	261	-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>557</b>	<b>557</b>	<b>-</b>	<b>296</b>	<b>261</b>	<b>-</b>
<b>Current assets:</b>						
Trade accounts receivable	5,402	5,402	-	-	5,402	-
Other receivables	82	82	-	-	-	82
Current financial assets	104	104	104	-	-	-
Marketable securities	634	634	634	-	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>6,222</b>	<b>6,222</b>	<b>738</b>	<b>-</b>	<b>5,402</b>	<b>82</b>
<b>LIABILITIES</b>						
<b>Non-current liabilities:</b>						
Other long-term debt	6,927	7,248	-	-	7,248	-
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>6,927</b>	<b>7,248</b>	<b>-</b>	<b>-</b>	<b>7,248</b>	<b>-</b>
<b>Current liabilities</b>						
Trade accounts payable	4,094	4,094	-	-	4,094	-
Other	292	292	-	-	25	267
Short-term debt	1,110	1,110	-	-	1,110	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>5,496</b>	<b>5,496</b>	<b>-</b>	<b>-</b>	<b>5,229</b>	<b>267</b>

## 26.6 – Fair value hierarchy

The split of financial instruments by fair value level is as follows:

	Dec. 31, 2012			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	60	-	153	213
Net derivative instruments	-	94	-	94
Marketable securities	1,720	-	-	1,720
<b>NET ASSETS AT FAIR VALUE</b>	<b>1,780</b>	<b>94</b>	<b>153</b>	<b>2,027</b>

	Dec. 31, 2011			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	191	-	105	296
Net derivative instruments	-	(185)	-	(185)
Marketable securities	634	-	-	634
<b>NET ASSETS AT FAIR VALUE</b>	<b>825</b>	<b>(185)</b>	<b>105</b>	<b>745</b>

## Note 27 Employees

### 27.1 – Employees

The average number of permanent and temporary employees was as follows in 2011 and 2012:

<i>(number of employees)</i>	<b>Dec. 31, 2012</b>	<b>Dec. 31, 2011</b>
Production	75,601	70,610
Administration	76,783	69,881
<b>TOTAL AVERAGE NUMBER OF EMPLOYEES</b>	<b>152,384</b>	<b>140,491</b>
By region:		
EMEAS*	71,737	68,392
North America	29,286	27,245
Asia-Pacific	51,361	44,854

\* Europe, Middle-East, Africa, South America.

The increase in the average number of employees is primarily linked to the 2012 acquisitions.

### 27.2 – Employee benefits expense

	<b>Full year 2012</b>	<b>Full year 2011</b>
Payroll costs	(5,924)	(5,362)
Profit-sharing and incentive bonuses	(59)	(70)
Stock options	(57)	(51)
WESOP	-	(9)
<b>EMPLOYEE BENEFITS EXPENSE</b>	<b>(6,040)</b>	<b>(5,492)</b>

### 27.3 – Benefits granted to senior executives

In 2012, the Group paid EUR0.80 million in attendance fees to the members of its Supervisory Board. The total amount of gross remuneration, including benefits in kind, paid in 2012 by the Group to the members of Senior Management excluding members of the Management Board totaled EUR12.7 million, of which EUR5.4 million corresponded to the variable portion.

During the last three periods, 409,750 performance shares have been allocated to members of Senior Management. No stock

option has been granted to members of Senior Management since 2009. No performance shares were allocated in 2012. Since December 16, 2011, 100% of stock grants and/or stock options are conditional on the achievement of performance criteria for members of the Executive Committee.

Pension obligations net of assets with respect to members of Senior Management amounted to EUR17 million at December 31, 2012 versus EUR76 million at December 31, 2011.

Please refer to Chapter 3 Section 8 of the Registration Document for more information regarding the members of Senior Management.

## Note 28 Related party transactions

### 28.1 – Associates

Companies over which the Group has significant influence, accounted for by the equity consolidation method. Transactions with these related parties are carried out on arm's length terms.

Related party transactions were not material in 2012.

### 28.2 – Related parties with significant influence

No transactions were carried out during the year with members of the Supervisory Board or Management Board.

Compensation and benefits paid to the Group's top senior executives are described in note 27.3.

## Note 29 Commitments and contingent liabilities

### 29.1 – Guarantees and similar undertakings

	Dec. 31, 2012	Dec. 31, 2011
Market counter guarantees <sup>(1)</sup>	859	934
Pledges, mortgages and sureties <sup>(2)</sup>	9	15
Endorsements and guarantees	-	-
Other commitments given <sup>(3)</sup>	267	318
<b>GUARANTEES GIVEN</b>	<b>1,135</b>	<b>1,267</b>
Endorsements and guarantees received	67	71
<b>GUARANTEES RECEIVED</b>	<b>67</b>	<b>71</b>

(1) On certain contracts, customers require a guarantee from a bank that the contract will be fully executed by the Group. For these contracts the Group gives a counter guarantee to the bank. If a claim occurs, the risk linked to the commitment is assessed and a provision for contingencies is recorded when the risk is considered probable and can be reasonably estimated.

(2) Certain loans are secured by property, plant and equipment and securities lodged as collateral.

(3) Other guarantees given comprise guarantees given in rental payments.

### 29.2 – Purchase commitments

#### Shares in subsidiaries and affiliates

Commitments to purchase equity investments correspond to put options given to minority shareholders in consolidated companies or relate to earn-out payments. At December 31, 2012, there is one material put related to the 26% interests in Luminous that was valued for an amount of EUR72 million as other non-current liabilities.

#### Information technology services

The Group has agreed with Capgemini to provide outsourcing of certain of its information technology functions in Europe and deployment of a system of shared SAP management applications. This global project has been deployed since 2007 in several countries. At the end of 2012, Schneider Electric had capitalized total costs for a net amount of EUR91 million. The costs are progressively amortized with effect from 2009, over a seven-year rolling calendar and based on the number of users connected worldwide as the system is deployed.

For 2012, the contractual facilities management costs amount to approximately EUR100 million including the volume and indexing factors provided for by the contract (EUR100 million for 2011).

### 29.3 – Contingent liabilities

Senior Management believes that the provisions recognized in the balance sheet, in respect of the known claims and litigation to which the Group is a party, should be adequate to ensure that such claims and litigation will not have any substantial impact on the Group's financial position or results. This is notably the case for the potential consequences of a current dispute in Belgium involving former senior executives and managers of the Group.

The Group has entered into a company-wide agreement in respect of individual training entitlement. It has applied the French accounting treatment recommended by opinion 2004-F issued by the CNC's urgent issues committee. Expenditure on individual training is written off as an expense during the period and therefore no provision is made for it. As of December 31, 2012, rights accrued but not used by employees of French entities of the Group corresponded to around 1,526,922 hours.



## Note 30 Subsequent events

On February 2013, the Group received notice that a litigation in the U.S. was settled in favor of Schneider Electric that will benefit from a tax repayment for an amount of USD58 million.

## Note 31 Statutory Auditors' fees

Fees paid by the Group to the Statutory Auditors and their networks

(in thousands of euros)	Full year 2012				
	Ernst & Young	%	Mazars	%	Total
<b>Audit</b>					
Statutory auditing	9,975	87%	7,394	96%	17,369
o/w Schneider Electric SA	100		100		
o/w subsidiaries	9,875		7,294		
Related services	1,217	11%	342	4%	1,559
o/w Schneider Electric SA	188		-		188
o/w subsidiaries	1,029		342		1,371
<b>Audit sub-total</b>	<b>11,192</b>	<b>98%</b>	<b>7,736</b>	<b>100%</b>	<b>18,928</b>
Other services					
Legal, tax	233	2%	-	-	233
<b>TOTAL FEES</b>	<b>11,425</b>	<b>100%</b>	<b>7,736</b>	<b>100%</b>	<b>19,161</b>

(in thousands of euros)	Full year 2011				
	Ernst & Young	%	Mazars	%	Total
<b>Audit</b>					
Statutory auditing	9,922	91%	7,057	93%	16,979
o/w Schneider Electric SA	100		100		
o/w subsidiaries	9,822		6,957		
Related services	788	7%	506	7%	1,294
o/w Schneider Electric SA	-		-		
o/w subsidiaries	788		506		
<b>Audit sub-total</b>	<b>10,710</b>	<b>98%</b>	<b>7,563</b>	<b>100%</b>	<b>18,273</b>
Other services					
Legal, tax	212	2%	-	0%	212
<b>TOTAL FEES</b>	<b>10,922</b>	<b>100%</b>	<b>7,563</b>	<b>100%</b>	<b>18,485</b>

## Note 32 Consolidated companies

The main companies included in the Schneider Electric Group scope of consolidation are listed below.

		% interest Dec. 31, 2012	% interest Dec. 31, 2011
<b>Europe</b>			
<i>Fully consolidated</i>			
Schneider Electric Energy Austria AG	Austria	100.0	100.0
Schneider Electric Austria GmbH	Austria	100.0	100.0
Schneider Electric Power Drives GmbH	Austria	100.0	100.0
Cofibel SA	Belgium	100.0	100.0
Compagnie Financière, Minière et Industrielle SA - Cofimines	Belgium	100.0	100.0
Schneider Electric Energy Belgium SA	Belgium	100.0	100.0
Schneider Electric SA	Belgium	100.0	100.0
Schneider Electric Services International SPRL	Belgium	100.0	100.0
Summit Energy International BVBA	Belgium	100.0	100.0
Schneider Electric Bulgaria EOOD	Bulgaria	100.0	100.0
Schneider Electric d.o.o	Croatia	100.0	100.0
Schneider Electric A.S.	Czech Republic	98.3	98.3
Schneider Electric CZ sro	Czech Republic	100.0	100.0
JO-EL Electric A/S	Denmark	100.0	100.0
Ørbaekvej 280 A/S	Denmark	100.0	100.0
Schneider Electric Buildings Denmark A/S	Denmark	100.0	100.0
Schneider Electric Danmark A/S	Denmark	100.0	100.0
Schneider Electric IT Denmark ApS	Denmark	100.0	100.0
Schneider Nordic Baltic A/S	Denmark	100.0	100.0
Schneider Electric EESTI A.S.	Estonia	100.0	100.0
I-Valo Oy	Finland	100.0	100.0
Oy Lexel Finland Ab	Finland	100.0	100.0
Pelco Finland Oy	Finland	100.0	100.0
Schneider Electric Buildings Finland OY	Finland	100.0	100.0
Schneider Electric Finland Oy	Finland	100.0	100.0
Strömfors Electric Oy	Finland	100.0	100.0
Vamp OY	Finland	100.0	100.0
Alombard SAS	France	100.0	100.0
Schneider Electric Protection et Contrôle SAS	France	100.0	100.0
BCV Technologies SAS	France	100.0	100.0
BEI Ideacod SAS	France	100.0	100.0
Boissière Finance SNC	France	100.0	100.0
Construction Electrique du Vivarais SAS	France	100.0	100.0
Crouzet Automatismes SAS	France	100.0	100.0
D5X	France	100.0	100.0
Dinel SAS	France	100.0	100.0
Energy Pool Développement	France	100.0	100.0
Epsys SAS	France	100.0	100.0
France Transfo SAS	France	100.0	100.0
Infraplus SAS	France	100.0	100.0
Merlin Gerin Alès SAS	France	100.0	100.0
Merlin Gerin Alpes SAS	France	100.0	100.0
Merlin Gerin Loire SAS	France	100.0	100.0



		<b>% interest Dec. 31, 2012</b>	<b>% interest Dec. 31, 2011</b>
Schneider Electric IT France	France	100.0	100.0
Muller & Cie SA	France	100.0	100.0
Newlog SAS	France	100.0	100.0
Prodipact SAS	France	100.0	100.0
Rectiphase SAS	France	100.0	100.0
Sarel - Appareillage Electrique SAS	France	99.0	99.0
Scanelec SAS	France	100.0	100.0
Schneider Automation SAS	France	100.0	100.0
Schneider Electric Energy France SAS	France	100.0	100.0
Schneider Electric Foncière SAS - S.E.L.F.	France	100.0	100.0
Schneider Electric France SAS	France	100.0	100.0
Schneider Electric Holding Amérique du Nord SAS	France	100.0	100.0
Schneider Electric Holding Europe SAS	France	100.0	100.0
Schneider Electric Industries SAS	France	100.0	100.0
Schneider Electric International SAS	France	100.0	100.0
Schneider Electric Manufacturing Bourguebus SAS	France	100.0	100.0
Schneider Electric SA (Holding company)	France	100.0	100.0
Schneider Electric Telecontrol SAS	France	100.0	100.0
Schneider Toshiba Inverter Europe SAS	France	60.0	60.0
Schneider Toshiba Inverter SAS	France	60.0	60.0
Société d'Appareillage Electrique Gardy SAS	France	100.0	100.0
Société d'Application et d'Ingenierie Industrielle et Informatique SAS - SA3I	France	100.0	100.0
Société Electrique d'Aubenas SAS	France	100.0	100.0
Société Française de Construction Mécanique et Electrique SA	France	100.0	100.0
Société Française Gardy SA	France	100.0	100.0
Systèmes Equipements Tableaux Basse Tension SAS	France	100.0	100.0
Transfo Services SAS	France	100.0	100.0
Transformateurs Petit Quevilly	France	100.0	100.0
Crouzet GmbH	Germany	100.0	100.0
Elso GmbH	Germany	100.0	100.0
Kavlico GmbH	Germany	100.0	100.0
Merten GmbH	Germany	100.0	100.0
Merten Holding GmbH	Germany	100.0	100.0
Schneider Electric Automation Deutschland GmbH	Germany	100.0	100.0
Schneider Electric Automation GmbH	Germany	100.0	100.0
Schneider Electric Buildings Germany GmbH	Germany	100.0	100.0
Schneider Electric Deutschland Energy GmbH	Germany	100.0	100.0
Schneider Electric Deutschland GmbH	Germany	100.0	100.0
Schneider Electric Energy GmbH	Germany	100.0	100.0
Schneider Electric GmbH	Germany	100.0	100.0
Schneider Electric Motion Deutschland GmbH	Germany	100.0	100.0
Schneider Electric Motion Real Estate GmbH	Germany	100.0	100.0
Schneider Electric SAachsenwerk GmbH	Germany	100.0	100.0
Telvent Deutschland GmbH	Germany	100.0	100.0
Uniflair GmbH	Germany	100.0	100.0
Schneider Electric AE	Greece	100.0	100.0
Schneider Electric IT Greece ABEE	Greece	100.0	100.0
CEE Schneider Electric Közép-Kelet Europai Korlatolt Felelősségű Társaság	Hungary	100.0	100.0



		% interest Dec. 31, 2012	% interest Dec. 31, 2011
Schneider Electric IT Hungary Kft	Hungary	100.0	100.0
Schneider Electric Hungaria Villamassagi ZRT	Hungary	100.0	100.0
APC (EMEA) Ltd	Ireland	100.0	100.0
Schneider Electric Ireland	Ireland	100.0	100.0
Schneider Electric IT Logistics Europe Ltd	Ireland	100.0	100.0
Square D Company Ireland Ltd	Ireland	100.0	100.0
Crouzet Componenti Srl	Italy	100.0	100.0
SAIP & Schyller Spa	Italy	100.0	100.0
Schneider Electric Energy Manufacturing Italia Srl	Italy	100.0	100.0
Schneider Electric Industrie Italia Spa	Italy	100.0	100.0
Schneider Electric IT Italia Srl	Italy	100.0	100.0
Schneider Electric Spa	Italy	100.0	100.0
Uniflair Spa	Italy	100.0	100.0
Lexel Fabrika SIA	Latvia	100.0	100.0
Schneider Electric Baltic Distribution Center	Latvia	100.0	100.0
Schneider Electric Latvija SIA	Latvia	100.0	100.0
UAB Schneider Electric Lietuva	Lithuania	100.0	100.0
Comodot S.à r.l.	Luxembourg	100.0	100.0
Industrielle de Réassurance SA	Luxembourg	100.0	100.0
SGBT Finance Partner	Luxembourg	100.0	100.0
SGBT European Major Investments SA	Luxembourg	100.0	100.0
SHL Luxembourg S.à r.l.	Luxembourg	99.8	99.8
American Power Conversion Corp (A.P.C.) B.V.	Netherlands	100.0	100.0
APC Holdings B.V.	Netherlands	100.0	100.0
APC International Corporation B.V.	Netherlands	100.0	100.0
APC International Holdings B.V.	Netherlands	100.0	100.0
Pelco Europe B.V.	Netherlands	100.0	100.0
Pro-Face HMI B.V. (sub-group)	Netherlands	99.9	99.9
Schneider Electric B.V.	Netherlands	100.0	100.0
Schneider Electric Energy Netherlands B.V.	Netherlands	100.0	100.0
Schneider Electric Logistic Centre B.V.	Netherlands	100.0	100.0
Schneider Electric Manufacturing The Netherlands B.V.	Netherlands	100.0	100.0
Telvent Netherlands B.V.	Netherlands	100.0	100.0
U.P.S. Systems MGE B.V.	Netherlands	100.0	100.0
ELKO A.S.	Norway	100.0	100.0
Lexel Holding Norgue A.S.	Norway	100.0	100.0
Schneider Electric IT Norway A.S.	Norway	100.0	100.0
Schneider Electric Norge A.S.	Norway	100.0	100.0
Schneider Electric Buildings Norway A.S.	Norway	100.0	100.0
Elda Eltra S.A. (ex Eltra SA)	Poland	100.0	100.0
Schneider Electric Energy Poland Sp. Z.o.o.	Poland	100.0	100.0
Schneider Electric Industries Polska SP	Poland	100.0	100.0
Schneider Electric IT Poland Sp. Z.o.o	Poland	100.0	100.0
Schneider Electric Polska SP	Poland	100.0	100.0
Schneider Electric II IT Portugal LDA	Portugal	100.0	100.0
Schneider Electric Portugal LDA	Portugal	100.0	100.0
Telvent Portugal SA	Portugal	100.0	100.0
Schneider Electric Romania SRL	Romania	100.0	100.0
DIN Elektro Kraft OOO	Russia	100.0	100.0



		<b>% interest Dec. 31, 2012</b>	<b>% interest Dec. 31, 2011</b>
LLC Schneider Electric Zavod ElectroMonoblock	Russia	100.0	100.0
OOO Schneider Electric Buildings (Russia)	Russia	100.0	100.0
OOO Lexel Elektromaterialy (SPB)	Russia	100.0	100.0
Schneider Electric Equipment Kazan Ltd	Russia	100.0	100.0
ZAO Potential	Russia	100.0	100.0
ZAO Schneider Electric	Russia	100.0	100.0
Schneider Electric Srbija doo Beograd	Serbia	100.0	100.0
Schneider Electric Slovakia Spol SRO	Slovakia	100.0	100.0
Schneider Electric d.o.o.	Slovenia	100.0	100.0
EFI Electronics Europe SL	Spain	100.0	100.0
Manufacturas Electricas SA	Spain	100.0	100.0
Schneider Electric IT, Spain SL	Spain	100.0	100.0
Schneider Electric Energy Spain SL	Spain	100.0	100.0
Schneider Electric Espana SA	Spain	100.0	100.0
Telvent Arce Sistemas, SA	Spain	100.0	100.0
Telvent Energia SA	Spain	100.0	100.0
Telvent Environment SA	Spain	100.0	100.0
Telvent Export SL	Spain	100.0	100.0
Telvent GIT SA	Spain	100.0	100.0
Telvent Global Services, SA	Spain	100.0	100.0
Telvent Servicios Compartidos SA	Spain	100.0	100.0
Telvent Trafico y Transporte SA	Spain	100.0	100.0
Trafico Ingenieria SA	Spain	100.0	100.0
Uniflair Iberica SA	Spain	100.0	100.0
AB Crahtere 1	Sweden	100.0	100.0
AB Wibe	Sweden	100.0	100.0
Elau AB	Sweden	100.0	100.0
Elektriska AB Delta	Sweden	100.0	100.0
Elko AB	Sweden	100.0	100.0
Lexel AB	Sweden	100.0	100.0
Pelco Sweden AB	Sweden	100.0	100.0
Pele Security AB	Sweden	100.0	100.0
Schneider Electric Buildings AB	Sweden	100.0	100.0
Schneider Electric Buildings Sweden AB	Sweden	100.0	100.0
Schneider Electric Distribution Centre AB	Sweden	100.0	100.0
Schneider Electric IT Sweden AB	Sweden	100.0	100.0
Schneider Electric Sverige AB	Sweden	100.0	100.0
Telvent Sweden AB	Sweden	100.0	100.0
Thorsman & Co AB	Sweden	100.0	100.0
Crouzet AG	Switzerland	100.0	100.0
Feller AG	Switzerland	83.7	83.7
Gutor Electronic GmbH	Switzerland	100.0	100.0
Schneider Electric IT Switzerland AG	Switzerland	100.0	100.0
Schneider Electric Finances SA	Switzerland	100.0	100.0
Schneider Electric (Schweitz) AG	Switzerland	100.0	100.0
Schneider Electric Ukraine	Ukraine	100.0	100.0
Andromeda Telematics Ltd	United Kingdom	100.0	100.0
APC Power and Cooling, UK Ltd	United Kingdom	100.0	100.0
APC UK Ltd	United Kingdom	100.0	100.0

		% interest Dec. 31, 2012	% interest Dec. 31, 2011
C-Matic Systems Ltd	United Kingdom	100.0	100.0
CBS Group Ltd	United Kingdom	100.0	100.0
Crouzet Ltd	United Kingdom	100.0	100.0
Crydom SSR Ltd	United Kingdom	100.0	100.0
Newall Measurement Systems Ltd	United Kingdom	100.0	100.0
Schneider Electric (UK) Ltd	United Kingdom	100.0	100.0
Schneider Electric Buildings UK Ltd	United Kingdom	100.0	100.0
Schneider Electric Energy UK Ltd	United Kingdom	100.0	100.0
Schneider Electric IT UK Ltd	United Kingdom	100.0	100.0
Schneider Electric Ltd	United Kingdom	100.0	100.0
Serck Control and Safety Ltd	United Kingdom	100.0	100.0
Serck Controls Ltd	United Kingdom	100.0	100.0
M&C Energy Group Ltd	United Kingdom	100.0	100.0
<i>Accounted for by proportionate method</i>			
Telvent DMS LLC for Power Engineering Nove Sad	Serbia	57.0	57.0
Keyland Sistemas de Gestion SL	Spain	50.0	50.0
<i>Accounted for by equity method</i>			
Avelty	France	51.0	
Delta Dore Finance SA (sub-group)	France	20.0	20.0
Møre Electric Group A/S	Norway	34.0	34.0
Electroshield TM Samara (sub-group)	Russia	50.0	50.0
<b>North America</b>			
<i>Fully consolidated</i>			
Control Microsystems Inc.	Canada	100.0	100.0
Juno Lighting Ltd	Canada	100.0	100.0
Novasena 1 ULC	Canada	100.0	100.0
Novasena 2 ULC	Canada	100.0	100.0
Power Measurement Ltd	Canada	100.0	100.0
Schneider Electric Canada Inc.	Canada	100.0	100.0
Telvent Canada Ltd	Canada	100.0	100.0
Viconics Technologies Inc.	Canada	100.0	100.0
Automatismo Crouzet De Mexico, SA de CV	Mexico	100.0	100.0
Custom Sensors & Technologies Mexico, SA de CV	Mexico	100.0	100.0
Custom Sensors & Technologies Transportation de México, SA de CV	Mexico	100.0	100.0
Gestion Integral de Proyectos y Ingenieria, SA de CV	Mexico	99.8	99.8
Industrias Electronicas Pacifico, SA de CV	Mexico	100.0	100.0
MGE Systems Mexico, SA de CV	Mexico	100.0	100.0
Ram Tech Services de Mexico S de RL de CV	Mexico	100.0	100.0
Schneider Electric Administracion, SA de CV	Mexico	100.0	100.0
Schneider Electric Mexico, SA de CV	Mexico	100.0	100.0
Schneider Industrial Tlaxcala, SA de CV	Mexico	100.0	100.0
Schneider Mexico, SA de CV	Mexico	100.0	100.0
Schneider R&D, SA de CV	Mexico	100.0	100.0
Schneider Recursos Humanos, SA de CV	Mexico	100.0	100.0
Square D Company Mexico, SA de CV	Mexico	100.0	100.0
Telvent Mexico SA de CV	Mexico	99.3	99.3
Adaptive Instruments Corp.	USA	100.0	100.0
American Power Conversion Federal Systems, Inc.	USA	100.0	100.0





**CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2012**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

		<b>% interest Dec. 31, 2012</b>	<b>% interest Dec. 31, 2011</b>
APC America Inc.	USA	100.0	100.0
Schneider Electric IT Corporation	USA	100.0	100.0
APC Holdings Inc.	USA	100.0	100.0
APC Sales & Service Corp.	USA	100.0	100.0
BEI Precisions Systems & Space Co. Inc.	USA	100.0	100.0
BEI Sensors & Systems Company, Inc.	USA	100.0	100.0
Control Microsystems U.S. Inc.	USA	100.0	100.0
Crydom, Inc.	USA	100.0	100.0
Custom Sensors & Technologies, Inc.	USA	100.0	100.0
Delsena 1, LLC	USA	100.0	100.0
Delsena 2, LLC	USA	100.0	100.0
Juno Lighting LLC	USA	100.0	100.0
Juno Manufacturing Inc.	USA	100.0	100.0
Kavlico Corp.	USA	100.0	100.0
Lee Technologies, LLC	USA	100.0	100.0
Lee Technologies Puerto Rico, LLC	USA	100.0	100.0
Schneider Electric IT Mission Critical Services, Inc.	USA	100.0	100.0
Netbotz Inc.	USA	100.0	100.0
Newall Electronics Inc.	USA	100.0	100.0
P.H.L. Four, Inc.	USA	80.0	80.0
P.H.L. One, Inc.	USA	80.0	80.0
Pacsena LP	USA	100.0	100.0
Palatine Hills Leasing Inc.	USA	80.0	80.0
Pelco, Inc.	USA	100.0	100.0
Power Measurement Inc.	USA	100.0	100.0
Pro-face America, LLC	USA	100.0	100.0
Schneider Electric Buildings Americas, Inc.	USA	100.0	100.0
Schneider Electric Buildings Critical Systems, Inc.	USA	100.0	100.0
Schneider Electric Buildings, LLC	USA	100.0	100.0
Schneider Electric Engineering Services, LLC	USA	100.0	100.0
Schneider Electric Holdings Inc.	USA	100.0	100.0
Schneider Electric Investments 2, Inc.	USA	100.0	100.0
Schneider Electric Motion USA, Inc.	USA	100.0	100.0
Schneider Electric USA, Inc.	USA	100.0	100.0
Schneider Electric Vermont Ltd	USA	100.0	100.0
SNA Holdings Inc.	USA	100.0	100.0
Square D Investment Company	USA	100.0	100.0
Summit Energy Services, Inc.	USA	100.0	100.0
Telvent DTN, LLC	USA	100.0	100.0
Telvent USA Corp.	USA	100.0	100.0
Veris Industries LLC	USA	100.0	100.0
<b>Asia-Pacific</b>			
<i>Fully consolidated</i>			
APC Australia Pty Limited	Australia	100.0	100.0
Clipsal Australia Pty Limited	Australia	100.0	100.0
Clipsal Integrated Systems Pty Limited	Australia	100.0	100.0
Clipsal Technologies Australia Pty Limited	Australia	100.0	100.0
Control Microsystems Asia Pacific Pty Ltd	Australia	100.0	100.0

		% interest Dec. 31, 2012	% interest Dec. 31, 2011
Pelco Australia Pty Limited	Australia	100.0	100.0
Scadagroup Pty Ltd	Australia	100.0	100.0
Schneider Electric (Australia) Pty Limited	Australia	100.0	100.0
Schneider Electric Australia Holdings Pty Limited	Australia	100.0	100.0
Schneider Electric Buildings Australia Pty Limited	Australia	100.0	100.0
Serck Controls Pty Ltd	Australia	100.0	100.0
Telvent Australia Pty Limited	Australia	100.0	100.0
SolveIT	Australia	100.0	
APC (Suzhou) Uninterrupted Power Supply Co., Ltd	China	100.0	100.0
APC (Xiamen) Power Infrastructure Co., Ltd	China	100.0	100.0
Schneider Electric (Xiamen) Switchgear Co. Ltd	China	100.0	100.0
Schneider Electric Huadian Switchgear (Xiamen) Co., Ltd	China	55.0	55.0
Shanghai Schneider Electric Power Automation Co. Ltd	China	100.0	59.0
Schneider Switchgear (Suzhou) Co, Ltd	China	58.0	58.0
Beijing Leader & Harvest Electric Technologies Co. Ltd	China	100.0	100.0
Beijing Merlin Great Wall Computer Room Equipment & Engineering Co. Ltd	China	75.0	75.0
Clipsal Manufacturing (Huizhou) Ltd	China	100.0	100.0
Custom Sensors & Technologies Asia (Shanghai) Ltd	China	100.0	100.0
MGE Manufacturing Shanghai Co. Ltd	China	100.0	100.0
Proface China International Trading (Shanghai) Co. Ltd	China	100.0	100.0
RAM Electronic Technology and Control (Wuxi) Co., Ltd	China	100.0	100.0
Schneider (Beijing) Medium & Low Voltage Co., Ltd	China	95.0	95.0
Schneider (Beijing) Medium Voltage Co. Ltd	China	95.0	95.0
Schneider (Shaanxi) Baoguang Electrical Apparatus Co. Ltd	China	70.0	70.0
Schneider (Shanghai) Supply Co. Ltd	China	100.0	100.0
Schneider (Suzhou) Drives Company Ltd	China	90.0	90.0
Schneider (Suzhou) Enclosure Systems Co Ltd	China	100.0	100.0
Schneider (Suzhou) Transformers Co. Ltd	China	100.0	100.0
Schneider Automation Solutions (Shanghai) Co., Ltd	China	100.0	100.0
Schneider Busway (Guangzhou) Ltd	China	95.0	95.0
Schneider Electric (China) Investment Co. Ltd	China	100.0	100.0
Schneider Electric IT (China) Co., Ltd	China	100.0	100.0
Schneider Electric Low Voltage (Tianjin) Co. Ltd	China	75.0	75.0
Schneider Shanghai Apparatus Parts Manufacturing Co. Ltd	China	100.0	100.0
Schneider Shanghai Industrial Control Co. Ltd	China	80.0	80.0
Schneider Shanghai Low Voltage Term. Apparatus Co. Ltd	China	75.0	75.0
Schneider Shanghai Power Distribution Electric Apparatus Co. Ltd	China	80.0	80.0
Schneider Wingoal (Tianjin) Electric Equipment Co. Ltd	China	100.0	100.0
Telvent - BBS High & New Tech (Beijing) Co. Ltd	China	80.0	80.0
Telvent Control System (China) Co. Ltd	China	100.0	100.0
Tianjin Merlin Gerin Co. Ltd	China	75.0	75.0
Wuxi Proface Electronic Co.Ltd	China	100.0	100.0
EngSheng Ltd	China	100.0	
Custom Sensors & Technologies (Huizhou) Ltd	China	100.0	
Schneider Electric Manufacturing (Wuhan) Co., Ltd	China	100.0	
Clipsal Asia Holdings Limited	Hong Kong	100.0	100.0
Clipsal Asia Limited	Hong Kong	100.0	100.0
Clipsal Industries Hong Kong Limited	Hong Kong	100.0	100.0
Custom Sensors & Technologies Asia (Hong Kong) Limited	Hong Kong	100.0	100.0



		<b>% interest Dec. 31, 2012</b>	<b>% interest Dec. 31, 2011</b>
Schneider Electric IT Hong Kong Limited	Hong Kong	100.0	100.0
Schneider Electric (Hong Kong) Limited	Hong Kong	100.0	100.0
Schneider Electric Asia Pacific Limited	Hong Kong	100.0	100.0
APC India Private Ltd	India	100.0	100.0
APW President Systems Ltd	India	75.0	75.0
Cimac Automation Private Ltd	India	85.0	85.0
Cimac Software Systems Private Ltd	India	85.0	85.0
CST Sensors India Private Limited	India	100.0	100.0
Luminous Power Technologies Private Ltd	India	100.0	100.0
Luminous Renewable Energy Solutions Private Ltd	India	100.0	100.0
Luminous Teleinfra Ltd	India	100.0	100.0
Schneider Electric India Private Ltd	India	100.0	100.0
Uniflair India Private Ltd	India	100.0	100.0
Schneider Electric Infrastructure Limited	India	73.4	73.4
PT Clipsal Manufacturing Jakarta	Indonesia	100.0	100.0
PT Schneider Electric IT Indonesia	Indonesia	100.0	100.0
PT Schneider Electric Indonesia	Indonesia	100.0	100.0
PT Schneider Electric Manufacturing Batam	Indonesia	100.0	100.0
APC Japan, Inc.	Japan	100.0	100.0
Digital Electronics Corporation	Japan	100.0	100.0
Schneider Electric Japan Holdings Ltd	Japan	100.0	100.0
Toshiba Schneider Inverter Corp.	Japan	60.0	60.0
Clipsal Integrated Systems (M) Sdn Bhd	Malaysia	100.0	100.0
Clipsal Manufacturing (M) Sdn Bhd	Malaysia	100.0	100.0
Gutor Electronic Asia Pacific Sdn Bhd	Malaysia	100.0	100.0
Huge Eastern Sdn Bhd	Malaysia	100.0	100.0
KSLA Energy & Power Solutions (M) Sdn Bhd	Malaysia	100.0	100.0
Schneider Electric (Malaysia) Sdn Bhd	Malaysia	30.0	30.0
Schneider Electric Industries (M) Sdn Bhd	Malaysia	100.0	100.0
Schneider Electric IT Malaysia Sdn Bhd	Malaysia	100.0	100.0
Schneider Electric (NZ) Ltd	New-Zealand	100.0	100.0
American Power Conversion Land Holdings Inc.	Philippines	100.0	100.0
Clipsal Philippines	Philippines	100.0	100.0
MGE UPS Systems Philippines Inc.	Philippines	100.0	100.0
Schneider Electric (Philippines) Inc.	Philippines	100.0	100.0
KSLA Energy & Power Solution Pte. Ltd	Singapore	100.0	100.0
Pelco Asia Pacific Pte. Ltd	Singapore	100.0	100.0
Schneider Electric Buildings Singapore Pte. Ltd	Singapore	100.0	100.0
Schneider Electric Export Services Pte. Ltd	Singapore	100.0	100.0
Schneider Electric IT Logistics Asia Pacific Pte. Ltd	Singapore	100.0	100.0
Schneider Electric IT Singapore Pte. Ltd	Singapore	100.0	100.0
Schneider Electric Logistics Asia Pte. Ltd	Singapore	100.0	100.0
Schneider Electric Overseas Asia Pte. Ltd	Singapore	100.0	100.0
Schneider Electric Singapore Pte. Ltd	Singapore	100.0	100.0
Schneider Electric South East Asia (HQ) Pte. Ltd	Singapore	100.0	100.0
Pro Face Korea Co. Ltd	South Korea	100.0	100.0
Schneider Electric Korea Ltd (ex Samwha EOCR Co. Ltd)	South Korea	100.0	100.0
Schneider Electric Lanka (Private) Limited	Sri Lanka	100.0	100.0
Pro Face Taiwan Co. Ltd	Taiwan	99.9	99.9

		% interest Dec. 31, 2012	% interest Dec. 31, 2011
Schneider Electric Taiwan Co Ltd	Taiwan	100.0	100.0
MGE UPS Systems S.A. (Thailand) Co. Ltd	Thailand	100.0	100.0
Pro Face South East Asia Pacific Co. Ltd	Thailand	100.0	100.0
Schneider (Thailand) Ltd	Thailand	100.0	100.0
Schneider Electric CPCS (Thailand) Co. Ltd	Thailand	100.0	100.0
Clipsal Vietnam Co. Ltd	Vietnam	100.0	100.0
MGE UPS Systems Viet Nam Limited	Vietnam	100.0	100.0
Schneider Electric Vietnam Co. Ltd	Vietnam	100.0	100.0
<i>Accounted for by proportionate method</i>			
Delixi Electric Ltd (sub-group)	China	50.0	50.0
<i>Accounted for by equity method</i>			
Sunten Electric Equipment	China	50.0	50.0
Fuji Electric FA Components & Systems Co., Ltd (sub-group)	Japan	37.0	37.0
<b>Rest of the world</b>			
<i>Fully consolidated</i>			
Delixi Electric Algeria	Algeria	100.0	100.0
SARL Schneider Electric Algeria	Algeria	100.0	100.0
MGE UPS Systems Argentina S.A.	Argentina	100.0	100.0
Schneider Electric Argentina SA	Argentina	100.0	100.0
Telvent Argentina SA	Argentina	100.0	100.0
Clipsal Middle East	Bahrain	80.0	80.0
APC Brasil Ltda	Brazil	100.0	100.0
CST Latino America Comercio E Representacao de Produtos Electronicos Ltda	Brazil	99.8	99.8
Matchmind Software Ltda	Brazil	100.0	100.0
Microsol Tecnologia SA	Brazil	100.0	100.0
Ram Do Brasil, Ltda	Brazil	100.0	100.0
Schneider Electric Brasil Ltda	Brazil	100.0	100.0
Telvent Brazil SA	Brazil	100.0	100.0
Softbrasil Automação Ltda	Brazil	100.0	100.0
Steck da Amazonia Industria Electronica Ltda	Brazil	100.0	100.0
Steck Industria Electronica Ltda	Brazil	100.0	100.0
CP Eletronica	Brazil	100.0	
Inversiones Schneider Electric Uno Limitada	Chile	100.0	100.0
Marisio SA	Chile	100.0	100.0
Schneider Electric Chile SA	Chile	100.0	100.0
Telvent Chile SA	Chile	100.0	100.0
Dexson Electric SA	Colombia	100.0	100.0
Schneider de Colombia SA	Colombia	80.0	80.0
Schneider Centroamerica SA	Costa Rica	100.0	100.0
Delixi Electric Egypt s.a.e	Egypt	98.0	98.0
Schneider Electric Distribution Company	Egypt	87.4	87.4
Schneider Electric Egypt SA	Egypt	91.0	91.0
Schneider Electric Industries Iran	Iran	94.0	89.0
Telemecanique Iran	Iran	100.0	100.0
Schneider Electric LLP	Kazakhstan	100.0	100.0
Schneider Electric East Mediterranean SAL	Lebanon	96.0	96.0
Delixi Electric Maroc SARL AU	Morocco	100.0	100.0
Schneider Electric IT Morocco, SA	Morocco	100.0	100.0





		<b>% interest Dec. 31, 2012</b>	<b>% interest Dec. 31, 2011</b>
Schneider Electric Maroc	Morocco	100.0	100.0
Schneider Electric Nigeria Ltd	Nigeria	100.0	100.0
Schneider Electric Oman LLC	Oman	100.0	100.0
Schneider Electric Pakistan (Private) Limited	Pakistan	80.0	80.0
Schneider Electric Peru SA	Peru	100.0	100.0
Cimac Electrical and Automation W.L.L	Qatar	75.0	75.0
EPS Electrical Power Distribution Board & Switchgear Ltd	Saudi Arabia	51.0	51.0
Telvent Saudi Arabia Co. Ltd	Saudi Arabia	100.0	100.0
AMPS	Saudi Arabia	100.0	
Merlin Gerin SA (Pty) Ltd	South Africa	80.0	80.0
Schneider Electric IT South Africa (Pty) Ltd	South Africa	100.0	100.0
Schneider Electric South Africa (Pty) Ltd	South Africa	74.9	74.9
Uniflair South Africa (Pty) Ltd	South Africa	100.0	100.0
Schneider Enerji Endustrisi Sanayi Ve Ticaret	Turkey	100.0	100.0
Metesan Elektrik Malzemeleri Ticaret Ve Pazarlama A.S.	Turkey	100.0	100.0
Schneider Elektrik Sanayi Ve Ticaret A.S.	Turkey	100.0	100.0
Cimac Electrical and Control Systems LLC	United Arab Emirates	80.0	80.0
Cimac FZCO	United Arab Emirates	100.0	100.0
Cimac LLC	United Arab Emirates	49.0	49.0
Clipsal Middle East FZC	United Arab Emirates	100.0	100.0
Clipsal Middle East FZCO	United Arab Emirates	60.0	60.0
CLS Systems FZCO	United Arab Emirates	100.0	100.0
Delixi Electric FZE	United Arab Emirates	100.0	100.0
Hunter Watertech Middle East FZE	United Arab Emirates	100.0	100.0
Schneider Electric DC MEA FZCO	United Arab Emirates	100.0	100.0
Schneider Electric FZE	United Arab Emirates	100.0	100.0
APC Uruguay S.A.	Uruguay	100.0	100.0
Schneider Electric Venezuela SA	Venezuela	91.9	91.9

## > 6. Statutory Auditors' report on the consolidated financial statements

*This is a free translation into English of the Statutory Auditors' report on the consolidated financial statements issued in French and it is provided solely for the convenience of English speaking users.*

*The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures.*

*This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to shareholders.*

*This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2012, on:

- the audit of the accompanying consolidated financial statements of Schneider Electric SA;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Management Board. Our role is to express an opinion on these consolidated financial statements based on our audit.

### I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2012 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### II. Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- note 1.2 to the consolidated financial statements outlines the impact of the correction of error relating to the recognition of customer rebates accrual and the restatement of comparative information for the year ended December 31, 2011 conducted in application of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". We examined the elements relating to this restatement and verified the appropriateness of the disclosures provided in the notes to the consolidated financial statements;
- note 1.9 to the consolidated financial statements outlines the method for recognizing research and development costs and describes the criteria under which development costs may be capitalized. We reviewed the data and assumptions used to identify projects that qualify for capitalization, as well as the Group's calculations, and verified that adequate disclosure is made in the notes to the consolidated financial statements;
- As explained in notes 1.11 and 8 to the consolidated financial statements, your Group carries out intangible assets and goodwill impairment tests at least once a year and when factors exist indicating that the related assets may have suffered a loss of value. We analyzed, on a test basis, the indicators of a loss of value and the other information evidencing the absence of any loss of value. We reviewed the data, assumptions used, and calculations made, and verified that adequate disclosure is made in the notes to the consolidated financial statements;
- As indicated in notes 1.16 and 16 to the consolidated financial statements, future tax benefits arising from the utilization of tax loss carry forwards are recognized only when they can reasonably be expected to be realized. We verified the reasonableness of the assumptions used to produce estimate of future taxable income used to support assessments of the recoverability of these deferred tax assets;



- notes 1.19 and 22 describe the method for valuing pensions and other post-employment obligations. Actuarial valuations were performed for these commitments. We reviewed the data, assumptions used, and calculations made, and verified that adequate disclosure is made in the notes to the consolidated financial statements;
- note 7 "Restructuring costs" states the amount of restructuring costs recorded in 2012. We verified that, based on currently available information, these costs concern restructuring measures initiated or announced before December 31, 2012, for which provisions have been recorded based on an estimate of the costs to be incurred. We also reviewed the data and assumptions used by the Group to make these estimates.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

### III. Specific verification

As required by law we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Courbevoie and Paris-La Défense, February 20, 2013

The Statutory Auditors  
*French original signed by*

**MAZARS**  
 David Chaudat

**ERNST & YOUNG et Autres**  
 Yvon Salaün



## Company financial statements

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## &gt; 1. Balance sheet

## Assets

<i>(in thousands of euros)</i>	Notes	Gross	A. & D. or Prov.	Dec. 31, 2012 Net	Dec. 31, 2011 Net	Dec. 31, 2010 Net
<b>Non-current assets:</b>						
<i>Intangible assets</i>	1.1					
Intangible rights		27,474	(27,474)		-	-
Property, plant and equipment	1.2					
Land		2,944	-	2,944	2,954	2,964
Buildings		48	(48)	-	-	-
Other		1,468	(242)	1,226	1,226	1,226
		31,934	(27,764)	4,170	4,180	4,190
<i>Investments</i>						
Shares in subsidiaries and affiliates	2.1	4,605,759	(105,505)	4,500,254	4,589,316	4,590,207
Other investment securities	2.2	48,909	(77)	48,832	160,004	160,004
Advances to subsidiaries and affiliates	2.3	4,178,758	-	4,178,758	3,606,646	3,139,977
Other		-	-	-	-	-
		8,833,426	(105,582)	8,727,844	8,355,966	7,890,188
<b>Total non-current assets</b>		<b>8,865,360</b>	<b>(133,346)</b>	<b>8,732,014</b>	<b>8,360,146</b>	<b>7,894,378</b>
<b>Current assets:</b>						
<i>Accounts receivable</i>						
Accounts receivable - trade		610	-	610	101	58
Other	3	98,768	(45,256)	53,512	134,829	185,047
		99,378	(45,256)	54,122	134,930	185,105
<i>Cash and cash equivalents</i>						
Marketable securities	4	199,949	-	199,949	199,680	217,284
Advances to the Group cash pool	5	9,105,114	-	9,105,114	9,845,777	6,481,885
Other		5	-	5	5	981
		9,305,068	-	9,305,068	10,045,461	6,700,150
<b>Total current assets</b>		<b>9,404,446</b>	<b>(45,256)</b>	<b>9,359,189</b>	<b>10,180,391</b>	<b>6,885,255</b>
<b>Accruals and other assets:</b>						
Prepaid expenses	6.1	1,351	-	1,351	1,621	1,696
Deferred charges	6.2	12,456	-	12,456	11,815	8,943
Call premiums	6.3	45,723	-	45,723	52,287	49,995
Translation losses		53,867	-	53,867	32,797	-
<b>TOTAL ASSETS</b>		<b>18,383,204</b>	<b>(178,602)</b>	<b>18,204,602</b>	<b>18,639,056</b>	<b>14,840,268</b>

The notes form an integral part of these Company financial statements.

## Equity and liabilities

<i>(in thousands of euros)</i>	Note	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
<b>Equity:</b>				
Share capital	7.1	2,221,668	2,195,772	2,175,673
Additional paid-in capital	7.2	6,783,187	6,587,655	6,392,899
Reserves and retained earnings				
Legal reserve		219,577	217,567	210,202
Retained earnings	7.3	1,779,581	96,496	256,681
Net income for the financial year		225,115	2,603,738	702,982
Untaxed provisions		2	2	2
<b>Total equity</b>		<b>11,229,131</b>	<b>11,701,230</b>	<b>9,738,439</b>
<b>Provisions for contingencies and pension accruals:</b>	8			
Provisions for contingencies		45	45	45
Provisions for pension accruals		-	31,721	31,704
<b>Total provisions for contingencies and pension accruals</b>		<b>45</b>	<b>31,766</b>	<b>31,749</b>
<b>Non-current liabilities:</b>				
Bonds	9	6,326,323	5,750,973	4,544,565
Other borrowings	10	544,009	527,889	510,369
Amounts payable to subsidiaries and affiliates		13	13	13
Borrowings and financial liabilities	11	68	190,064	3
		6,870,414	6,468,939	5,054,951
<b>Current liabilities:</b>				
Accounts payable – trade		135	276	288
Accrued taxes and payroll costs		42,320	394,073	5,148
Other		8,689	9,834	9,694
		51,145	404,183	15,130
<b>Total non-current and current liabilities</b>		<b>6,921,559</b>	<b>6,873,122</b>	<b>5,070,081</b>
Deferred income	12	-	141	-
Translation gains		53,867	32,797	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>18,204,602</b>	<b>18,639,056</b>	<b>14,840,268</b>

The notes form an integral part of these Company financial statements.

## > 2. Statement of income

<i>(in thousands of euros)</i>	Note	2012	2011	2010
Sales of services and other		752	261	2,379
Reversals of provisions, depreciation and amortization and expense transfers		32,596	1,987	1,992
<b>Operating revenues</b>		<b>33,347</b>	<b>2,249</b>	<b>4,371</b>
Purchases and external expenses		40,266	9,094	5,549
Taxes other than on income		1,172	4,455	1,726
Payroll expenses		3,604	2,719	8,198
Depreciation, cen and provision expense		600	500	200
Other operating expenses and joint-venture losses		1,365	1,392	1,005
<b>Operating expenses</b>		<b>47,007</b>	<b>18,159</b>	<b>16,678</b>
<b>Operating profit/loss</b>		<b>(13,660)</b>	<b>(15,910)</b>	<b>(12,307)</b>
Dividend income		371,978	1,436,419	691,233
Interest income		161,442	216,004	142,631
Reversals of impairment provisions for long-term receivables and other		61	0	0
<b>Financial income</b>		<b>533,481</b>	<b>1,652,422</b>	<b>833,864</b>
Interest expense		308,158	296,408	319,904
Provision expense		4,626	3,789	4,484
<b>Financial expenses</b>		<b>312,784</b>	<b>300,197</b>	<b>324,388</b>
<b>Net financial income/(loss)</b>	<b>14</b>	<b>220,697</b>	<b>1,352,225</b>	<b>509,476</b>
Proceeds from fixed asset disposals		122,729	1,191,653	192
Provision reversals and expense transfers		19,960	915	1,499
Other		6,244	109	1,230
<b>Non-recurring income</b>		<b>148,933</b>	<b>1,192,677</b>	<b>2,921</b>
Carrying amount of fixed asset disposals		129,976	1,240	2,273
Provisions, depreciation and amortization		89,067	17,604	0
Other		-	968	56
<b>Non-recurring expenses</b>		<b>219,043</b>	<b>19,812</b>	<b>2,329</b>
<b>Net non-recurring income/(expense)</b>	<b>15</b>	<b>(70,109)</b>	<b>1,172,864</b>	<b>592</b>
<b>Net income tax benefit</b>	<b>16</b>	<b>88,187</b>	<b>94,558</b>	<b>205,221</b>
<b>NET INCOME</b>		<b>225,115</b>	<b>2,603,738</b>	<b>702,982</b>

The notes form an integral part of these Company financial statements.



## > 3. Notes to the financial statements

(All amounts in thousands of euros unless otherwise indicated)

### Significant events of the financial year

During the financial year, Schneider Electric SA carried out EUR221 million in share capital increases, as follows:

- the employee share issue carried out on July 19, 2012 as part of the worldwide Employee Stock Purchase Plan, for EUR123 million;
- the exercise of stock options, for EUR98 million.

The Company carried out a bond issue during the financial year for a nominal of USD800 million, corresponding to EUR606 million.

On February 29, 2012, the Company did pay to the French tax authorities ("Direction Générale Entreprise des Impôts") EUR108 million as a payment for tax audit of Schneider Electric Industrie SAS for years 2005 to 2008.

On July 31, 2012, the Company received EUR6 million corresponding to the litigation GIS Siemens high voltage.

On September 7, 2012, the Company sold its investment in AXA held since November 26, 2009 for EUR122 million for a book value of EUR111 million.

The Company create a carry-back receivable for EUR93 million in 2012 by carrying back the 2009 tax loss on the 2008 tax profit. This receivable was sold as non-recourse on December 19, 2012 to a bank with a deduction of fees and interests of EUR3 million.

On December 31, 2012, the Company booked provisions for impairment on its investments in Cofibel by EUR63 million, in Cofimines by EUR8 million and in Schneider Electric Japon by EUR18 million.

A provision was booked for the tax audit on 2009 tax group filing that was paid in January 2013.

### Accounting principles

As in the prior financial year, the financial statements for the financial year ended December 31, 2012 have been prepared in accordance with French generally accepted accounting principles.

account of the acquired business goodwill. For listed securities, the average stock price over the previous month is used. Unrealised gains resulting from such estimates are not recognised.

#### Non-current assets

Non-current assets of all types are stated at cost.

#### Intangible assets

Intangible rights are amortised over a maximum of five years.

#### Property, plant and equipment

Items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, ranging from three to ten years.

#### Shares in subsidiaries and affiliates

Shares in subsidiaries and affiliates are stated at acquisition cost.

Provisions for impairment may be funded where the carrying amount is higher than the estimated value in use at the end of the financial year. This estimate is primarily determined on the basis of the underlying net assets, earnings outlook and economic forecasts. For the more recently-acquired investments, the analysis also takes

#### Own shares

Treasury stock is stated at weighted average cost.

In the case of treasury stock held for allocation on the exercise of stock options, a provision is recorded if the exercise price is lower than the carrying value of the related treasury shares or if the average stock price for the month previous to the closing is lower than the weighted average cost.

#### Pension obligations

The present value of termination benefits is determined using the projected unit credit method.

Provisions are funded for the supplementary pension benefits provided by the Company on the basis of the contractual terms of top-hat agreements.

The Company applies the corridor method to actuarial gains and losses arising from changes in estimates. Under this method, the portion of net cumulative actuarial gains and losses exceeding 10% of the projected benefit obligation is amortised over 10 years.



**Currency risk**

Where necessary, a contingency provision is in place for unrealised exchange losses. However, where there are unrealised exchange gains and losses on back-to-back transactions in the same currency and with the same maturity, the amount of the provision is then limited to the net loss.

**Bonds**

Redemption premiums and issue costs are amortised over the life of the bonds.

**Note 1 Non-current assets****1.1 – Intangible assets**

This item primarily consists of share issue and merger expenses, which are fully amortised.

**1.2 – Tangible assets**

<b>Tangible assets</b>	<b>Dec. 31, 2011</b>	<b>Additions</b>	<b>Disposals</b>	<b>Dec. 31, 2012</b>
Cost	4,470	-	(10)	4,460
Depreciation	(290)	-	-	(290)
<b>NET</b>	<b>4,180</b>	<b>-</b>	<b>(10)</b>	<b>4,170</b>

**Note 2 Investments****2.1 – Shares in subsidiaries and affiliates**

<b>Shares in subsidiaries and affiliates</b>	<b>Dec. 31, 2011</b>	<b>Additions</b>	<b>Disposals</b>	<b>Dec. 31, 2012</b>
Cost	4,607,212	5	(1,458)	4,605,759
Provisions	(17,896)	(89,067)	1,458	(105,505)
<b>NET</b>	<b>4,589,316</b>	<b>(89,062)</b>	<b>-</b>	<b>4,500,254</b>

The main changes over the financial year are mainly related to the impairment of its investments in Cofibel for EUR63 million, Cofimines for EUR8 million and for Schneider Electric Japon for EUR18 million.

The main investments at December 31, 2012 were as follows:

<b>Shares in subsidiaries and affiliates</b>	<b>Carrying value</b>
Schneider Electric Industries SAS	4,344,481
Cofibel	74,647
Cofimines	74,256
Schneider Electric Japan Holding	3,149
Other (less than EUR20 million)	3,721
<b>TOTAL</b>	<b>4,500,254</b>

## 2.2 – Other investment securities

Other investment securities	Dec. 31, 2011	Increases	Decreases	Dec. 31, 2012
Schneider Electric SA shares	48,778	-	-	48,778
Other	111,303	-	(111,172)	131
Provisions for other shares	(77)	-	-	(77)
<b>NET</b>	<b>160,004</b>	<b>-</b>	<b>(111,172)</b>	<b>48,832</b>

Other investment securities primarily include Schneider Electric SA shares acquired for allocation on the exercise of certain stock options. Schneider Electric SA has not reclassified own shares allocated to this line item as of December 31, 2004. However, since then, all purchases made for allocation to stock option plans have been classified as marketable securities.

After the sale on September 7, 2012, of its investment in AXA which net book value was EUR111 million, "Other" shares primarily consist of VIGEOS SAS shares.

## 2.3 – Advances to subsidiaries and affiliates

Advances to subsidiaries and affiliates	Dec. 31, 2011	Increases	Decreases	Dec. 31, 2012
Cost	3,606,707	696,216	(124,165)	4,178,758
Provisions	(61)	-	61	-
<b>NET</b>	<b>3,606,646</b>	<b>696,216</b>	<b>(124,104)</b>	<b>4,178,758</b>

At December 31, 2012, this item mainly consisted of two loans totaling EUR3 billion granted to Schneider Electric Industries SAS, repayable in 2014 and 2015, of four loans granted to Boissière Finance for a total amount of EUR1 billion with maturity date 2016 and 2022 and of accrued interest of EUR47 million.

## Note 3 Other receivables

Other receivables	Dec. 31, 2012	Dec. 31, 2011
Cost	98,768	180,085
Provisions	(45,256)	(45,256)
<b>NET</b>	<b>53,512</b>	<b>134,829</b>

At December 31, 2012, "Other receivables" primarily consist of EUR19 million in group tax relief, EUR11 for research tax credit, of EUR18 million of interests of hedging instruments on bonds and of a disputed receivable for EUR45 million fully written down.



**Note 4** Marketable securities

	Dec. 31, 2011		Aquisitions	Disposals	Dec. 31, 2012	
	Number of shares	Value	Value	Value	Value	Number of shares
Stock options plan 26	866,970	25,696	17,886	(17,617)	25,965	876,034
Stock options plan 27	1,892,054	54,128	-	-	54,128	1,892,054
Stock options plan 28	2,000,000	57,348	-	-	57,348	2,000,000
Stock options plan 29	62,666	1,797	-	-	1,797	62,666
Stock options plan 30	1,755,172	60,711	-	-	60,711	1,755,172
Stock grants plan 5	274,680	8,141	14	(8,155)	-	-
Stock grants plan 7	-	-	74	(74)	-	-
Stock grants plan 8	319,256	9,463	18	(9,481)	-	-
Total Gross	7,170,798	217,284	17,992	(35,327)	199,949	6,585,926
Provisions		(17,604)	-	17,604	-	
<b>TOTAL NET</b>		<b>199,680</b>	<b>17,992</b>	<b>(17,723)</b>	<b>199,949</b>	

Marketable securities primarily represent own shares held by the Company for allocation to stock option plans. The shares of stock grants plans n°5, n°7 and n°8 are registered as direct shareholders and blocked during two years.

At December 31, 2012, the EUR17 million provision booked in 2011 over the 593,936 own shares allocated to plans n°5 and 8 by

Management Board decision on December 6, 2011 was reversed; these shares were allocated to plan n°26 in 2010.

At December 31, 2012, the Management Board determined plans n°26, n°27, n°28, n°29 et n°30 as stock-options plans. The reallocation of Schneider Electric SA shares, initially allocated to these plans has not been decided yet by the Management Board.

**Note 5** Advances to the Group cash pool

This item consists of interest-bearing advances by Schneider Electric SA to the Group cash pool (Boissière Finance) that are recoverable on demand.

**Note 6** Accruals and other assets**6.1 – Prepaid expenses**

This EUR1 million line item consists of the expenses incurred in arranging rate swaps in connection with the bonds (see note 7.3).

## 6.2 – Bond issue expenses

Bond issue expenses	Dec. 31, 2011	Increases	Decreases	Dec. 31, 2011
Aug. 11, 2005 due 2017 (EUR600 million)	760	-	(123)	637
July 17, 2006 due 2011 (EUR500 million)	55	-	(28)	27
Oct. 8, 2007 due 2015 (EUR600 million)	646	-	(214)	432
Feb. 16, 2007 due 2014 (EUR4,500 million) (bridge loan)	1,590	-	(526)	1,064
May 21, 2008 due 2013 (EUR18 million)	18	-	(12)	6
May 21, 2008 due 2013 (EUR183 million)	187	-	(134)	53
May 21, 2008 due 2015 (EUR55 million)	98	-	(25)	73
May 21, 2008 due 2015 (EUR129 million)	231	-	(67)	164
June 11, 2008 due 2013 (EUR12 million)	14	-	(10)	4
July 25, 2008 due 2016 (EUR177 million)	95	-	(21)	74
Mar. 20, 2009 due 2018 (EUR250 million)	81	-	(13)	68
Apr. 30, 2009 due 2014 (EUR150 million)	126	-	(39)	87
Jan. 16, 2009 due 2013 (EUR750 million)	694	-	(474)	220
July 20, 2010 due 2016 (EUR300 million)	627	-	(131)	496
July 20, 2010 due 2016 (EUR200 million)	411	-	(85)	326
July 20, 2010 due 2020 (EUR500 million)	1,314	-	(117)	1,197
July 1, 2011 due 2014 (USD300 million)	230	-	(97)	133
July 12, 2011 due 2018 (EUR750 million)	2,521	-	(387)	2,134
Sep. 22, 2011 due 2019 (EUR500 million)	1,576	13	(361)	1,228
Nov. 18, 2011 due 2016 (JPY12 billion)	295	-	(60)	235
Dec. 8, 2011 due 2016 (JPY10 billion)	247	-	(50)	197
Sep. 27, 2012 due 2022 (USD800 million)		3,683	(81)	3,602
	<b>11,815</b>	<b>3,696</b>	<b>(3,055)</b>	<b>12,456</b>

## 6.3 – Redemption premiums

Redemption premiums	Dec. 31, 2011	Increases	Decreases	Dec. 31, 2012
Aug. 11, 2005 due 2017 (EUR600 million)	2,459	-	(398)	2,061
July 17, 2006 due Jan. 2014 (EUR500 million)	1,012	-	(510)	502
Oct. 8, 2007 due 2015 (EUR600 million)	213	-	(71)	142
Apr. 11, 2008 due 2018 (EUR55 million)	4,871	-	(755)	4,116
Apr. 11, 2008 due 2018 (EUR125 million)	11,378	-	(1,763)	9,615
Mar. 20, 2009 due 2018 (EUR250 million)	23,607	-	(3,632)	19,975
Apr. 30, 2009 due 2014 (EUR150 million)	(2,352)	-	721	(1,631)
Jan. 16, 2009 due 2013 (EUR750 million)	78	-	(53)	25
July 20, 2010 due 2016 (EUR300 million)	1,575	-	(328)	1,247
July 20, 2010 due 2016 (EUR200 million)	(2,958)	-	618	(2,340)
July 20, 2010 due 2020 (EUR500 million)	3,919	-	(348)	3,571
July 1, 2011 due 2014 (USD300 million)	309	-	(140)	169
July 12, 2011 due 2018 (EUR750 million)	4,520	-	(693)	3,827
Sep. 22, 2011 due 2019 (EUR500 million)	3,658	-	(830)	2,828
Sep. 27, 2012 due 2022 (EUR800 million)		1,654	(36)	1,618
	<b>52,287</b>	<b>1,654</b>	<b>(8,218)</b>	<b>45,723</b>

The increases in this line item were due to the 2012 bond issues (see note 9).



**Note 7** Shareholders' equity and retained earnings

<i>(in millions of euros)</i>	Share capital	Additional paid-in capital	Reserves and retained earnings	Net income for the year	Untaxed provisions	Total
<b>December 31, 2010 before allocation of net income for the year</b>	<b>2,175</b>	<b>6,393</b>	<b>467</b>	<b>703</b>	<b>-</b>	<b>9,738</b>
Change in share capital	20	195	-	-	-	215
Allocation of 2009 net income	-	-	7	(7)	-	-
2009 dividend	-	-	(160)	(696)	-	(856)
Other changes during the period	-	-	-	-	-	-
2010 net income	-	-	-	2,604	-	2,604
<b>December 31, 2011 before allocation of net income for the year</b>	<b>2,195</b>	<b>6,588</b>	<b>314</b>	<b>2,604</b>	<b>-</b>	<b>11,701</b>
Change in share capital	26	196	-	-	-	222
Allocation of 2010 net income	-	-	1,685	(1685)	-	-
2010 dividend	-	-	-	(919)	-	(919)
Other changes during the period	-	-	-	-	-	-
2011 net income	-	-	-	225	-	225
<b>DECEMBER 31, 2012 BEFORE ALLOCATION OF NET INCOME FOR THE YEAR</b>	<b>2,221</b>	<b>6,784</b>	<b>1,999</b>	<b>225</b>	<b>-</b>	<b>11,229</b>

**7.1 – Capital****Share capital**

The Company's share capital at December 31, 2012 amounted to EUR2,221,668,056, consisting of 555,417,014 shares with a par value of EUR4, all fully paid up.

**Changes in share capital**

During the financial year, 3,521,812 shares were issued as part of the worldwide Employee Stock Purchase Plan amounting to the EUR14 million in share capital while 2,952,178 new shares were issued on the exercise of stock options, increasing the share capital by EUR12 million.

**Own shares**

The total number of own shares held at the reporting date stood at 8,580,080, representing a net amount of EUR249 million.

**7.2 – Additional paid-in capital**

Additional paid-in capital rose by EUR195 million over the financial year, including EUR109 million from the worldwide Employee Stock Purchase Plan and EUR86 million from the exercise of stock options.

**7.3 – Retained earnings**

Pursuant to the third resolution of the Annual and Extraordinary Shareholders' Meeting of May 3, 2012, EUR2 million of the EUR2,604 million in 2011 distributable earnings was allocated to the legal reserve. EUR919 million was paid out in dividends and EUR1,683 million were allocated to retained earnings.

## Note 8 Provisions for contingencies and pension accruals

	Dec. 31, 2011	Increases	Decreases	Dec. 31, 2012
<b>Provisions for contingencies</b>				
Disputes	15	-	-	15
Other	30	-	-	30
	45	-	-	45
<b>Provisions for pension accruals</b>				-
Pension accruals	31,721	2,133	(33,854)	-
	<b>31,766</b>	<b>2,133</b>	<b>(33,854)</b>	<b>45</b>

### 8.1 – Contingencies

Management is confident that overall the balance sheet provisions for disputes of which it is currently aware and in which the Company is involved should be sufficient to ensure that these disputes do not have a material impact on its financial position or income. This is particularly true of the provisions set aside to cover the potential consequences of a pending dispute in Belgium involving former senior executives and managers of the Company.

### 8.2 – Pension accruals

The Company has various obligations towards its current and retired senior executives and managers. During 2012, the Company closed the previous plan to new comers and implemented a new plan with progressing vesting rights based on seniority in the Group and in Executive Committee. The financing of this new plan was externalized to AXA France Vie.

The Company applied the corridor method to the actuarial gains and losses arising from this valuation (see "accounting principles"). At December 31, 2012, cumulative actuarial gains and losses totalled EUR13 million. From 2013, a total of EUR8.5 million, exceeding 10% of the obligation, is being amortised over 10 years.





**Note 9 Bonds**

	Share capital		Interest rate	Maturity
	Dec. 31, 2012	Dec. 31, 2011		
Schneider Electric SA 2017	600,000	600,000	4.00% Fixed	Aug. 11, 2017
Schneider Electric SA 2014	500,000	500,000	4.50% Fixed	Jan. 17, 2014
Schneider Electric SA 2015	600,000	600,000	5.375% Fixed	Jan. 08, 2015
Schneider Electric SA 2017	125,000	125,000	4.00% Fixed	Aug. 11, 2017
Schneider Electric SA 2017	55,000	55,000	4.00% Fixed	Aug. 11, 2017
Schneider Electric SA 2016	177,565	177,565	Euribor +0.60% Floating	July 25, 2016
Schneider Electric SA 2013	100,000	100,000	CMS +1% Floating	July 31, 2013
Schneider Electric SA 2013	487,000	487,000	6.75% Fixed	July 16, 2013
Schneider Electric SA 2015	150,000	150,000	5.375% Fixed	Jan. 08, 2015
Schneider Electric SA 2017	250,000	250,000	4.00% Fixed	Aug. 11, 2017
Schneider Electric SA 2016	300,000	300,000	2.875% Fixed	July 20, 2016
Schneider Electric SA 2016	200,000	200,000	2.875% Fixed	July 20, 2016
Schneider Electric SA 2020	500,000	500,000	3.625% Fixed	July 20, 2020
Schneider Electric SA 2014	227,376	231,857	Libor + 0.49% Floating	July 1, 2014
Schneider Electric SA 2018	750,000	750,000	3.75% Fixed	July 12, 2018
Schneider Electric SA 2019	500,000	500,000	3.50% Fixed	Jan. 22, 2019
Schneider Electric SA 2016	110,026	124,750	0.849% Fixed	Nov. 18, 2016
Schneider Electric SA 2016	88,020	99,800	0.84625% Fixed	Dec. 8, 2016
Schneider Electric SA 2022	606,336		2.95% Fixed	Sep. 27, 2022
	<b>6,326,323</b>	<b>5,750,973</b>		

Fixed: fixed rate.

Floating: floating rate.

Schneider Electric SA has issued bonds on different markets:

- in the Unites States, through a private placement offering following SEC 144A rule, for USD800 million worth of bonds issued in September 2012, at a rate of 2.950%, due in September 2022;
- as part of its Euro Medium Term Notes (EMTN) programme, which bonds are traded on the Luxembourg stock exchange. Issues that were not yet due as of December 31, 2012 are as follow:
  - JPY12 and JPY10 billion for a total amount of EUR225 million worth of respectively 0.849% and 0.84625% bonds issued in November and December 2011 and maturing on November 18, 2016 and December 8, 2016,
  - EUR500 million worth of 3.50% bonds issued in September 2011 and maturing on January 22, 2019,
  - EUR750 million worth of 3.75% bonds issued in July 2011 and maturing on July 12, 2018,
  - USD300 million for a total amount of EUR232 million worth of bonds issued in July 2011 at a floating rate and maturing on July 1, 2014,
  - EUR300 and EUR200 million worth of 2.875% bonds successively issued in July and October 2010 and maturing on July 20, 2016,
  - EUR500 million worth of 3.625% bonds issued in July 2010 and maturing on July 20, 2020,
  - EUR150 million worth of bonds issued in May 2009 to top up the EUR600 million tranche at 5.375% maturing on January 8, 2015 and issued in October 2007, thereby raising the total issue to EUR750 million,
  - EUR250 million worth of bonds issued in March 2009 to top up the EUR780 million 12 year tranche at 4% issued in August 2005, thereby raising the total issue to EUR1.03 billion,
  - EUR750 million worth of 6.75% bonds issued in January 2009 and maturing on July 16, 2013. In July 2010, this bond was partly redeemed to the amount of EUR263 million, reducing the bond to EUR487 million,
  - EUR100 million worth of bonds issued in July 2008 at a floating rate indexed to the 10 year CMS (Constant Maturity Swap) and maturing on July 31, 2013,
  - EUR177 million worth of floating-rate bonds issued in July 2008 and maturing on July 25, 2016,
  - EUR180 million worth of bonds issued in April 2008 to top up the EUR600 million 12 year tranche at 4% issued in August 2005, thereby raising the total tranche to EUR780 million,
  - EUR600 million worth of 5.375% bonds issued in October 2007 and maturing on January 8, 2015,

- EUR1 billion worth of bonds issued in July 2006, comprising a EUR500 million five-year floating rate tranche and a EUR500 million 7 1/2-year 4.5% tranche,
- EUR600 million worth of 4% bonds issued in August 2005 and maturing in August 2017.

There was no repayment of bonds in 2012.

The issue premiums and issue costs are amortised in line with the effective interest method.

## Note 10 Other borrowings

Other borrowings at December 31, 2012 included accrued interest on bonds and other debt issued by the Company. Following the issue of USD800 million bonds in 2012, accrued interest amounted to EUR147 million, compared to EUR131 million at end of 2011.

Finally, this line item includes a EUR397 million "Schuldschein" loan granted by international banks in first-half 2008, comprising four tranches: a EUR129 million seven-year floating-rate tranche, a EUR55 million seven-year fixed-rate tranche, a EUR195 million five-year floating-rate tranche and a EUR18 million five-year fixed-rate tranche.

## Note 11 Interest-bearing liabilities

Interest-bearing liabilities	Dec. 31, 2011	Increase	Decrease	Dec. 31, 2012
Commercial paper	190,000	3,163,500	(3,353,500)	-
Overdrafts	62	6	-	68
Other	2	-	(2)	-
<b>NET</b>	<b>190,064</b>	<b>3,163,506</b>	<b>(3,353,502)</b>	<b>68</b>

At December 31, 2012, all commercial paper were redeemed.

## Note 12 Maturities of receivables and payables

	Total	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years
<b>Non-current assets</b>				
Advances to subsidiaries and affiliates	4,178,758	47,000	3,525,422	606,336
Other investment	-	-	-	-
<b>Current assets</b>				
Accounts receivable - trade	610	610	-	-
Other receivables	98,768	49,127	46,147	3,494
Marketable securities	199,949	-	199,949	-
Prepaid expenses	1,351	778	573	-
<b>Debt</b>				
Bonds	6,326,323	587,000	3,382,987	2,356,336
Bank loans	397,000	213,000	184,000	-
Other borrowings	147,009	147,009	-	-
Amounts payable to subsidiaries and affiliates	13	-	13	-
Interest-bearing liabilities	68	68	-	-
Accounts payable - trade	135	135	-	-
Accrued taxes and payroll costs	42,320	42,320	-	-
Other	8,689	8,689	-	-
Deferred income	-	-	-	-

**Note 13** Related-party transactions (minimum 10% interest)

	Gross	Net
Shares in subsidiaries and affiliates	4,603,076	4,497,571
Advances to subsidiaries and affiliates	4,178,597	4,178,597
Accounts receivable	954	728
Cash and cash equivalents	9,105,114	9,105,114
Interest-bearing liabilities	-	-
Accounts payable	-	-
Revenues:		
• dividends		363,983
• interests		81,876

**Note 14** Net financial income

	Dec. 31, 2012	Dec. 31, 2011
Dividends	371,978	1,436,419
Net interest income (expense)	(146,716)	(80,404)
Other	(4,565)	(3,789)
<b>NET FINANCIAL INCOME</b>	<b>220,697</b>	<b>1,352,225</b>

The main 2012 dividends received by Schneider Electric SA were paid by its subsidiaries Schneider Electric Industries SAS (EUR300 million) and Cofibel (EUR64 million).

The Schneider Electric Industries SAS subsidiary paid a dividend of EUR1,300 million in 2011.

**Note 15** Net non-recurring income/(expense)

	Dec. 31, 2012	Dec. 31, 2011
Net gains/(losses) on fixed asset disposals	(7,247)	1,190,413
Provisions net of reversals	(69,107)	(16,689)
Other non-recurring income/(expense)	6,244	(859)
<b>NET NON-RECURRING INCOME/(EXPENSE)</b>	<b>(70,109)</b>	<b>1,172,864</b>

The EUR7 million net gain on fixed assets disposals is mainly related to the sale of AXA investment for a EUR11 million gain and on the Schneider Electric SA shares allocation to plan n°26 for EUR17 million.

On December 31, 2012, the Company booked provisions for impairment on its investment in Cofibel for EUR63 million, in Cofimines for EUR8 million and in Schneider Electric Japan for

EUR18 million. The provision of EUR17 million booked in 2011 for the allocation of Schneider Electric SA shares to grant shares plans n°5 and n°8 was reversed in February 2012.

On December 31, 2012, "Other non-recurring income/(expense)" corresponds to the EUR6 million repayment received on litigation GIs Siemens High Voltage in 2012 over the EUR8 million paid in 2007.

## Note 16 Net income tax benefit

The "income tax expense" line item in the statement of income mainly consists of the Group tax relief recorded by the tax group headed by Schneider Electric SA, net of 2012 income tax due by EUR95 million, EUR185 million less than last year.

Schneider Electric SA is the parent company of the tax group comprising all French subsidiaries that are over 95%-owned. Tax loss carryforwards available to the Company in this capacity totaled EUR481 million at December 31, 2012.

## Note 17 Off-balance sheet commitments

### 17.1 – Partnership obligations

The share of liabilities of "SC" non-trading companies attributable to Schneider Electric SA as partner is not material.

The share of liabilities of "SNC" flow-through entities attributable to Schneider Electric SA as partner is not material.

### 17.2 – Guarantees given and received

#### Commitments given

Counter-guarantees of bank guarantees: None

Other guarantees given: EUR488 million

#### Commitments received

Bank counter-guarantees: None

### 17.3 – Financial instruments

Schneider Electric Group hedging transactions, exchange guarantees and the establishment of financial instruments are carried out by the manager of the Group cash pool, Boissière Finance, a wholly-owned subsidiary of Schneider Electric Industries SAS, which in turn is wholly-owned by Schneider Electric SA. Nevertheless, Schneider Electric SA has arranged fixed-rate/floating-rate interest rate swaps to hedge certain bond issues, the market value of which is as follows:

Underlying			Hedging instrument (in thousands of euros)	
Type	Face value	Maturity	Impact on net financial income	Market value
Bond issue	USD300,000,000	July 1, 2014	(1,377)	(2,093)
Schuldschein	EUR195,000,000	May 21, 2013	(7,709)	(3,367)
Schuldschein	EUR129,000,000	May 21, 2015	(5,042)	(13,103)
Private placement (CMS)	EUR100,000,000	July 31, 2013	(4,230)	(2,760)
Private placement (CMS)	EUR100,000,000	July 31, 2013	3,357	2,283
Bond issue 2013	EUR475,000,000	July 16, 2013	11,395	6,785
<b>TOTAL</b>			<b>(3,607)</b>	<b>(12,257)</b>

## Note 18 Other information

### 18.1 – Workforce

At December 31, 2012, the Company had two employees.

### 18.2 – Consolidated financial statements

Schneider Electric SA is the parent company of the Group and accordingly publishes the consolidated financial statements of the Schneider Electric Group.



## > 4. Statutory Auditors' report on the financial statements

*This is a free translation into English of the Statutory Auditors' report on the Financial Statements issued in French and it is provided solely for the convenience of English speaking users.*

*The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures.*

*This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to shareholders.*

*This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2012 on:

- the audit of the accompanying financial statements of Schneider Electric SA;

- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Management Board. Our role is to express an opinion on these financial statements based on our audit.

### I – Opinion on the Financial Statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as

the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2012 and of the results of its operations for the year then ended in accordance with French generally accepted accounting principles.

### II – Justification of assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

As part of our assessment of the accounting principles and methods used by your company, we verified the appropriateness of the principles and methods used to value shares in subsidiaries and affiliates as well as the detail of capitalized investments, described

respectively in the notes "Accounting Principles" and "Note 2 – Investments" to the financial statements, and obtained assurance that they were correctly applied.

Our assessments were made in the context of the performance of our audit of the financial statements, taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

### III – Specific verifications and information

We have also performed the specific verifications required by law, in accordance with professional standards applied in France.

We have no matters to report regarding the fair presentation and conformity with the financial statements of the information given in the Management Board's report and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Regarding the information provided in accordance with the requirements of article L.225-102-1 of French Commercial Code relating to the remunerations and benefits paid to the Corporate officers concerned and the engagement granted to them, we verified the consistency with the financial statements, or with the data used for the preparation of the financial statements; and, when applicable, with the information collected by the Company from the companies which control your Company or are controlled by your

Company. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French Law, we have ensured that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders has been properly disclosed in the Management Board's report.

Paris-La Défense and Courbevoie, March 5, 2013,

The Statutory Auditors

*French original signed by*

**MAZARS**

David Chaudat

**ERNST & YOUNG et Autres**

Yvon Salaün

## > 5. List of securities held at December 31, 2012

#### Number amount

*(in thousands of euros)*

	Company	Carrying of securities
<b>A. Major investments</b>		
(Carrying amounts over EUR5 million)		
56,019,611	Schneider Electric Industries SAS	4,344,481
1,994,154	Schneider Electric SA own shares	48,778
		<b>4,393,259</b>
<b>B. Other investments</b>		
(Carrying amounts under EUR5 million)		
		3,774
<b>C. Investments in real estate companies</b>		
		-
<b>D. Investments in foreign companies</b>		
		152,053
<b>TOTAL</b>		<b>4,549,086</b>
<b>Marketable securities</b>		
6,585,926	Schneider Electric SA own shares (stock option plans 26, 27, 28, 29 and 30)	199,949
<b>TOTAL</b>		<b>199,949</b>



## > 6. Subsidiaries and affiliates

Company <i>(in thousands of euros)</i>	Capital	Reserves and retained earnings & retained earnings prior to appropriation of earnings*	Share interest held (%)
<b>I. Detailed information on subsidiaries and affiliates with a carrying amount of over 1% of the share capital of Schneider Electric SA</b>			
<b>A. Subsidiaries (at least 50% owned)</b>			
Schneider Electric Industries SAS 35, rue Joseph Monier 92500 Rueil-Malmaison, France	896,313	5,507,650	100.00
Cofibel 18/20, avenue Winston Churchill 1180 Brussels, Belgium	55,362	5,825	99.79
Cofimines 18/20, avenue Winston Churchill 1180 Brussels, Belgium	41,522	8,227	99.84
<b>B. Affiliates (10 to 50%-owned)</b>			
<b>II. Other subsidiaries and affiliates</b>			
<b>A. Subsidiaries not included in Section I: (+50%)</b>			
a) French subsidiaries (aggregate)			
b) Foreign subsidiaries (aggregate)			
<b>B. Affiliates not included in Section I: (0-50%)</b>			
a) French companies (aggregate)			
b) Foreign companies (aggregate)	22,964	38,466	4.8

\* Including income or loss in prior financial year.



Book value of securities held		Loans and advances provided by the Company and still outstanding	Amount of guarantees given by the Company	2012 Revenues (ex. VAT)	2012 Profit or loss (-)	Dividends received by the Company during 2012	Comments
Gross	Net						
4,344,481	4,344,481	3,139,961	-	3,608,391	1,061,732	299,705	
137,214	74,657	-	-	Holding company	264	64,278	
82,656	74,256	-	-	Holding company	343	-	
17,476	1,038	-	-	-	-	529	
-	-	-	-	-	-	-	
2,813	2,737	-	-	-	-	7,466	
21,249	3,149	-	-	-	5,914	-	



## > 7. The Company's financial results over the last five years

Description	2012	2011	2010	2009	2008
<b>Financial position at December 31</b>					
Share capital <i>(in thousands of euros)</i>	2,221,668	2,195,772	2,175,672	2,102,016	1,979,405
Number of shares in issue	555,417,014	548,943,024	271,959,091	262,752,025	247,425,629
Number of convertible bonds in issue <i>(in thousands)</i>				-	-
Maximum number of shares to be created <i>(in thousands)</i> :					
• through conversion of bonds				-	-
• through exercise of rights	11,313	15,556	7,478	9,860	9,183
<b>Results of operations</b> <i>(in thousands of euros)</i>					
Sales (ex. VAT)	695	215	2,225	2,419	1,906
Investment revenue, interest income and other revenue	533,420	1,652,422	833,865	723,928	1,623,715
Earnings before tax, depreciation, amortization and provisions	170,417	1,345,453	506,204	393,238	1,087,409
Income tax	42,875	168,347	9,922	13,244	10,883
Earnings after tax, depreciation, amortization and provisions	225,115	2,603,738	702,982	475,753	1,147,592
Dividends paid <sup>(1)</sup> excluding tax credit and with holdings	1,038,630 <sup>(2)</sup>	933,203	870,269	538,642	853,618
<b>Results of operations per share</b> <i>(in euros)</i>					
Earnings before depreciation, amortization and provisions	0.50	4.79	2.62	1.71	4.72
Earnings after tax, depreciation, amortization and provisions	0.41	4.74	2.58	1.81	4.64
Net dividend per share	1.87 <sup>(2)</sup>	1.70	3.20	2.05	3.45
<b>Employees</b>					
Average number of employees during the financial year	2	2	2	2	1
Total payroll for the financial year <i>(in thousands of euros)</i>	1,641	4,549	4,262	3,859	4,376
Total of employee benefits paid over the financial year (Social security, other benefits, etc.) <i>(in thousands of euros)</i>	1,963	1,170	3,936	2,004	1,374

(1) Dividends on shares held in treasury on the dividend payment date and the associated withholding are credited to retained earnings.

(2) Pending approval by the Annual Shareholders' Meeting of April 25, 2013.



# General presentation of Schneider Electric SA

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This chapter includes the Chairman's report on the conditions applicable for the preparation and organization of the work carried out by the Supervisory Board and the internal control and risk management procedures implemented within the Company.

Sections 2 (General Meetings and Voting Rights) and 7, as well as the sections entitled "Management Board/Supervisory Board Structure", Sections 1, 2, 3, 4, 8 (Corporate officers and Executive Committee compensation policy), 10 and 11 of Chapter 3 constitute the Supervisory Board Chairman's report prepared in accordance with article L.225-68 of the French Commercial Code. They are indicated with\*\*.

## > 1. General information on the Company

Schneider Electric SA is a French corporation (société anonyme) with a Management Board and a Supervisory Board (since May 3, 2006) governed by the French Commercial Code, with share capital of EUR2,221,668,056, whose registered head office is located at 35, rue Joseph Monier - 92500 Rueil-Malmaison, France (phone: +33 (0)1 41 29 70 00).

The Company is registered in Nanterre under No. 542 048 574, APE code (principal activity code) 7010Z.

Schneider Electric SA was founded in 1871 and its term is through July 1, 2031. It was first called Spie Batignolles, then changed its name to Schneider SA when it merged with Schneider SA in 1995, and then to Schneider Electric SA in May 1999.

As stated in article 2 of its articles of association, the Company has the following objectives, directly or indirectly, engaged in any form, in France and elsewhere:

- (i) the design, development and sale of products, equipment and solutions related to the metering, management and use of energy in all its forms and delivering reliability, efficiency and productivity, in particular through the pursuance, whether by creating, acquiring or otherwise, of all activities related to:
  - electrical equipment manufacturing, electrical distribution and secure power supply,
  - building control, automation and safety,
  - industrial control and automation, including software,

- management of all types of data centers, networks, equipment and other infrastructure;

- (ii) the acquisition, purchase, sale and use of any intellectual and/or industrial property rights relative to these industries;

- (iii) involvement in any way in any enterprise, company or consortium, whatever the type, undertaking activities related to the Company's business or such as to encourage its industry and commerce, and, more generally, all industrial, commercial and financial, real estate and other operations related directly or indirectly in any way to the above objective.

The Company may perform any operations that fall within the scope of its objectives either alone for its own benefit or on behalf of third parties, either by having an interest in, or by the purchase, subscription, contribution or exchange of company shares, partnership shares and the purchase of any company, irrespective of type, in pursuance of a similar or related objective, or such as to encourage its extension or development.

The articles of association, minutes of General Meetings, Auditors' reports and other legal documents concerning the Company are available for consultation at the Company's head office (Management Board secretariat) located at 35, rue Joseph Monier - 92500 Rueil-Malmaison, France.

The articles of association, regulated information, registration documents, sustainable development reports, notice of the General Assembly and other documents are also available on the corporate website ([http:// www.schneider-electric.com](http://www.schneider-electric.com)).

## 2. Shareholders' rights and obligations

### Annual Shareholders' Meetings (article 23 of the articles of association)\*\*

The procedures for calling and holding General Meetings are governed by French law.

The meetings are held at the head office or any other address provided in the call to meeting. When the decision is made to call a General Meeting, the Management Board may decide to make all or part of the meeting available for public viewing via video conferencing or remote transmission.

All shareholders may attend personally or be represented at General Meetings after providing proof of their identity and share ownership in accordance with the applicable laws and regulations.

When the decision is made to call a General Meeting, the Management Board may also decide to allow shareholders to participate or vote using videoconferencing facilities and/or any other telecommunication medium allowed under the applicable legislation.

Remote voting procedures are governed by the applicable laws and regulations. In particular, shareholders may send proxy and postal voting forms before General Meetings either on paper or, if approved by the Management Board and stated in the Meeting announcement and/or notice, electronically.

When the decision is made to call a General Meeting, the Management Board may authorize shareholders to fill out and sign these forms electronically through a secure site set up by

the General Meeting organizer using a process that complies with article 1316-4, paragraph 2, line 1 of the French Civil Code, for example by entering a login ID and a password.

Proxies or votes submitted electronically before the General Meeting, as well as the related acknowledgements of receipt, will be considered irrevocable and binding documents. However, in the event that shares are sold before the applicable record date (*i.e.*, midnight CET three days before the Meeting date), the Company will cancel or amend, as appropriate, any related proxies or votes submitted electronically before the General Meeting.

The Chairman of the Supervisory Board chairs the General Meetings. In his absence, he is replaced by the Vice Chairman or by another member of the Supervisory Board specifically designated for this purpose by the Supervisory Board. In the event that no Chairman has been selected, the General Meeting elects its Chairman.

The two shareholders with the largest number of voting rights present at the meeting or accepting the mission serve as scrutineers.

The meeting committee selects the secretary, who may or may not be a shareholder.

An attendance sheet is filled out in accordance with French law.

Copies or extracts of the Meeting's minutes are certified either by the Chairman or Vice Chairman of the Supervisory Board, a member of the Management Board or the General Meeting secretary.

### Voting rights\*\*

#### 1 – Double voting rights (article 24 of the articles of association)

Voting rights attached to shares are proportionate to the equity in the capital they represent, assuming that they all have the same par value. Each share carries one voting right, unless there are any unavoidable legal restrictions on the number of voting rights that may be held by any single shareholder. Notwithstanding the foregoing, double voting rights are attributed to fully paid-up shares registered in the name of the same holder for at least two years prior to the end of the calendar year preceding the one in which the General Meeting takes place, subject to compliance with the provisions of the law. In the case of a bonus share issue paid up by capitalizing reserves, earnings or additional paid-in capital, each

bonus share allotted in respect of shares carrying double voting rights will also have double voting rights.

The shares are stripped of their double voting rights if they are converted into bearer shares or transferred, except in the case of the transfer from one registered holder to another as part of an inheritance or family gift.

Double voting rights may also be stripped by a decision of the Extraordinary Shareholders' Meeting after ratification by a special meeting of shareholders benefiting from double voting rights.

The minimum holding period to qualify for double voting rights was reduced from four to two years by decision of the Combined Annual and Extraordinary Shareholders' Meeting of June 27, 1995.





## **2 – Ceiling on voting rights (article 24 of the articles of association)**

At the Annual Shareholders' Meeting, no shareholder may exercise more than 10% of the total voting rights attached to the Company's shares. The 10% ceiling is calculated on the basis of the single voting rights held directly and proxies held by the shareholder concerned. If the shareholder holds or represents shares carrying double voting rights, the limit may be raised to 15%, provided that the 10% ceiling is exceeded solely by virtue of the double voting rights.

To apply these provisions:

- the total number of voting rights is calculated on the date of the General Meeting and announced to shareholders when the General Meeting is called to order;
- the number of voting rights held directly and indirectly include those attached to shares owned by a shareholder personally, those attached to shares held by a legal entity over which the shareholder exercises control, as defined in article L.233-3 of the French Commercial Code, and those attached to shares assimilated to shares owned, as defined by article L.233-7 *et seq.* of the French Commercial Code;

- proxies returned to the Company that do not appoint a representative are subject to the above ceilings. However, these ceilings do not apply to the Meeting Chairman voting on behalf of such proxies.

The above ceilings will no longer apply, without it being necessary to put the matter to the vote at a further Annual and Extraordinary Meeting, if any individual or legal entity, acting alone or jointly with one or other individuals or legal entities, acquires or increases its stake to at least two-thirds of the Company's capital through a public tender offer for all the Company's shares. In this case, the Management Board will place on record the lifting of the above ceilings and will amend the articles of association accordingly. The ceiling on voting rights was approved by the Combined Annual and Extraordinary Shareholders' Meeting of June 27, 1995.

In accordance with article L.225-96, paragraph 1 of the French Commercial Code, any amendment to the articles of association must be approved by the Extraordinary General Meeting, by a majority of at least two thirds of the voting rights represented by shareholders in attendance or participating by proxy.

## **Income appropriation (article 26 of the articles of association)**

Net income for the year less any losses brought forward from prior years is appropriated in the following order:

- 5% to the legal reserve (this appropriation is no longer required once the legal reserve represents one tenth of the capital, provided that further appropriations are made in the case of a capital increase);
- to discretionary reserves, if appropriate, and to retained earnings;

- to the payment of the balance in the form of a dividend.

The Annual Shareholders' Meeting may decide to offer shareholders the opportunity to receive the dividend in cash or in the form of new shares of common stock.

Dividends not claimed within five years from the date of payment are forfeited and paid to the State in accordance with the law.

## **Types of shares (article 7 paragraph 1 of the articles of association)**

Shareholders may elect to hold their shares in registered or bearer form. To establish proof of ownership, the shares must be recorded in the shareholder's account in accordance with the procedures and conditions defined by current legislation and regulations.

## **Disclosure thresholds (article 7 paragraph 2 of the articles of association)**

The articles of association stipulate that any individual or legal entity that owns or controls (as these terms are defined in article L.233-9 of the French Commercial Code) directly or indirectly, shares or voting rights representing at least 1% of the total number of shares or voting rights outstanding, or a multiple thereof, is required to disclose the total number of shares, voting rights and share equivalents held directly, indirectly or in concert to the Company by registered letter with return receipt requested, within five trading days of the disclosure threshold being crossed. In addition, effective November 1, 2009 the shareholder must notify the Company, in the disclosure letter, of the number of existing shares it is entitled to acquire by virtue of agreements or financial instruments referred to in point b) of the third paragraph of article L.233-7 of the French

Commercial Code and of the number of existing shares covered by any agreement or financial instrument referred to in point c) of said paragraph. Shareholders are also required to notify the Company if the number of shares or voting rights held falls below one of the thresholds defined above. In the case of failure to comply with these disclosure obligations, the shares in excess of the disclosure threshold will be stripped of voting rights at the request of one or several shareholders owning at least 2.5% of the Company's capital, subject to compliance with the relevant provisions of the law. These disclosure thresholds were approved by the Combined Annual and Extraordinary Shareholders' Meetings of June 27, 1995; May 5, 2000 and April 23, 2009.

## Identifiable holders of bearer shares (article 7 paragraph 3 of the articles of association)

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The Company may at any time request Euroclear to identify holders of bearer securities conferring immediate or future voting rights. This provision was adopted by the Combined Annual and Extraordinary Shareholders' Meetings of June 30, 1988 and May 5, 2000.

## Sale of shares (article 8 of the articles of association)

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The Company's shares are transferable and negotiable.

# > 3. Capital

## Share capital and voting rights

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The Company's share capital at December 31, 2012 amounted to EUR2,221,668,056, consisting of 555,417,014 shares with a par value of EUR4, all fully paid up. 600,506,571 voting rights were attached to the 555,417,014 outstanding shares as at December 31, 2012.

## Potential capital

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At December 31, 2012, the potential capital consisted of:

- stock option plans 25 to 31 represented 4,810,944 shares;
- 1,575,526 shares for share subscription or purchase plans, plans 32 and 33; the type of options (share subscription or purchase options) will be determined at a later date by the Management Board;
- 4,872,550 shares under the performance shares or stock grant plans (plans 6 and 9 to 14 ter) relating to shares to be issued and to existing shares or shares to be issued whose type will be determined later;

- in addition, as part of issues of new shares restricted to employees, the Company has issued 54,256 share subscription warrants;

together, these plans represent a total of 11,313,276 shares.

The potential maximum dilution in case of issue of all the shares as a result of the exercise of options to subscribe, stock grants, performance shares and warrants would be 2.03% of share capital at December 31, 2012.







## Authorizations to issue shares

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The following authorizations were given to the Management Board at the Combined Annual and Extraordinary Shareholders' Meetings of April 21, 2011:

- 1) to increase the Company's capital by capitalizing reserves, earnings or additional paid-in-capital;
- 2) to increase the share capital by a maximum nominal value of EUR800 million (200 million shares) by issuing shares or share equivalents:
  - in the case of an issue with preemptive subscription rights, the ceiling stands at a nominal value of EUR800 million (200 million shares),
  - in the case of an issue without preemptive subscription rights, the ceiling stands at a nominal value of EUR217 million (54.25 million shares) with the possibility of:
    - (i) proceeding to issue by private placements of shares subject to a ceiling of EUR108 million (27 million shares),
    - (ii) issuing securities tendered to the Company within the framework of a public exchange offer initiated by the Company or, in the limit of 10% of capital, in payment for shares or share equivalents of unlisted companies.

The Management Board is also authorized to increase the number of shares or share equivalents to be issued in case of oversubscription, subject to the limits defined for each one);

- 3) to grant existing or new Schneider Electric SA shares to employees and corporate officers of the Company and its affiliates under the provisions of article L.225-197-1 *et seq.* of the French Commercial Code, within a limit of 1.3% of the Company's issued capital as of April 21, 2011;
- 4) to grant options to purchase new or existing shares to employees and corporate officers of the Company and its affiliates under the provisions of articles L.225-177 and L.225-180 of the French Commercial Code, within a limit of 1% of the issued capital as of April 21, 2011;
- 5) to issue new shares to members of the Employee Stock Purchase Plan (ESPP), within a limit of 2% of the issued capital on the date of the implementation of the authorization.

The Combined Annual and Extraordinary Shareholders' Meeting of May 3, 2012 authorized the Management Board to issue new shares under programs to promote stock ownership among employees in non-French companies of the Group, within a limit of 1% of the Company's share capital as of May 3, 2012 to be applied to the ceiling for the authorization given in 5 above.

At its meeting on December 18, 2012, the Supervisory Board authorized the Management Board to issue new shares to employees during 2013, within a limit of 0.78% of the Company's issued capital. The Management Board intends to use this authorization in June 2013 to issue new shares to employees under a non-leveraged and leveraged stock ownership plan.

It will be proposed at the Annual Shareholders' Meeting to be held in April 2013 (see pages 306 and 307) that all delegations or authorizations listed above be renewed.

	Maximum aggregate par value of authorized share issues	Number of shares (in millions)	Authorization date/authorization expires	Amount used at Dec. 31, 2012
<b>I – Issues with preemptive subscription rights:</b>				
shares, warrants and other securities, giving access immediately or in the future to the capital	800 million <sup>(1)</sup>	200	04/21/2011 06/20/2013	— <sup>(3)</sup>
<b>II – Issues without preemptive subscription rights:</b>				
a) for the issue, in cash or listed securities, of shares, warrants and other securities giving access immediately or in the future to the capital	217 million <sup>(1)</sup>	54.25	04/21/2011 06/20/2013	— <sup>(3)</sup>
b) to make private placements of shares	108 million <sup>(1) (2)</sup>	27	04/21/2011 06/20/2013	—
c) to issue new shares as consideration for the shares of unlisted companies	10% of the capital <sup>(1) (2)</sup>	54.4	04/21/2011 06/20/2013	—
<b>III – Employee share issues</b>				
Share issues restricted to employees (ESPP)	2% of the capital <sup>(6)</sup>	10.8	04/21/2011 06/20/2013	— <sup>(3)</sup>
Share issues to promote stock ownership among employees in foreign companies of the Group	1% of the capital <sup>(4) (6)</sup>	5.4	04/21/2011 10/20/2012	— <sup>(3)</sup>
Stock options	1% of the capital <sup>(6)</sup>	5.4	04/21/2011 06/20/2014	—
Bonus shares or stock options	1.3% of the capital <sup>(6)</sup>	7	04/21/2011 06/20/2014	0.38% <sup>(5)</sup>

(1) The ceilings for issues with and without preemptive subscription rights are not cumulative and are capped at EUR800 million in aggregate.

(2) Within the limit of the ceiling of EUR217 million of a).

(3) At its meeting on December 15, 2011, the Supervisory Board authorized the Management Board to issue new shares to employees during 2012, within a limit of 0.9% of the Company's issued capital. The Management Board intends to use this authorization in June 2012 to issue new shares to employees, part of the ESPP or not, under a non-leveraged and leveraged stock ownership plan. The capital increase, which will be reserved for members of the employee stock purchase plan, will be deducted from the amount of the authorizations referred to in I and II a).

(4) The share capital increase that will be restricted to employees participating in the ESPP will be deducted from the ceilings authorized in I and II a).

(5) Bonus share and stock option plans 10bis, 11bis, 12 to 14 are on existing shares or shares to be issued. The nature of the shares will be determined on the effective date of grant at the latest. The Supervisory Board of February 20, 2013 authorized the Management Board to grant bonus shares within the limit of 0.47% of the capital as part of the long-term incentive plan for 2013.

(6) On the date of the 2011 Annual Shareholder's Meeting the capital is EUR2,177 million.





## Three-year summary of changes in capital

The following table shows changes in Schneider Electric SA's share capital and additional paid-in-capital since December 31, 2009 through share issues and the exercise of stock options:

	Number of shares issued or cancelled	Cumulative number of shares	Share capital
Payment of dividend in shares	11,967,608*		
Employee share issue	2,488,297*		
Exercise of stock options	870,491*		
<b>Capital at 12/31/2009 <sup>(1)</sup></b>		<b>262,752,025*</b>	<b>EUR2,102,016,200</b>
Payment of dividend in shares	4,345,794*		
Employee share issue	2,151,390*		
Exercise of stock options	2,709,882*		
<b>Capital at 12/31/2010 <sup>(2)</sup></b>		<b>271,959,091*</b>	<b>EUR2,175,672,728</b>
Employee share issue	3,855,632		
Exercise of stock options and performance shares issued	1,169,210		
<b>Capital at 12/31/2011 <sup>(3)</sup></b>		<b>548,943,024</b>	<b>EUR2,195,772,096</b>
Employee share issue	3,521,812		
Exercise of stock options and performance shares issued	2,952,178		
<b>CAPITAL AT 12/31/2012 <sup>(4)</sup></b>		<b>555,417,014</b>	<b>EUR2,221,668,056</b>

\* Not adjusted for the two-for-one share split on September 2, 2011.

(1) Increase in share capital (EUR122.61 million), increase in additional paid-in-capital (EUR555.38 million).

(2) Increase in share capital (EUR73.6 million), increase in additional paid-in-capital (EUR561.2 million).

(3) Increase in share capital (EUR20.1 million), increase in additional paid-in-capital (EUR194.7 million).

(4) Increase in share capital (EUR25.9 million), increase in additional paid-in-capital (EUR195.5 million).

## Share buybacks

The Annual Shareholders' Meeting of April 21, 2011 authorized the Company to buy back shares. This authorization was renewed at the Annual Shareholders' Meeting of May 3, 2012.

Pursuant to these authorizations, the Company did not buy back any shares during the year.

Details of the share buyback program submitted for approval at the Annual Shareholders' Meeting of April 25, 2013 are as follows:

- number of shares and percentage of share capital held directly and indirectly by Schneider Electric SA (as of February 28, 2013):
  - own shares: 8,580,080 shares, or 1.54% of the share capital,
  - treasury stock: 1,058 shares,
  - total: 8,581,138 shares, or 1.54% of the share capital;
- overview of purposes for which shares have been held:
  - the 8,581,080 shares held in own shares are held for allocation on the exercise of stock options and performance shares;
- buyback plan objectives:
  - reduce the capital by cancelling shares,
  - hold shares for allocation on the exercise of stock option plans or performance shares plans or to permit the conversion of convertible debt securities,

- maintenance and subsequent remission of existing shares in exchange or in payment instead of a capital increase when financing external growth,
- market making under a liquidity agreement;
- maximum number of shares that may be acquired:
  - 10% of the issued share capital as of the date of the Annual Shareholders' Meeting, representing, on the basis of the issued share capital at February 28, 2013, a total of 55,612,519 Schneider Electric SA shares with a par value of EUR4,
  - taking into account treasury stock and own shares at February 28, 2013 (8,581,138 shares), the number of shares that could be bought back under the authorization comes to 47,031,381 shares, or 8.46% of the issued capital;
- maximum purchase price and maximum aggregate amount of share purchases the fund may enter into:
  - the maximum purchase price is set at EUR75 per share,
  - share purchases may not exceed an aggregate maximum amount of EUR4,170,938,925;
- duration of the buyback program:
  - 18 months maximum, expiring on October 24, 2014;

- transactions carried out pursuant to the program authorized by the Annual Shareholders' Meeting of 2011 and renewed by the Annual Shareholders' Meeting of 2012 between January 1, 2012 and February 28, 2013:
  - number of shares acquired: 0,
  - number of shares transferred since the beginning of the program: 582,372.
- transactions carried out by the Company:

## > 4. Ownership structure

### Three-years summary of changes in capital

	Dec. 31, 2012				Dec. 31, 2011		Dec. 31, 2010	
	Capital	Number of shares	Voting rights	Number of voting rights	Capital	Voting rights	Capital	Voting rights
	%		%		%	%	%	%
Capital Research and Management Company <sup>(1)</sup>	7.50	41,643,226	6.93	41,643,226	9.43	8.86	8.17	7.72
CDC	3.66	20,349,002	6.46	38,803,092	3.71	4.57	4.23	5.10
Employees	4.44	24,652,612	6.77	40,660,345	4.55	7.06	4.11	6.14
Own shares	0.00	1,058	-	-	0.00	-	0.00	-
Treasury shares	1.54	8,580,080	-	-	1.67	-	1.68	-
Public	82.86	460,191,036	78.40	470,818,770	80.64	77.95	81.80	79.45
<b>TOTAL</b>	<b>100.00</b>	<b>555,417,014</b>	<b>100.00</b>	<b>600,506,571 <sup>(2)</sup></b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

(1) To the best of the Company's knowledge.

(2) Number of voting rights as defined in article 223-11 of the AMF general regulations, which includes shares stripped of voting rights.

#### Disclosure thresholds

To the best of the Company's knowledge, no shareholders other than Capital Research & Management Co. and CDC (Caisse des Dépôts et Consignation), listed above, hold, either directly or indirectly, more than 5% of Schneider Electric's capital or voting rights.

#### Changes in holdings (for stakes equal to or greater than 5%)

Date	Company	Capital (%)	Voting rights (%)
May 10, 2012	Amundi Group	5.17	4.86
May 16, 2012	Amundi Group	4.95	4.66
December 31, 2012	CDC	3.66	6.46

#### Pledges on Schneider Electric shares

2,086 shares are pledged.

#### Pledges on subsidiaries' share

Schneider Electric SA has not pledged any shares in significant subsidiaries.





## > 5. Employee profit-sharing – stock ownership

### Profit-sharing plans

Most of the Group's French companies have profit-sharing and other profit-based incentive plans.

The amounts paid by the Group's French entities over the last five years were:

(in millions of euros)	2012	2011	2010	2009	2008
Profit-based incentive plans and profit-sharing plans	50.9	59.9	56.5	48.5	69.7

In 2012, almost 63% of the total from incentives and profit-sharing was invested in the Schneider Electric shareholder fund and nearly 15% was cashed in by employees.

### The “Schneider Electric” employee shareholding

Schneider Electric employees are the drivers of Company growth. They are the main force behind the Group with their knowledge of the business and their involvement in the roll-out of Group strategy. By linking employees to its capital, Schneider Electric allows them to profit from value creation other than by their salary, thus aligning the interests of the employees and the Company. In countries where regulations permit, Schneider Electric offers its employees the opportunity to invest during share capital increases reserved to its employees.

The Group's last share capital increase reserved to its employees took place in July 2012. This resulted in a subscription of 3,5 million shares.

At December 31, 2012, employees held a total of 24,652,612 Schneider Electric SA shares through the corporate mutual funds or directly, representing 4,44% of the capital and 6,77% of the voting rights, taking into account double voting rights.

Voting rights attached to shares held by FCPEs are exercised by the Supervisory Boards of the FCPEs.

The Group's employee shareholders are broken down as follows: 41% in France, 13% in the United States and 46% internationally. More than 35% of our employees are shareholders of the Group. They are spread among nearly 60 countries.

#### Profit sharing bonus

In 2012, employees of French entities received a EUR100 payment as a profit sharing bonus. This bonus benefitted from a 100% matching contribution when allocated to the shareholder fund.

## 6. Performance shares and stock option plans

### Performance shares and stock option plans

#### Grant policy

As part of its overall staff pay policy, each year Schneider Electric sets up a long-term incentive plan. This plan is based on an annual allocation of performance shares. Stock options, until December 2009, and, for employees who are US citizens or residents, stock appreciation rights (SARs) have been granted. Since December 2009, stock options have no longer been granted. SARs continued to be granted to US citizens or residents. Phantom shares which mirror performance share grants have also been granted to certain beneficiaries in emerging market countries in the framework of the 2012 long-term incentive plan.

These plans are established by the Management Board, as authorized by the Supervisory Board, which takes decisions based on the report from the Remuneration, Appointments and Human Resources Committee.

Beneficiaries include members of Senior Management, top managers of the Group in all countries, high-potential managers and employees whose performance and potential were judged exceptional.

Each year Schneider Electric increases the number of beneficiaries of the annual plan. There were 1,579 beneficiaries in the framework of the 2010 long-term incentive plan, 2,360 in the framework of the 2011 long-term incentive plan, and 2,637 in the framework of the 2012 long-term incentive plan. In the framework of the 2013 long-term incentive plan, there should be about 2,800 beneficiaries.

Allocations Excom members, including corporate officers, represented 17% of the total in 2006. This figure is projected to be 11% in the framework of the 2013 long-term incentive plan.

As a reminder, Schneider Electric's practice since 2005 is to implement, in December of each year, a long-term incentive plan in the framework of the following year. However, to allow alignment of allocations with a review of the personal situations of employees, it was decided to postpone the implementation of long-term incentive plans to the end of March.

### Description of the shares allocated

The vesting and lock-up periods for performance shares allocations to residents of France under plans 5 and 7 are three years and two years respectively. The vesting and lock-up periods for stock allocations made under plans 8, 10, 10bis, 13, 13bis and 13ter are at least two years each.

The vesting period for share allocations made to residents of countries other than France under plans 6, 9 and 11, 11bis, 12, 14, 14bis and 14ter is four years. There is no lock-up period.

Performance shares and phantom shares vest only if the beneficiary is a Group employee as of the vesting date and if certain performance targets, detailed below, are met (see pages 265 and 279). Since January 2009, for members of the Management Board, and since December 2011 for members of the Executive Committee, allocations of performance shares are fully subject to the achievement of performance conditions.

### Description of the options allocated

The option exercise price is equal to the average closing price of the twenty trading days prior to the date of allocation by the Management Board. No discount is applied.

Since 2006, the options have a ten year life. They may not be exercised until after the fourth year. However, they can be exercised before maturity in the case of a takeover bid for the Company's shares. Exceptionally, options granted under plans 22, 23 and 25 may be exercised as from the first year. Similarly, US citizens and residents may exercise their rights following the third year under certain plans.

Options may only be exercised by Group employees. In addition, exercise of 50% of the options allocated is dependent on specific targets being met, detailed below (see pages 263 and 280). Effective from January 2009, all of the options granted to members of the Management Board are subject to performance criteria.

### Description of Stock Appreciation Rights (SARs)

SARs mirror the mechanism of options. They are subject to conditions, particularly performance criteria. The beneficiary receives the proceeds in cash.





### Description of phantom shares

Phantom shares mirror performance shares and are subject to specific performance criteria. The beneficiary receives the proceeds in cash.

### Lock-up arrangements applicable to members of the Management Board

The Supervisory Board has set:

- a retention target of shares representing three years of base salary for Jean-Pascal Tricoire, and two years of base salary for Emmanuel Babeau. Calculation of the number of shares held is based on Schneider Electric SA shares and the equivalent in shares of the FCPE units invested in Schneider Electric shares held by the beneficiaries.

In accordance with the provisions of articles L.225-185 and L.225-197-1 of the French Commercial Code and the AFEP/MEDEF guidelines, the Supervisory Board has approved the following:

- retention of a proportion of shares arising from the exercise of options granted under plans 30 and following must be held in a registered account. This number corresponds to a percentage of the capital gains realized through exercise of the options, net of taxes and mandatory contributions and the sums necessary to fund the purchase of such shares. The percentage is fixed at 25% for Jean-Pascal Tricoire and 15% for Emmanuel Babeau;
- mandatory retention beyond the lock-up period of a percentage of the shares acquired under plans 3 and following. The percentage is fixed at 25% for Jean-Pascal Tricoire and 15% for Emmanuel Babeau;

- mandatory investment in Schneider Electric SA shares of 10% of the selling price (net of taxes and contributions) of performance shares grants acquired through plans set up since 2009.

These obligations are suspended once the shareholding targets described above are met.

### Stock options and performance shares held by members of the Management Board

#### Mr. Jean-Pascal Tricoire

As of December 31, 2012, Jean-Pascal Tricoire held 396,574 options not based on Group performance criteria, of which 100,000 options are not exercisable, (i) 100,000 shares subject to performance criteria, and (ii) 47,500 shares acquired under share plans 5 and 8, which will become available as of February 23, 2014.

#### Mr. Emmanuel Babeau

As of December 31, 2012, Emmanuel Babeau held (i) 40,000 options, whose performance conditions were 100% let for options subject to conditions, and (ii) 42,000 shares, subject to performance conditions, and (iii) 10,000 shares acquired under share plans 7 and 8, which will become available as of February 23, 2014 for 7,500 shares (plan 8) and August 21, 2014 for 2,500 shares (plan 7).



## Past stock option plans

The data below are adjusted for the two-for-one share split, effective September 2, 2011.

Plan	Plan date	Number of benefi- ciaries at inception	Number of options at inception	of which corporate officers	Exercise price (in euros)	Performance criteria	% of targets reached	Options cancelled by performance criteria <sup>(1)</sup>	Options outstanding at Dec. 31, 2012 <sup>(2)</sup>
23	05/06/2004	107	214,000	-	27.77	Without - plan reserved to winners of the trophy	NA	NA	- <sup>(2)</sup>
24	05/06/2004	402	4,121,400	300,000	27.77	50% of options - operating margin on revenue - 1/3 per year on 2004, 2005 and 2006	88.9	188,600	- <sup>(2)</sup>
25	05/12/2005	157	277,000	-	28.23	Without - plan reserved to winners of the trophy	NA	NA	27,610
26	06/28/2005	458	4,007,600	400,000	30.09	50% of options - 2005 and 2006 operating margin and revenue	100	-	431,591
27	12/01/2005	419	3,229,800	300,000	35.70	50% of options - 2006 and 2007 operating margin and revenue	100	-	1,106,285
28	12/21/2006	489	2,514,240	224,000	40.67	50% of options - 2007 and 2008 operating margin and revenue	100	-	1,347,548
29	04/23/2007	43	166,300	-	48.52	50% of options - 2007 and 2008 operating margin and revenue	100	-	110,900
30	12/19/2007	542	1,889,852	176,400	46.00	50% of options - 2008 and 2009 operating margin and revenue	-	887,952	711,240
31	01/05/2009	328	1,358,000	137,000	26.06	50% of options/100% for the Management Board - 2011 operating margin <sup>(4)</sup> and 2009 to 2011 EPS compared to a benchmark selection <sup>(3)</sup>	80	133,760	1,075,770
32	08/21/2009	1	10,000	10,000	31.30	without	-	-	10,000
33	12/21/2009	391	1,652,686	130,000	37.92	50% of options/100% for the Management Board - 2010 and 2011 operating margin <sup>(4)</sup> and 2011 share of revenue generated in the new economies	100	-	1,565,526
		<b>19,440,878</b>	<b>1,677,400</b>				<b>-</b>	<b>1,210,312</b>	<b>6,386,470</b>

(1) Number of options remaining to be exercised after deduction of all cancellations and exercises since plan implementation.

(2) 10,300 options from plan 23 and 50,288 from plan 24 have been cancelled due to option term on May 5, 2012.

(3) On the basis of a pre-defined and fixed list of 11 competitor companies.

(4) Excluding restructuring costs.





## Details on outstanding options (2012)

*The data below are adjusted for the two-for-one share split, effective September 2, 2011.*

Plan	Plan date	Type of plan <sup>(1)</sup>	Expiration date	Exercise price (in euros) <sup>(2)</sup>	Plans as at January 1, 2012	of which corporate officers <sup>(3)</sup>	Number of options exercised during the financial year	Number of options cancelled during the financial year	Options outstanding at December 31, 2012
23	05/06/2004	S	05/05/2012	27.77	22,292	-	11,992	10,300	-
24	05/06/2004	S	05/05/2012	27.77	571,390	66,156	432,438	138,952	-
25	05/12/2005	S	05/11/2013	28.23	44,068	-	16,448	10	27,610
26	06/28/2005	S	06/27/2013	30.09	1,647,570	68,482	1,187,295	28,684	431,591
27	12/01/2005	S	11/30/2013	35.70	1,899,410	302,942	760,201	32,924	1,106,285
28	12/21/2006	S	12/20/2016	40.67	1,800,722	161,574	408,292	44,882	1,347,548
29	04/23/2007	S	04/22/2017	48.52	144,300	-	14,400	19,000	110,900
30	12/19/2007	S	12/18/2017	46.00	841,960	63,000	112,700	18,020	711,240
31	01/05/2009	S	01/04/2019	26.06	1,253,300	72,000	-	177,530	1,075,770
32	08/21/2009	P/S	08/20/2019	31.30	10,000	10,000	-	-	10,000
33	12/21/2009	P/S	12/20/2019	37.92	1,624,636	130,000	-	59,110	1,565,526
					<b>9,859,648</b>	<b>874,154</b>	<b>2,943,766</b>	<b>529,412</b>	<b>6,386,470</b>

*(1) S= subscription option plan/P = purchase option plan.*

*(2) Average of the 20 quotations preceding the grant, with no discount or premium.*

*(3) Rights after cancellations due to non-achievement of performance conditions.*

## Situation of corporate officers, broken down by plan (at December 31, 2012) <sup>(1)</sup>

*The data below are adjusted for the two-for-one share split, effective September 2, 2011.*

*(in italics, options still subject to performance conditions)*

26	Henri Lachmann	68,482
27	Henri Lachmann	302,942
28	Jean-Pascal Tricoire	161,574
30	Jean-Pascal Tricoire	63,000
31	Jean-Pascal Tricoire	72,000
32	Emmanuel Babeau	10,000 <sup>(2)</sup>
33	Jean-Pascal Tricoire	<i>100,000</i>
	Emmanuel Babeau	<i>30,000</i>

*(1) In his role as corporate officer at the date of attribution.*

*(2) Options attributed at the time of his recruitment as Chief Financial Officer.*

## Past share plans (at December 31, 2012)

The data below are adjusted for the two-for-one share split, effective September 2, 2011.

Plan	Plan date	Number of benefi- ciaries at inception	Number of shares at inception	Vesting period	Holding period	Performance criteria	% of targets reached	Rights cancel- led <sup>(1)</sup>	Cor- porate officers <sup>(2)</sup>	Total rights cancelled since the grant	Rights outstan- ding at Decem- ber 31, 2012
6	01/05/2009	721	424,702	4 years	-	50% of shares/100% for the Management Board - 2011 operating margin <sup>(3)</sup> and share of revenue generated in the new economies 2011	100	-	0	61,906	362,796
9	12/21/2009	1,184	780,190	4 years	-	50% of shares/100% for the Management Board - 2010 & 2011 operating margin <sup>(3)</sup> and share of revenue generated in 2011 in the new economies	100	-	0	66,300	713,890
10	12/17/2010	658	665,524	2 years and 3 months	2 years	50% of shares/100% for the Management Board - 2011 & 2012 <sup>(3)</sup> operating margin and 2011 and 2012 average revenue growth compared to changes in world GDP over the same period	-	<sup>(5)</sup>	70,000	7,572	657,952
10 bis	07/26/2011	1	3,000	2 years	2 years	As plan 10	-	<sup>(5)</sup>	-	-	3,000
11	12/17/2010	1,702	1,161,696	4 years	-	As plan 10	-	<sup>(5)</sup>	-	54,870	1,106,826
11 bis	06/26/2011	1	5,882	4 years	-	As plan 10	-	<sup>(5)</sup>	-	-	5,882
12	06/26/2011	1	19,850	4 years	-	with no performance conditions	-	-	-	-	19,850
13 and 13 bis	12/16/2011	608	647,943	2 years and 3 months	2 years	50% of the shares/100% for the Management Board and Executive Committee - 2012 and 2013 <sup>(3)</sup> operating margin and change in the Planet & Society barometer at the end of 2013	-	-	72,000	1,200	646,743
13 ter	07/27/2012	1	625	2 years	2 years		-	-	-	-	625
14 and 14 bis	12/16/2011	2,029	1,386,800	4 years	-	As plan 13	-	-	-	33,314	1,354,986
14 ter	7/27/2012	1	1,500								
			<b>5,097,712</b>						<b>- 142,000</b>	<b>225,162</b>	<b>4,872,550</b>

(1) Rights cancelled for non-achievement of targets.

(2) Rights after cancellations for non-achievement of targets.

(3) Excluding restructuring costs.

(4) Including rights created upon death and invalidity.

(5) In 2013, 28,788 were cancelled under plans 10, 10 bis, 11 and 11 bis due to performance conditions.



## Situation of corporate officers <sup>(1)</sup>, broken down by plan (at December 31, 2012)

The data below are adjusted for the two-for-one share split, effective September 2, 2011.



*(in italics, shares still subject to performance conditions)*

1	Jean-Pascal Tricoire	10,588 <sup>(2)</sup>
3	Jean-Pascal Tricoire	6,750 <sup>(2)</sup>
5	Jean-Pascal Tricoire	22,500
7	Emmanuel Babeau	2,500 <sup>(3)</sup>
8	Jean-Pascal Tricoire	25,000
	Emmanuel Babeau	7,500
10	Jean-Pascal Tricoire	50,000 <sup>(4)</sup>
	Emmanuel Babeau	20,000 <sup>(5)</sup>
13	Jean-Pascal Tricoire	50,000
	Emmanuel Babeau	22,000

*(1) In the role as corporate officer at the date of attribution.*

*(2) The holding period of plan 1 ended on December 20, 2011 and on December 19, 2012 under plan 3*

*(3) Shares attributed at the time of his recruitment as Chief Financial Officer.*

*(4) In 2013, 1,600 shares were cancelled due to performance conditions.*

*(5) In 2013, 640 shares were cancelled due to performance conditions.*

## Options granted and exercised and stock grants made to top 10 employee grantees during the year

*The data below are adjusted for the two-for-one share split, effective September 2, 2011.*

### Options to purchase or subscribe shares granted to the ten most highly paid non-corporate officer employees and options exercised by them

	Number	Exercise price/ Average weighted price	Plans
Options exercised in 2012 of which the number of shares bought or subscribed is the highest	365,260	€34.05	24-26-27-28-30

### Shares awarded to the ten most highly paid non-corporate officer employees

	Number	Plans
Exceptional Grant of July 2012	2,125	13 ter and 14 ter

## > 7. Disclosure of information required in accordance with article L.225-100-3 of the French Commercial Code\*\*

Items that could have an impact in the event of a public tender offer include:

- agreements calling for payments to the members of the Management Board or to employees if they resign or are terminated without real cause or if their employment ends due to a public tender offer (see pages 136 and 137);
- agreements entered into by the Company with change of control clauses: information on the exercise of stock options and performance shares grants (see page 261); information on certain loans and credit facilities (see page 37);
- restrictions in the articles of association on the exercise of voting rights (see page 254) relating to the non-application of the ceiling on voting rights when a public tender offer is in process.

## > 8. Stock market data

In France, Schneider Electric is listed on Euronext Paris (sub-fund A), where it is traded on a per-share basis under ISIN code FR0000121972. Schneider Electric SA shares are included on the CAC 40 index established by Euronext.

### 18-month trading data in Paris

Year	Month	Trading volume (in thousands) <sup>(1)</sup>	Capital traded (in millions of euros)	High <sup>(2)</sup>	Low <sup>(2)</sup>	Number of trading sessions
2011	Sep-11	63,191	2,626	47.40	35.94	22
	Oct-11	50,244	2,160	47.60	37.48	21
	Nov-11	50,276	1,982	43.19	35.00	22
	Dec-11	38,399	1,553	43.12	37.01	21
2012	Jan-12	44,997	2,066	49.77	40.31	22
	Feb-12	37,502	1,838	51.98	45.86	21
	Mar-12	40,099	2,022	53.47	48.40	22
	Apr-12	43,253	2,035	49.88	44.83	19
	May-12	54,551	2,392	47.90	41.21	22
	Jun-12	54,922	2,332	45.08	39.40	21
	Jul-12	40,225	1,761	47.50	41.22	22
	Aug-12	35,407	1,758	52.32	46.46	23
	Sep-12	39,558	1,970	53.39	46.06	20
	Oct-12	34,771	1,690	50.70	45.85	23
	Nov-12	30,115	1,526	54.80	47.96	22
	Dec-12	27,624	1,487	56.37	53.25	19
<b>TOTAL 2012</b>		<b>483,023</b>	<b>22,876</b>	<b>56.37</b>	<b>39.40</b>	<b>256</b>
2013	Jan-13	23,958	1,335	57.17	54.11	22
	Feb-13	31,838	1,795	60.00	53.50	20

The data corresponds to trading volumes on NYSE Euronext.

(1) August 2011 restated for the two-for-one share split, effective September 2, 2011.

(2) During the trading session.



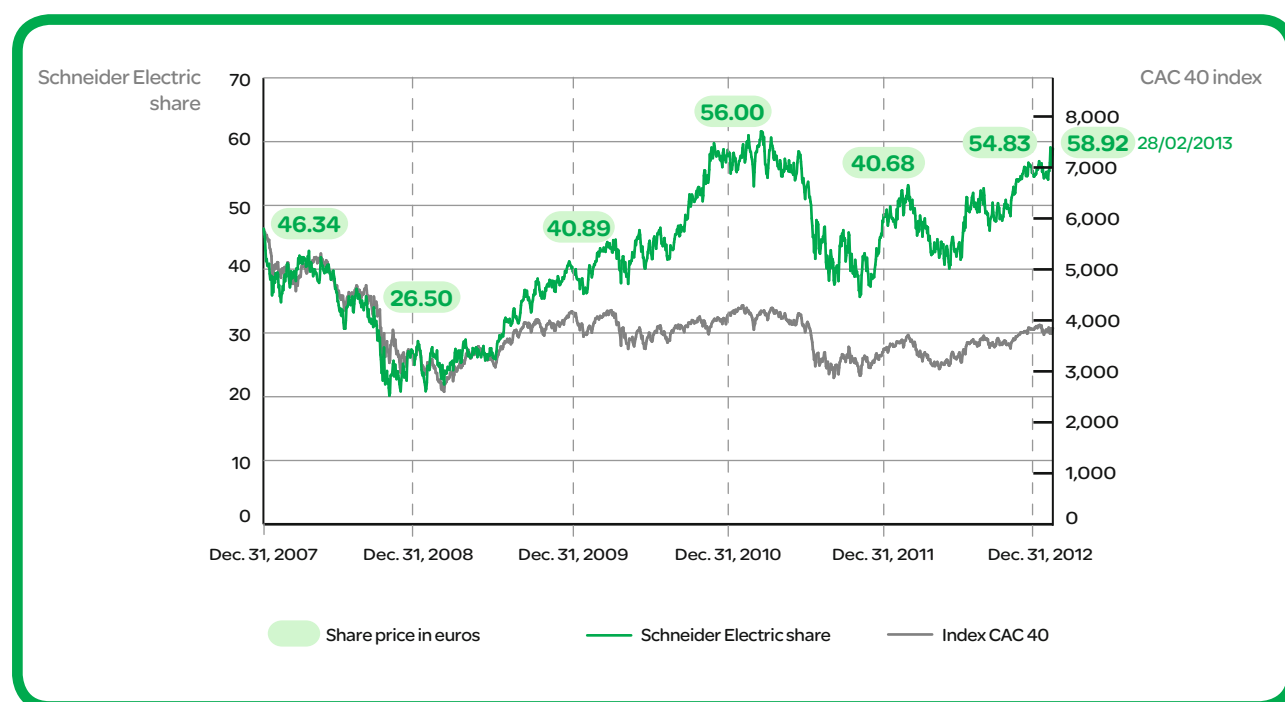


## Five-year trading summary

	2012	2011	2010	2009	2008
Average daily trading volume on the Paris stock exchange (NYSE Euronext):					
• number of shares (in thousands)	1,886.81	2,316.01	2,462.57	2,647.16	3,382.38
• in millions of euros	89.36	115.78	108.23	77.12	115.18
High and low share prices (in euros):					
• high	56.37	61.83	60.00	40.93	47.15
• low	39.40	35.00	36.00	20.65	19.42
Year-end closing price (in euros)	54.83	40.68	56.00	40.89	26.50
Yield including tax credit (%)	3.41	4.18	2.86	2.51	6.50

The data corresponds to trading volumes on NYSE Euronext (2008 to 2011 data restated for the two-for-one share split, effective September 2, 2011).

## The Schneider Electric SA share versus the CAC 40 index over five years



(Source: Thomson Reuters)

## MONEP

Options on Schneider Electric SA shares have been traded on the MONEP market since December 20, 1996.

## Ordinary bonds

The information is disclosed in note 9 of the Company Financial Statements (pages 242 and 243).

## 9. Investor relations

### Person responsible for financial information

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Emmanuel Babeau

Executive Vice-President, Finance, member of the Management Board

35, rue Joseph Monier – CS30323

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### Contacts

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Any information or document may be requested from:

Anthony Song – Vice-President Financial Communication and Investor Relations

For institutional investors and financial analysts: Tel: +33 (0)1 41 39 60 84

Toll-free number for individual investors in France: +33 (0) 800 20 55 14.

### Shareholders' Relations Committee

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The Committee consists of eight individual shareholders appointed by Schneider Electric for a three-year term. Members may serve a maximum of two terms. The Committee is designed to reflect the geographical and professional diversity of the Group's shareholders and to relay their concerns to the Company.

The committee meets three times a year to discuss the actions and financial communication tools offered by the Group. It shares its opinions and makes proposals to strengthen the strategy of individual shareholders.

These meetings are also an opportunity to discover the Group's businesses, particularly with educational visits. In 2012, visits focused on the technical solutions of Schneider Electric for buildings, implemented in the headquarters in Rueil-Malmaison.

#### Shareholder documents

The Company makes available to its shareholders:

- the annual report and a short form;
- a shareholder's guide;
- a letter to shareholders;
- general, economic and financial information about the Group (in the form of press releases and presentations);
- a corporate website - <http://www.schneider-electric.com/finance/fr>.









# Annual and Extraordinary Shareholders' Meeting

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# > 1. Management Board Report to the Combined Annual and Extraordinary Shareholders' Meeting

## Ordinary Meeting

### Approval of the financial statements - first resolution -

We ask you to approve the transactions and financial statements for the year 2012, as presented, which show a net profit of EUR225 million.

### Approval of the consolidated financial statements - second resolution -

We ask you to approve the transactions and consolidated financial statements for the year 2012, as presented, which show a net profit for the Group of EUR1,840 million and net income adjusted for the exceptional charge for goodwill impairment of EUR2,023 million.

### Distribution: payment of a dividend of EUR1.87 per share - third resolution -

We recommend a dividend of **EUR1.87** per share with a nominal value of EUR4. This dividend, which is an increase of 10% over the dividend paid in 2012, represents a payout ratio of approximately 50% of the Group share net income adjusted for the exceptional charge for goodwill impairment. The dividend will be **paid on May 7, 2013** on 555,775,434 shares holding dividend rights on January 1, 2012 that made up the capital on January 31, 2013. No dividend will be paid on shares held in treasury on the payment date; the corresponding amounts will be allocated to retained earnings.

The dividend will be paid out of profit available for distribution, consisting of:

- retained earnings from the previous financial year at EUR1,779,581,154.11;
- net income for the year of EUR225,115,148.73;
- less the statutory allocation to the legal reserve of EUR2,589,596.00;

and amounts to EUR2,002,106,706.84.

The dividend payment will total EUR1,039,298,191.58; the remaining profit available for distribution in euros will be allocated to retained earnings.

For individual shareholders who pay income tax in France, a social security tax of 15.5% will be charged on the gross dividend.

Article 9-I-B of the 2013 Finance Act eliminated the option of a flat-rate withholding tax. Consequently, dividends are now required to be subject to the progressive income tax rate.

After applying a 40% (uncapped) allowance, only 60% of the dividend amount will be included in taxable income, less any deductible charges and expenses, including social security tax.

The full dividend will be eligible for the 40% allowance. No amounts eligible or not eligible for the 40% deduction provided for in Article 158-3-2 of the French Tax Code will be distributed, other than the dividend described above.

In addition, Article 9-I-B of the 2013 Finance Act introduced a mandatory withholding tax of 21%. This tax will be an prepayment on 2013 income taxes declared in 2014. If it exceeds the amount of taxes due, the excess will be refunded.

Nevertheless, individuals belonging to a household whose taxable income for 2011 is less than EUR50,000 with the status of single, divorced or widowed, and EUR75,000 for couples who file a joint tax return, can request exemption from this levy.

To this end, under their responsibility, they make their application for exemption by producing, to those who ensure payment, a sworn statement indicating that their reference taxable income listed on their tax form established under income for the year before last year shows income lower than the thresholds indicated.

For dividends to be paid in 2013, the application must be submitted at the latest on March 31, 2013 on the basis of the 2011 reference taxable income. For dividends to be paid in 2014, the application for exemption must be submitted at the latest on December 31, 2013 on the basis of the 2012 reference taxable income.

Dividend payments made by Schneider Electric SA for the last three years were as follows:

	2009	2010	2011
Dividend paid per share adjusted for the division by two of the par value <sup>(1) (2)</sup>	1.025	1.60	1.70

(1) The full dividend is eligible for a 40% deduction for individuals resident in France. No non-eligible dividends have been distributed.

(2) The two-for-one share split took place on September 2, 2011.

### Agreements governed by articles L. 225-86 and L. 225-90-1 of the French Commercial Code - fourth and fifth resolutions -

We request that you approve the agreements presented in the statutory auditor's report drawn up pursuant to Article L. 225-88 of the French Commercial Code. The agreements are:

- the outsourcing of the top-hat defined benefit pension plan (article 39) for the French directors of the Group, which benefits the Chairman of the Supervisory Board and/or Management Board members;
- an amendment to the status of Jean-Pascal Tricoire, approved by the Annual Shareholders' Meeting of May 3, 2012.

#### Agreements related to the top-hat defined benefit pension plan for French directors of the Group (4<sup>th</sup> resolution)

As a reminder, the Management Board decided to comply with the recommendations of the AFEP/MEDEF Business Governance Code with regards to the article 39 pension plan for Group managers who are subject to French social security plans. Consequently, it has been decided to implement the new article 39 plan that will eventually replace the current article 39 plan. The new article 39 plan makes a provision for linking acquisition of rights to length of service in the company, a provision that does not exist in the current article 39 plan. Its general structure is presented on page 131.

This new article 39 plan, which benefits the members of the management board, was approved under the terms of the regulated agreements, by the Shareholders' Meeting of May 3, 2012. In accordance with the regulations, it has been outsourced. An insurance contract for defined benefit company pensions (article L. 137-1 of the Social Security code) was signed on February 23, 2012 by Schneider Electric SA and Schneider Electric Industries SAS with AXA France Vie. This contract was approved at the Annual Shareholders' Meeting of May 3, 2012.

The Management Board decided to outsource commitments under the current article 39 plan, which supports 36 retirees, including the Chairman of the Supervisory Board, 10 employees, including members of the Management Board, as well as past article 39 plans: the ex-SEP plan (1 retiree), the ex-CAVICA plan (6 retirees). To this end, an outsourcing contract was signed with the company AXA France Vie following an invitation to tender issued by an independent firm. The contract was authorized on May 3, 2012 by the Supervisory Board under the terms of regulated agreements; the Chairman of the Supervisory Board and members of the Management Board benefit directly or indirectly.

The Supervisory Board of May 3, 2012 also authorized the signature of an amendment to the article 39 plan outsourcing contract with AXA France Vie to set the effective date of April 30, 2012, which was originally scheduled for July 1, 2012. The purpose of this change was to align the date of entry into force of the outsourcing contract of the new article 39 plan with that of the current and former article 39 plans.

#### Amendment to Jean-Pascal Tricoire's status (5<sup>th</sup> resolution)

We remind you that pursuant to the TEPA act, the Shareholders' Meeting of May 3, 2012 approved the renewal of the changed status of Jean-Pascal Tricoire decided by the Supervisory Board on February 21, 2012 on the occasion of the renewal of his term as Chairman of the Management Board. Thus, Mr. Tricoire:

##### 1°) benefits from:

- the supplementary cover available to the Group's French senior executives for health, incapacity, disability and death. This contingency and supplementary cover compensation is subject to performance criteria. Compensation is subject to one of the following two criteria being present: positive average net profit of the five years preceding the event, or

positive average free cash flow for the five years preceding the event,

- the Schneider Electric SA and Schneider Electric Industries SAS employee benefit plan, which offers health, incapacity, disability and death cover;
- the top-hat pension plan for the Schneider Group's French directors described above;

2°) benefits from involuntary severance pay. This severance pay is capped, taking into account the compensation provided for in the non-compete agreement described below, at twice the average of the effective annual remuneration for the last three years (hereinafter "Maximum Amount"). The amount due will be subject to performance criteria.

Compensation will be due in the event that:

- Mr. Tricoire resigns, is dismissed or is not reappointed as a member or President and CEO in the 12 months following a material change in Schneider Electric's shareholder structure that could change the membership of the Supervisory Board,
- Mr. Tricoire resigns, is dismissed or is not reappointed as a member or President and CEO following a reorientation of the strategy pursued and promoted by him until that time, whether or not in connection with a change in Schneider Electric's shareholder structure as described above,
- Mr. Tricoire is asked to resign, is dismissed or is not reappointed as a member or as President and CEO when the mathematical average of the rate of achievement of Group objectives used to calculate his variable bonus was 50% or higher in the four completed financial years preceding his departure.

Compensation will depend on the mathematical average of the rate of achievement of performance objectives used to determine the variable portion of Mr. Tricoire's remuneration for the three completed financial years preceding the date of the Board meeting at which the decision is taken.

If the mathematical average of Group performance objectives rate over the past three financial years is:

- < to 50% of the target: no compensation will be paid,
- = to 50% of the target: he will receive 75% of the Maximum Amount,
- = to 100% of the target: he will receive 100% of the Maximum Amount,
- between 50% and 100%: he will receive between 75% and 100% of the Maximum Amount calculated on a straight-line basis according to the rate of achievement;

3°) retains forthwith, subject to performance criteria, the benefit of his stock options, stock grants and performance shares granted to him or that will be granted to him, should he leave the Company. The performance criterion depends on the mathematical average of the rate of achievement of Group objectives, which is used to determine the variable portion of Jean-Pascal Tricoire's remuneration for the three completed financial years preceding his departure, being equal to at least 50% of the target;

4°) unless a mutually agreeable arrangement is found, should Mr. Tricoire leave the Company it may invoke his non-compete agreement, which calls for monthly payment of an amount equivalent to 60% of the average monthly compensation for the last twelve months of presence: (salary plus paid bonus).

The Supervisory Board of May 3, 2012, under the terms of the regulated agreements, decided that the involuntary severance pay explained in section 2 above will not be due if the dismissal or resignation requested of Mr. Tricoire is motivated by serious or gross misconduct according to the criteria adopted by jurisprudence.

The Management Board proposes to approve this amendment to the status of Mr. Tricoire that reinforces the eligibility criteria requirement for potential severance pay.

### Appointment of a Supervisory Board member - sixth resolution -

Please note that the term of Mr. Gérard de La Martinière expires at the end of the Shareholders' Meeting.

It is proposed to renew his appointment as member of the Supervisory Board for a term of 2 years in accordance with article 11 of the articles of association. Mr. de La Martinière is an independent member. Moreover, as Director or member of the Supervisory Board of Schneider Electric SA for more than 12 years, his years of service are not considered to be a hindrance to his independence due notably to his personality and involvement in the work and discussions on the operation of the Audit Committees.

### Share buybacks - seventh resolution -

We request that you renew the authorization given to the Company by the General Meeting of May 3, 2012 to buy back its shares by any appropriate method, including through the use of derivatives, pursuant to the provisions of article L. 225-209 of the French Commercial Code.

The Company buyback programs may have various objectives: reducing the capital stock, covering stock option plans, allocating shares to employees or corporate officers, fulfilling obligations related to convertible bonds, making acquisitions, and for market making as part of a liquidity contract.

Shares bought back under this authorization may be canceled (twentieth resolution) adopted by the current Shareholders' Meeting.

Further information on your Company's share buyback programs is provided on page 258.

You are asked to authorize the Company to buy back shares representing at most 10% of the issued capital as of the date of the Meeting (e.g., 55,541,701 shares based on issued capital as at December 31, 2012). The maximum purchase price is set at EUR75. This authorization will not be available during public offer periods.

## Extraordinary Meeting

### New organization of governance - eighth resolution -

By the eighth resolution, you are asked to approve the new form of the Company's corporate governance.

The Supervisory Board proposes to change the organization of the governance of the company to set up a Board of Directors and combine the functions of Chairman and Chief Executive Officer.

If you approve this proposal, the Board will include current members of the Supervisory Board as well as Jean-Pascal Tricoire, the current Chairman of the Management Board, who will then become CEO.

This proposal continues the implementation of the succession plan of Henri Lachmann. It is the culmination of over two years of work and reflection undertaken both within the Remunerations, Appointments and Human Resources Committee as well as the Supervisory Board and with which the Chairman of the Management Board was involved.

It is proposed to return to the combined structure (Board of Directors), which was the mode of governance of Schneider Electric until 2006. The transition to a dual structure (Supervisory Board/Management Board) has been successful in ensuring the succession of the head of the Group's Senior Management.

However, over the long term, this structure, which relies on two bodies - a Supervisory Board and a Management Board, does not appear entirely appropriate to the situation of Schneider Electric. The French Commercial Code limits the maximum number of members of the Management Board to seven and provides for the collective operation of the Board.

This limit on the number of Management Board members is incompatible with the managerial organization implemented by Jean-Pascal Tricoire, which results in a managerial line of more than ten managers in order to be closer to customers and employees. In addition, to cope with the extreme volatility of the environment, it should be extremely responsive. But this ability to respond is hardly compatible with a cumbersome collective operation. These constraints have so far been circumvented with the introduction of a two Management Board members, but this solution is not fundamentally good.

Moreover, practice has shown that the two levels of governance, that of the Management Board to which the Executive Committee is attached, and that of the Supervisory Board, do not facilitate close working relationships between the members of the Supervisory Board and the members of Executive Committee.

Returning to the Board of Directors format will guarantee that the Group's Senior Management is more responsive. In addition, it will allow members of the Board of Directors to have a deeper understanding of the business by more direct contact that they will have with members of the Executive Committee and especially that they will have more legal responsibility due to the change in governance.

Beyond the adoption of a new mode of governance, it is intended to combine the functions of Chairman and Chief Executive Officer as is the practice of a vast majority of companies in the CAC 40. It brings clarity to the title of the person charged with managing the Group, giving that person the title of Chairman. This clarification is particularly necessary *vis-à-vis* employees, customers and partners, in France and abroad.

This dual responsibility of Chairman and Chief Executive Officer will be entrusted to Jean-Pascal Tricoire, given his achievements and performance as head of the Group since 2006. Since 2006, the revenue of Schneider Electric is up from EUR11.7 billion to EUR24 billion; and the Group share of net income is up from EUR994 million to EUR1,840 million.

Jean-Pascal Tricoire, who joined the Group 26 years ago, was made part of Senior Management by Henri Lachmann at the end of 2003 before being appointed Chairman of the Management Board in 2006. Over these 9 years, the revenue of Schneider Electric has increased by a factor of 2.7, net income by 4.2, and market capitalization by 2.5.

However, to prevent any conflict of interest in the person of the Chairman and Chief Executive Officer, there are strong controls put in place to ensure that the Board is correctly informed and functions properly, so that the Chairman and CEO is able to ensure his responsibility for monitoring management.

## **Strong controls**

### **a) A large majority of independent directors**

The Shareholders' Meeting proposes to appoint all of the current Supervisory Board members as directors for the remainder of their term, as well as Jean-Pascal Tricoire.

If the Shareholders' Meeting approves these appointments, nearly 80% of the Board of Directors will be independent directors, with only one Senior Director, Jean-Pascal Tricoire.

Emmanuel Babeau will be appointed Executive Vice President in charge of finance.

### **b) The Vice-Chairman Lead Independant Director**

Article 12 of the articles of incorporation obliges the Board of Directors to appoint a Vice-Chairman and Senior Director when it decides to combine the functions of Chairman and Chief Executive Officer. The role and missions of the Vice-Chairman will be defined in the internal rules of the Board of Directors. This regulation, the draft of which is attached below, gives the Vice-Chairman Lead Independant Director means and powers to ensure that the Board is correctly informed and functions properly. Thus the Vice-Chairman:

- is informed of major events in the life of the Group within the framework of regular contact and monthly meetings with the Chairman, as well as through contact that he can have with managers of Schneider Electric and possible visits to the Group's entities he can undertake. In addition, he can attend all meetings of committees of which he is not a member;
- can answer shareholders' questions or meet on governance issues when it is considered that he is the most appropriate spokesperson;
- report to the Chairman on the results of the "executive sessions" and provide, in particular, regular feedback from the Board on its activities;
- sets the agenda of the Board of Directors with the Chairman;
- chairs the governance committee which, starting from the evaluation of the functioning of the Board and that of the CEO,

proposes each year to the Board to continue the unified functions of Chairman and Chief Executive Officer or to separate them and, as needed, make proposals for a successor in one or both functions;

- chairs the "executive sessions", i.e., meetings of the Board of Directors not in the presence of any executive member, namely the CEO and Executive Vice President;
- leads the annual and semi-annual evaluations of the Board of Directors;
- informs the CEO of any conflicts of interest which could be identified;
- reports on his activities during the Shareholders' Meeting.

The Vice-Chairman and Senior Director will be an independent director. However, the first Vice-Chairman will be Henri Lachmann until the end of his term as director in 2014. Mr. Lachmann's mission will be to ensure a smooth transition in the change of governance and to appoint an independent Vice-Chairman Lead Independant Director to succeed him.

### **c) The "executive sessions"**

To ensure the proper functioning of the Board, an executive session shall be included on the agenda of each meeting of the Board of Directors. It will be the duty of the Vice-Chairman, on his own initiative or at the request of any director, to decide whether the session will be held before or after the meeting of the Board of Directors. In addition, the Vice Chairman can convene "executive sessions" between two meetings of the Board of Directors. The Vice-Chairman shall preside at meetings and report their findings to the CEO.

### **d) Creation of 4 committees**

To strengthen its role and involvement in the supervision of the Group, the Board will establish four committees: audit and risks, governance, remunerations, human resources & CSR, strategy.

- (i) The audit and risks committee, chaired by Mr. Gérard de La Martinière (independent director) will be the renewal of the audit committee of the Supervisory Board. It will have the same missions, the only difference being that it will examine the accounts in view of their adoption by the Board of Directors, while now it examines them after their adoption by the Management Board.
- (ii) The governance committee will be chaired by the Vice-Chairman and Senior Director. Its first tasks will be to ensure the proper functioning of the Board during annual and semi-annual evaluations and to work on the composition of the Board, including six appointments that will be renewed in 2014.
- (iii) The remunerations, human resources & CSR committee will be chaired by Serge Weinberg (independent director). In addition to its traditional role in remunerations and performance evaluation of managers, the committee will prepare deliberations of the Board of Directors in the area of important human resources policies and monitor the management of risks related to human resources, as well as various aspects of the "Social Responsibility" policy of the Group.



- (iv) The strategy committee will be chaired by Xavier Fontanet (independent director). It will prepare the work of the Board of Directors on issues related to strategy: major acquisitions, mergers or sales projects. It will go into greater depth on certain strategies on behalf of the Board, and bring its vision and understanding to major trends.

The representatives of the Group with the committees will include the Executive Vice President in charge of finance, secretary of the Board, the human resources director and the strategy director.

Board of Directors meetings will be a regular and important forum for exchange between members of the Board of Directors and members of the Executive Committee of the Group.

#### e) Limitation of powers

To ensure a robust process for reviewing acquisitions, it is expected that the internal rules of the Board of Directors limits the powers of the Chairman and CEO in acquisitions or sales to EUR250 million. All acquisition transactions or sales transaction above this threshold must be authorized by the Board of Directors after examination of the proposed transaction by the strategy committee.

#### The reversibility of the option

The choice, which will be made by the Board of Directors to combine the functions of Chairman and CEO, is fully reversible. Thus, in the internal rules of the Board of Directors, it will be expected that when the functions of Chairman and CEO are combined, every year the Board will deliberate on this choice.

## Ordinary Meeting of the 21<sup>st</sup> to the 38<sup>th</sup> resolutions

### Appointment of the members of the Board of Directors - the twenty-first to the thirty-seventh resolutions -

If according to its recommendations, you approve the change to the organization of corporate governance, the Supervisory Board proposes that, in accordance with the conclusions of its Remunerations, Appointments and Human Resources Committee, that all Members of the current Supervisory Board be appointed Directors for the remainder of their mandate, as well as Mr. Jean-Pascal Tricoire. The Board considered it appropriate to ensure the transition of governance before changing its composition. However, the latter will be reviewed in 2014 because, by providing for the appointment of Directors for the remainder of their term as a member of the Supervisory Board, 6 mandates will come up for renewal next year. The following appointments are proposed:

- Jean-Pascal Tricoire for a term of four years (twenty-first resolution). Mr. Tricoire be appointed CEO. He will be the only Executive Director of the Board. His biography is presented on page 128;
- Mr. Henri Lachmann for a term of one year (twenty-second resolution). Pursuant to the articles of association, Mr. Lachmann was appointed Vice-President Lead Independent Director with the mission of ensuring a smooth transition in the change of governance and putting in place the Lead Independent Director who will succeed him. His biography is presented on page 114;
- Mr. Léo Apotheker for a term of three years, Ms. Betsy Atkins for a term of two years, Mr. Gérard de La Martinière for a term of two years, Mr. Xavier Fontanet for a term of three years, Mr. Noël Forgeard for a term of one year, Mr. Antoine Gosset-Grainville for a term of three years, Mr. Willy R. Kissling for a term of one year, Ms. Cathy Kopp for a term of one year, Ms. Dominique Sénéquier for a term of two years, Mr. G. Richard Thoman for a term of one year, Mr. Serge Weinberg, for a term of one year (twenty-third to thirty-third resolutions). All these people are independent. Moreover, with regard to Mr. Gérard de La Martinière as Director or member of the Supervisory Board of Schneider Electric SA for more than 12 years, his years of service are not considered to be a hindrance to his independence due notably to his personality and involvement in the work and discussions on the operation

of the Audit Committees. In addition, with regard to Mr. Kissling, who was co-opted in December 2001 and because the AFEF/MEDEF code states that the loss of quality as independent Director under the criterion of years of service does not occur until the expiration of the term during which the 12-year period has been exceeded, in this case Mr. Kissling is considered independent. The biographies are presented on pages 114 to 120;

Due to Ms. Magali Herbaut having been appointed to represent the employee shareholders in virtue of the provisions relative to representation of the employee shareholders, her successor must be appointed according to the procedure provided for in article 11-3, which stipulates that when the employee shareholders hold more than 3% of the capital at the end of a financial year, the representative for the employee shareholders must be elected by the General Shareholder's Meeting from among the candidates designated by the FCPEs (collective employee shareholding plans) Supervisory Boards investing in the company shares or designated by the employee shareholders when their shares are held directly and not via the FCPEs.

Candidates appointed in this fashion are: Claude Briquet, Magali Herbaut, Thierry Jacquet and Jean-Michel Vedrine.

Following the Supervisory Board's recommendation, the Management Board has agreed to the 35<sup>th</sup> resolution nominating Magali Herbaut as a Director representing employee shareholders. Magali Herbaut's profile fits the objectives of improving gender equity and promotion of the next generation, and, taking into account her professional pathway within the Group, of bring more international experience, as set by the Supervisory Board regarding its composition.

The Management Board therefore invites you to vote solely in favor of the 35<sup>th</sup> resolution and to abstain from the 34<sup>th</sup>, 36<sup>th</sup>, and 37<sup>th</sup> resolutions.

In addition, the Board of Directors should appoint Claude Bébéar as non-voting member. His biography is presented on page 120.

The biographies and the mandates of the candidates for the Director duties to represent the employee shareholders are given below.



#### **Mr. Claude Briquet (age: 51)**

Claude Briquet is an engineering graduate from National School of Engineers in Tarbes and from ENSEEIHT in Toulouse. He joined the Schneider Electric Group in 1985 and began his career in the areas of development, quality and production. He managed the Pacy I plant from 1992 to 1996 and the Vaudreuil plant from 1996 to 1999. He was appointed Executive Vice-President of Mafelec in 1999 and of Alombard in 2001. Mr. Briquet is currently responsible for trading in Europe within the Industry Department of Schneider Electric's European Operating Division. He is Chairman of the Supervisory Board of FCPE Schneider Actionnariat and of the Supervisory Board of FCPE Schneider France Germany.

#### **Ms. Magali Herbaut (age: 41)**

Magali Herbaut graduated from the Ecole Supérieure de Commerce in Grenoble and earned an MBA from Laval University (Canada). She began her career as an auditor for the firm Deloitte. Then in 1996, she joined Schneider Electric as a management controller for Schneider Electric Automation GmbH. Ms. Herbaut spent two years as a management controller for Schneider Electric Automation Inc in the US, before becoming Chief Financial Officer for Normabare (2000-2003) then for the Medium Voltage/Low Voltage Regional Facilities Unit (2003-2007), later taking charge of the Alombard plant (2007-2008). Since 2009, she has managed the Electrical Wiring activity in the Business Unit LifeSpace for the EMEAS region. This responsibility was extended to the global level in 2013 in the Partner Activity. Ms. Herbaut has been a member of the Supervisory Board of Schneider Electric SA representing the employee shareholders since May 2012. She is also a Member of the Supervisory Board of FCPE Schneider Actionnariat and FCPE Solidaire Schneider Energie, and a Member of the Board of Directors of the SICAV Schneider Energie Solidaire.

#### **Mr. Thierry Jacquet (age: 48)**

Thierry Jacquet holds a master's degree in Management from the Ecole Supérieure de Commerce in Grenoble and a degree from the Grenoble Technology Institute. He studied Electrical Engineering at the Paul Louis Merlin School and began his career in 1982 with the Schneider Electric Group as a cable fitter for very high voltage work. After a period as a draftsman, in 1987 he was appointed to the medium voltage technical sales business where he remained until 1999. After 1995, he was elected (CFDT - the French Democratic Confederation of Labor) to the Worker's Council of Schneider Electric Grenoble and to the Central Company Committee for Schneider Electric where he was Chairman of the economic commission from 2003-2006. Since 2007, he has been a member of the European Company Committee of Schneider Electric and secretary of

this committee since 2009. Since 1997, Mr. Jacquet has been a member representing the employees of the Supervisory Boards of the FCPs (mutual funds) of Schneider Electric's company savings plans (Actionnariat, Diversifié, Sécurité and Inter-Expansion). He was Chairman of the Supervisory Board of the FCPE Schneider Actionnariat from March 2011 to October 2012 and a Member of the Supervisory Board of the FCPE (actionnariat) Schneider France Germany.

#### **Mr. Jean-Michel Védrine (age: 51)**

Jean-Michel Védrine holds a D.U.T degree in physical measurements from the University of Clermont-Ferrand. He began his career with the Group in 1983 in a research unit at Télémécanique. After 8 years spent researching electrical connectors and plastics, he worked on contact reliability, and from 1996 to 2010 on the validation of new Control products. Since 2010, he also assumed the task of partial validation of new products with Asia. Mr. Védrine is a member elected by employee shareholders of the Supervisory Board of FCPE Schneider France Germany.

### **Determination of the annual amount of the attendance fees awarded to the Board of Directors - thirty-eighth resolution -**

The thirty-eighth resolution proposes to establish the annual amount of the attendance fees to be awarded to the Board of Directors. The current remuneration of the Supervisory Board represents a budget of EUR1.5 million, which is divided into a remuneration of EUR500,000 for the Chairman of the Supervisory Board and EUR1 million in attendance fees awarded to the Supervisory Board and split among its members based on their participation in the meetings of the Board or membership in a committee.

The new governance structure will lead to greater involvement of the members of the Board of Directors and more committees with a greater number of committee meetings. In addition, it appears that the current level of attendance fees makes it more difficult to recruit foreign directors. The level of remuneration in other countries is significantly higher. It is also proposed that the attendance fees be increased to EUR1.3 million, provided that the Vice-Chairman and Senior Director receives remuneration of EUR300,000 paid in respect of his responsibilities. The total remuneration of the Members of the Board of Directors will thus represent a budget of EUR1.6 million, an increase of 6.7% over the current budget.

## **Extraordinary Meeting of the 9<sup>th</sup> and 10<sup>th</sup> to 20<sup>th</sup> resolution**

### **Transfer of authorizations to the Board of Directors - ninth resolution -**

You are asked to transfer to the Board of Directors the two authorizations that allow the Management Board to undertake capital increases for employees. These two authorizations will be used to carry out the capital increase for employees in June 2013.

### **Authorization of the Board of Directors to carry out a capital increase with or without pre-emptive subscription rights of shareholders - tenth to fifteenth resolutions -**

We are tabling resolutions to renew authorizations to existing authorizations to increase the Company's capital.

You have authorized the Management Board to issue shares, shares with equity warrants, convertible bonds, stand-alone equity



warrants and other share equivalents, with or without pre-emptive subscription rights.

The Management Board did not use these authorizations, which will expire this year.

The Management Board also proposes, in accordance with the French Commercial Code (article L. 225-129-2), to renew these authorizations to undertake capital increases with or without pre-emptive subscription rights for a period of 26 months and confer these authorizations to the Board of Directors. The total amount of the issues authorized is 200 million shares, i.e., 36% of share capital.

In the **tenth resolution**, you are asked to authorize the Board of Directors to issue, in France or abroad, common shares or securities giving access to capital, such as convertible bonds redeemable in shares, bonds with redeemable share subscription warrants, in all cases with pre-emptive subscription rights. In the eleventh resolution, you are also asked to authorize the Board of Directors to increase the capital by capitalizing reserves, earnings or additional paid-in capital.

The issued share capital may be increased during the period by a maximum aggregate amount of EUR800 million or 200 million shares (**36% of the capital**). This ceiling does not include the par value of any shares to be issued to prevent dilution of the rights of holders of share equivalents. The maximum nominal amount of capital increases resulting from the incorporation of reserves, profits or premiums will be deducted from the overall ceiling of a capital increase of EUR800 million.

In the **twelfth resolution**, you are asked to authorize the Management Board to issue, in France and abroad, the shares and share equivalents mentioned in the tenth resolution without pre-emptive subscription rights for existing shareholders. In addition, under the eleventh and twelfth resolutions, the Board of Directors may issue shares that confer rights to securities that may provide access to capital that will be issued, in agreement with the Board of Directors, by Schneider Electric SA's direct or indirect subsidiaries.

The issued share capital may be increased during the period by a maximum aggregate amount of EUR220 million or 55 million shares (**9.9% of the capital**). This amount counts towards the EUR800 million ceiling provided for under the tenth resolution. It will not include the par value of any shares to be issued to prevent dilution of the rights of holders of share equivalents.

The authorization to issue shares and share equivalents without pre-emptive subscription rights is designed to allow the Board of Directors to carry out issues quickly, in order to take immediate advantage of opportunities before they disappear, and to expand the shareholder base by placing the issues on foreign or international markets.

To protect shareholders' rights in this type of transaction:

- the Management Board would grant shareholders a **non-transferable priority subscription right** for a minimum of three days;
- in accordance with the French Commercial Code, the share issues would be carried out at a price at least equal to the weighted average price for the Company's shares over the three trading days preceding the date on which the share or share equivalent issues were decided by the Management Board. They may be issued with a maximum discount of 5%.

The Board of Directors may also use this authorization to issue payment for securities tendered to a public exchange offer initiated by the Company, within the limits and conditions laid down by article L. 225-148 of the French Commercial Code.

The **thirteenth resolution** authorizes the Board of Directors to increase the number of shares to be issued in application of the tenth or twelfth resolutions if the issues are oversubscribed. The supplementary capital increase that may be made within 30 days after the initial subscription period closes may not exceed 15% of the original increase and must be carried out at the same price. It also remains subject to the applicable ceilings mentioned above.

The **fourteenth resolution** authorizes the Board of Directors to issue shares or give access to capital, within the limit of 9.9% of the share capital, i.e., 220 million shares as fixed by the twelfth resolution, to remunerate contributions in kind consisting of shares or securities giving access to the capital of other companies where the provisions of article L. 225-148 of the French Commercial Code are not applicable.

The **fifteenth resolution** allows the Board of Directors to issue, in France and abroad, shares and share equivalents by private placement. The issued share capital may be increased during the period by a maximum aggregate amount of EUR110 million or 27.5 million shares with a nominal value of EUR4 (**4.95% of the capital**). We remind you that the French Monetary and Financial Code has made it possible for companies to carry out capital increases through **private placements** with the goal of optimizing access to capital markets and obtaining the best possible market conditions. The private placements are issues without pre-emptive subscription rights that would exclusively concern (i) individuals or entities providing portfolio management services and (ii) qualified investors or a restricted group of investors, provided that these investors are acting on their own behalf. Under the terms of the fifteenth resolution, provision has been made that in the case of issue through private placement, the issue price pursuant to this authorization will, at the choice of the Board of Directors be at least equal to:

- the weighted average price quoted for the shares on the NYSE Euronext Paris stock exchange over a maximum period of six months preceding the issue pricing date; or
  - the average price weighted by volumes on the regulated market of the NYSE Euronext in Paris on the day before the issue price is set;
- or possibly less, and in both cases, with a maximum discount of 5%.

Any issues carried out pursuant to this authorization will be included in the EUR220 million ceiling set in the twelfth resolution.

The tenth, twelfth and fifteenth resolutions also authorize the Board of Directors to issue securities providing for the attribution of debt securities. The securities may be issued subject to pre-emptive subscription rights (tenth resolution) or without such rights and either by a public offering (twelfth resolution) or by private placement (fifteenth resolution). The maximum par value of immediate or future Company debt securities that may be issued is set at a nominal issue amount of EUR3 billion.

The purpose of these authorizations is to give the Board of Directors the necessary flexibility when it comes to selecting the type of issues to be carried out, depending on demand and the conditions prevailing in the French, foreign or international financial markets.

**Authorization granted to the Board of Directors to allocate free shares to corporate officers and employees of the Company and its subsidiaries and affiliates, subject to performance criteria, if appropriate  
sixteenth resolution -**

The Combined Annual and Extraordinary Shareholders' Meeting held on April 21, 2011 authorized the Management Board to grant free shares to the employees and corporate offices of the Company and its subsidiaries and affiliates, as defined in article L. 225-197-2 of the French Commercial Code.

On the basis of this authorization, the Management Board:

- 2,036,868 shares under the 2012 long-term incentive plan (plans 13 to 13ter and 14 to 14ter), awarded to 2,639 beneficiaries. The Board of Directors set 72,000 shares as the number of shares awarded to the two members of the Management Board;
- proposes that at the end of March 2013 and on the basis of the authorization granted by the Supervisory Board of February 20, 2013 a maximum of 2.59 million shares to be awarded to approximately 2,800 beneficiaries under the 2013 long-term incentive plan. The Management Board, which traditionally put in place long-term incentive plans in December for the following year, has decided to postpone this implementation to the end of March to allow for the alignment of the allocations with the annual review of the personal situations of Group employees.

In accordance with the AFEP/MEDEF guidelines and the commitments made by the Management Board during the Shareholders' Meeting of April 21, 2011, 100% of the shares granted to members of the Executive Committee in the framework of the long-term incentive plans were subject to performance criteria. For other beneficiaries, the performance criteria are on 50% of the shares granted. Therefore, part of the shares may be cancelled. For example, 100% of the shares subject to performance criteria of the 2008 long-term incentive plan 2008 and 3.2% of the shares subject to performance criteria of the 2011 long-term incentive plan were canceled due to the failure to meet these conditions.

The performance criteria are part of the objectives of the Company program. For the last two long-term incentive plans in place, these performance criteria are:

**a) for the 2011 annual plan in December 2010:**

- for 80% of the shares granted subject to performance criteria, on average over the years 2011 and 2012, EBITAR excluding the impact of acquisitions made after December 31, 2010, consistent with the target margin of 13% to 16% of EBITA of the One company program over a normal cycle of activity, as follows: 0% if the margin rate is  $\leq 13.5\%$ , 100% if the rate is  $\geq 14.5\%$ , with a linear progression between the two points. The rate of achievement of this goal was 100%, with an average EBITAR excluding the impact of acquisitions over the years 2011 and 2012 of 14.6%;
- 20% of the shares granted subject to performance criteria, a positive growth differential for Group revenues related to worldwide GDP as part of the wider aim of the One business program of average 2011-2012 organic growth equal to worldwide GDP plus three points throughout the cycle, as follows:

0% if the growth in the Group's revenue is less than 2 points higher than global GDP, 100% if this increase is higher by at least 3 points, with a linear progression between the two points. The rate of achievement of this goal was 84%, with average organic growth over the 2011-2012 period, more than 2.2 points higher than that of global GDP.

**b) for the 2012 annual plan**

- for 80% of the shares allotted under performance criteria, an average level for 2012 and 2013 of adjusted EBITA operating margin, at constant scope, as follows: 0% if the margin rate is  $\leq 12\%$ , 100% if the rate is  $\geq 13\%$ , with a linear progression between the two points. This range, defined in December 2011, was chosen to reflect the risk of the breakup of the euro zone, which prevailed at that time;
- for 20% of the shares granted subject to performance criteria, an objective of increasing the "Planet & Society Barometer", which measures the progress of the Group with regard to environmental sustainability and social responsibility across 14 indicators (see page 45) as follows: 0% if the index at the end of 2013 is  $\leq 4.5/10$ , 100% if the index is  $\geq 4.5/10$ , with a linear progression between the two points, where the level of the Planet & Society Barometer was 3/10 and the objective of Connect is to bring it to 8/10 at the end of 2014.

**Expectations for the 2013 annual plan are, as follows:**

- for 80% of the shares allotted under performance criteria, the average level for 2012 and 2013 of adjusted EBITA margin objective will be, at constant scope, in the range from 13% to 17%, which is the Group's objective through a normal cycle of activity presented in early 2012 in the framework of the Connect program;
- for 20% of the shares that granted subject to performance criteria, an objective of increasing the "Planet & Society Barometer" at the end of 2014 as follows: 0% if the index is  $\leq 7/10$ , 100% if the index is  $\geq 8/10$ , with a linear progression between the two points, where the level of the Planet & Society Barometer was 6.42/10 in the 4<sup>th</sup> quarter of 2012.

In addition, subject to the achievement of the performance criteria, the shares are vested in favor of their beneficiaries at the end of a period of more than two years, then a retention period of at least two years or after a vesting period of four years with or without a minimum holding period.

The authorization to grant bonus/performance shares expires in 2015. However, taking into account unallocated stock options and the increase in the number of shareholders of performance shares, it appears that the remaining amount of the authorization granted in 2011 (0.4% of capital) may be insufficient for implementation of the 2014 long-term incentive plan. In addition, we ask you to renew this authorization forthwith subject to the following conditions:

- the total number of shares granted may not represent more than **1.8% of the Company's issued capital**;
- the annual number of shares granted to the Company's senior corporate officers (the CEO and the Executive Vice President in charge of finance) pursuant to this authorization may not exceed 0.03% of the capital per year;
- the vesting period cannot be less than two years and the holding period must also be at least two years. However, these periods may be replaced with a minimum vesting period of four years, with or without a holding period;
- 100% of the shares granted to the Company's senior corporate officers and to members of the Executive Committee, in the framework of the Group's annual long-term incentive plans,



will be subject to performance criteria, and 50% of the shares granted to other beneficiaries in this framework will be subject to performance criteria.

- the performance criteria are related to an adjusted EBITA target operating margin and the performance of the Planet & Society Barometer, which will be fixed by the Board of Directors. To give the Board greater flexibility, weighting between these two criteria can vary between 80% and 60% for adjusted EBITA criterion and 20% and 40% for the social responsibility criterion. The adjusted EBITA margin objective will be in the range of the Group's long-term profitability objectives. The Board of Directors will make decisions dynamically within this range.

We also remind you that the senior corporate officers are bound by obligations to retain their shares, which are presented on pages 133 and following.

In accordance with the provisions of the French Commercial Code, it is the responsibility of the Board of Directors to determine the identity of beneficiaries of the allocations, as well as the conditions and, where appropriate, the criteria for allocation of shares.

Authorization is granted for a period of 38 months.

Since the shares that may be so allocated may be shares to be issued, the authorization involves the waiver by shareholders of their pre-emptive right to free shares to be issued.

### **Authorization given to the Board of Directors to grant stock options to corporate officers and employees of the Company and its subsidiaries and affiliates, with waiver by shareholders of their pre-emptive subscription rights - seventeenth resolution -**

In April 2011, the Shareholders' Meeting authorized the Management Board to grant options to corporate officers and employees of Schneider Electric SA and its subsidiaries and affiliates, as defined in article L. 225-180 of the French Commercial Code, within the limit of the number of options granted and not yet exercised of 1% of the capital.

The Management Board did not make use of this authorization.

The authorization expires in 2014, but the Management Board nevertheless asks you to renew it forthwith for a period of 38 months, subject to the following conditions:

- the total number of options granted and not yet exercised is limited to **0.5% of the capital**;
- the annual number of options granted to the Company's senior corporate officers (the CEO and the Executive Vice President in charge of finance) pursuant to this authorization may not exceed 0.03% of the capital;
- the period of validity of the options may not exceed ten years;

- the exercise price may not be lower than the average of the opening prices quoted for the Company's shares over the twenty trading days preceding the decision to grant the options;
- 100% of the options granted to the Company's senior corporate officers and to members of the Executive Committee, in the framework of the Group's annual long-term incentive plans, will be subject to performance criteria and 50% of the options granted to other beneficiaries in this framework will be subject to performance criteria. These performance criteria are related to an adjusted EBITA target operating margin and the performance of the Planet & Society Barometer, which will be fixed by the Board of Directors. The weighting between these two criteria can vary between 80% and 60% for adjusted EBITA criterion and 20% and 40% for the social responsibility criterion. The adjusted EBITA margin objective will be in the range of the Group's long-term profitability objectives. The Board of Directors will make decisions dynamically within this range.

For the latest plan put in place in December 2009 under the 2010 long-term incentive plan, the performance criteria were as follows:

- for 80% of the options allotted under condition of performance, an average level for 2010 and 2011 of EBITA excluding restructuring costs and the impact of acquisitions made after 31 December 2009: no options may be exercised for EBITAR of under 12.5%, 100% of options may be exercised for EBITAR of at least 13.5%, with a linear distribution between both points. However, the goal communicated to the market in early December 2009 was an EBITAR margin of around 12.5%;
- for 20% of the options allotted subject to performance criteria, a portion of the Group revenues earned in emerging economies (at constant exchange rates and excluding impacts from acquisitions made after December 31, 2009), 100% of the options allotted under these conditions may be exercised for a percentage of at least 34%; no options may be exercised for a percentage under 32%, with a linear distribution between both points.

Since 1995, almost all plans for long-term incentive plans in the form of options are subject to performance criteria on all or part of the options granted. Over the 2000-2012 period, nearly 20% of the options subject to performance criteria were canceled due to the failure to meet these conditions. Of the last two stock option plans implemented in the context of the 2009 and 2010 long-term incentive plans, 20% of the options granted under the 2009 plan were canceled. All of the performance criteria with which current plans were matched are presented on pages 133 and following.

We also remind you that the senior corporate officers are bound by obligations to retain their options, which are presented on pages 133 and following.

The options granted in this way may be options to subscribe shares. The authorization involves the waiver by shareholders of their pre-emptive subscription rights to shares to be issued upon the exercise of options.



### **Capital increases reserved for employees with cancellation of pre-emptive subscription rights of shareholders - eighteenth and nineteenth resolutions**

Schneider Electric is convinced of the importance of developing employee shareholders and has set a target of 5% of the share capital being held by employees by 2015. Employee shareholders currently hold 4.44% of the capital. Also, each year Schneider Electric undertakes capital increases reserved for employees under the authorization given by the Shareholders' Meeting.

We remind you that the Combined Annual and Extraordinary Shareholders' Meetings of April 21, 2011 and May 3, 2012 authorized the Management Board, up to a limit of **2% of the capital**, to undertake capital increases reserved for employees participating in the Company Savings Plan, and to make capital increases reserved for employees of non-French Group companies or entities set up to purchase shares on behalf of the employees. This last resolution aims to allow employee shareholder operations in certain countries where the PEE plan rules do not readily comply with the legislation.

In accordance with these authorizations:

- the Management Board decided on June 14, 2012 to issue shares to employees who are members of the Company Savings Plan, employees of non-French Group companies, or to entities set up to purchase shares on behalf of Group employees. This operation (Wesop 2012) included a classic offer to subscribe shares at a discount of 15% or 20%, depending on the country. In addition, in some countries, leverage (x10) was also offered. In this offer, the shares were issued at a discount of 20%, but with payments limited to EUR6,000. This operation was a great success, with a participation rate of 26%. Almost 27,000 employees in the 26 countries involved subscribed 0.64% of the capital at a price of EUR36.66 or EUR34.50 per share;
- at its meeting on December 18, 2012, the Supervisory Board authorized the Management Board to issue shares to renew the annual employee shareholder operation in 2013, within a limit of 4.3 million shares (nearly 0.78% of the share capital). This program, which will include a non-leveraged and, primarily in the new economy countries, a leveraged plan (x10), with a discount of 15% (in France) or 20% (in other countries), will be offered in 33 countries representing 90% of all employees.

The capital increase resolutions expire in 2013. To allow Schneider Electric to pursue its policy of developing global shareholding, it is proposed that the resolutions be renewed under the same conditions.

The Board of Directors would have full powers to carry out capital increases reserved for employees enrolled in the Company Savings Plan up to the equivalent of 2% of the Company's capital (**eighteenth resolution**). Under the new authorization, the maximum discount at which the shares could be offered is set at 20%. The maximum nominal amount of 2% of the capital shall be deducted from the ceilings provided for in the tenth and twelfth resolutions.

This authorization, which requires the waiver by shareholders of their pre-emptive subscription rights in favor of employees enrolled in a Company Savings Plan, will nullify, with effect from June 20, 2013, the current delegation passed by the Shareholders' Meeting of April 21, 2011 in its twenty-second resolution. This authorization is valid for a period of 26 months.

By the **nineteenth resolution**, we ask you to renew the authorization to issue shares to carry out capital increases reserved for employees of non-French Group companies or to entities set up on their behalf. The authorization, which includes a shareholder waiver of their pre-emptive subscription rights, covers 1% of the capital. The issues to be carried out will be deducted from the ceiling of 2% of the capital set for the issuance of shares to employees who are members of the Employee Stock Purchase Plan. At the discretion of the Board of Directors, the issue price will be based on either (i) the opening or closing price of the Company's shares quoted on the trading day the decision of the Management Board setting the issue price is made, or (ii) the average prices quoted for the Company's shares over the twenty trading days preceding the decision of the Management Board setting the issue price under this resolution or under the eighteenth resolution. A maximum discount of 20% may be applied to the reference price. The discount will be determined by the Board of Directors, taking into consideration any foreign legal, regulatory or tax provisions that may apply to any beneficiary governed by foreign law.

This authorization will nullify, with effect from August 1, 2013, the authorization granted by the Shareholders' Meeting of May 3, 2012 in its seventeenth resolution. This authorization is valid for a period of 18 months.

### **Authorization given to the Board of Directors to cancel, where applicable, Company shares purchased in accordance with the conditions determined by the Shareholders' Meeting, up to a maximum of 10% of the capital - twentieth resolution -**

We ask you to give the Board of Directors full powers to cancel shares representing up to 10% of the Company's capital within the next 24 months, in order to reduce the dilutive impact of the share issues carried out recently or to be carried out, notably upon exercise of stock options or employee share issues.

We have not used the authorization given by the Shareholders' Meeting of April 21, 2011, which expires on April 20, 2013.

All authorizations and delegations granted to the Board of Directors under the tenth to the twentieth resolutions shall be conferred to the Board of Directors if they are not adopted by the General Shareholders' Meeting in the eighth resolution on changing the governance organization of the Company.

Finally, the thirty-ninth resolution requests the powers necessary to carry out formalities.

## > 2. Appendix: Internal regulations of the Board of Directors and charter of the Vice-Chairman Independant Director

### Internal regulation of the Board of Directors of Schneider Electric SA

Schneider Electric refers to the AFEP/MEDEF corporate governance code (April 2010).

The present internal regulations have been drawn up in application of Article 13.3 of the Company's articles of association.

They were adopted by the Board of Directors on April ... 2013.

#### Article 1

#### Method of exercising General Management – Chairmanship and Vice-Chairmanship of the Board of Directors

##### A. Method of exercising General Management

1. General Management of the Company is under the responsibility of either the Chairman of the Board of Directors, who will then go by the title of Chairman and Chief Executive Officer, or of another physical person appointed by the Board of Directors going by the title of Chief Executive Officer.
2. The Board of Directors decides between these two methods of exercising General Management at the time when the Chairman of the Board of Directors or the Chief Executive Officer is appointed or when renewing their terms of office. If the Board of Directors has decided to combine the functions of Chairman and Chief Executive Officer, it will deliberate this choice every year.
3. In order to maintain continuity in the Company's operation if the Chairman serving as CEO leaves his role or is prevented from doing so, the Deputy CEO(s) shall take the interim responsibility for General Management functions in the Company, unless otherwise decided by the Board, until such time as a new CEO is appointed. The Vice-Chairman shall temporarily take the presidency of the Board of Directors.

##### B. Chairman of the Board of Directors

1. The Board of Directors shall elect a Chairman amongst its members. The Chairman shall be appointed for a period that can be no longer than his term of office as a director. The Chairman is eligible for re-election. He may be removed from office by the Board of Directors at any time.
2. The Chairman of the Board of Directors organizes and manages the Board's works, and reports on these works at the annual general shareholders meeting.
3. The Chairman of the Board of Directors sets the agenda and the schedule for Board meetings with assistance from the Vice-Chairman-lead Director.

4. The Chairman of the Board of Directors ensures that the different corporate bodies operate correctly and especially that the directors are in a position to fulfill their mission. The Chairman may request any document or item of information useful to enlighten the Board of Directors when preparing its meetings.

##### C. Vice-Chairman of the Board of Directors – Lead Independent Director

1. The Board of Directors may appoint a vice-chairman. The vice-Chairman shall be appointed for a period that may not be any longer than his term of office as a director. The Vice-Chairman is eligible for re-election. The Vice-Chairman may be removed from office by the Board of Directors at any time.
2. The Vice-Chairman shall preside over Board meetings in the absence of the chairman.  
The Vice-Chairman shall be called upon to replace the Chairman of the Board of Directors in the event of any temporary inability of the latter to fulfill his functions or his death. In the event of the chairman's inability to fulfill his functions, he will be replaced by the Vice-Chairman as long as his inability may last and, in the case of his death, until the election of a new chairman.
3. In exception to 1 above, and in compliance with Article 12.2 of the articles of association, the appointment of a Vice-Chairman is compulsory if the roles of Chairman and CEO are combined. In this case, the Vice-Chairman also takes on the role of Lead Independent Director. In this respect:
  - The Vice-Chairman is kept informed of major events in Group life through regular contacts and monthly meetings with the Chairman serving as CEO.
  - The Vice-Chairman is consulted by the Chairman serving as CEO on the agenda and the sequence of events for every Board meeting as well as on the schedule for Board meetings.
  - The Vice-Chairman may convene executive sessions with non-executive members of the Board of Directors, over which he will preside. An executive session shall be included on the agenda of every Board meeting. It is the Vice-Chairman's responsibility to decide whether it should be held or not. It is therefore held as decided by the Vice-Chairman, either directly before or after each Board meeting. In addition, the Vice-Chairman may convene an executive session between two Board meetings. Any director may ask the Vice-Chairman to convene an executive session.
  - The Vice-Chairman shall promptly report to the Chairman serving as CEO on the conclusions of executive sessions.

- The Vice-Chairman shall draw the attention of the Chairman of the Board of Directors to any possible conflicts of interest that he may have identified.
  - The Vice-Chairman is Chairman of the Governance Committee.
  - Like any other member of the Board, the Vice-Chairman may attend any meetings of committees of which he is not a member.
  - In order to complement his knowledge, the Vice-Chairman may meet the Group's leading managers and visit Company sites.
  - The Vice-Chairman carries out annual and biennial assessments of the Board of Directors and, in this context, assesses the actual contribution of every member of the Board to the Board's works.
  - The Vice-Chairman shall report on his actions at annual general shareholders meetings.
  - The Vice-Chairman shall meet any shareholder who wishes so and inform the Board of their concerns on governance matters.
4. The Vice-Chairman-Lead Independent Director must be an independent member of the Board, as defined in the criteria published by the Company.

As a transitional measure, Article 12.2 of the articles of association provides for the first Vice-Chairman-Lead Independent Director to be the former Chairman of the Supervisory Board for the remaining duration of his term of office.

## Article 2

### Roles and powers of the Board of Directors

1. The Board of Directors shall determine Company business policies and ensure that they are implemented. Subject to the powers expressly conferred to annual general shareholders meetings and within the limit of the corporate purpose, it shall deal with any issue affecting the Company's efficient operation and take business decisions within its remit.
2. In accordance with legal or statutory provisions, it is the Board of Directors' responsibility to:
  - Determine the method of exercising General Management of the Company.
  - Appoint executive corporate officers and also remove them from office (Chief Executive Officer, deputy Chief Executive Officers) as well as to set their remuneration and the benefits granted to them.
  - Co-opt Directors whenever necessary.
  - Convene annual general shareholders meetings.
  - Approve corporate and consolidated accounts.
  - Draw up management reports and reports for annual general shareholders meetings.
  - Draw up management planning documents and the corresponding reports.
  - Approve the report drawn up by the Chairman of the Board of Directors as provided for in Article L.225-37 of the Commercial Code.
  - Decide on the use of the delegations of authority granted at annual general Shareholders meetings, more particularly for increasing Company capital, redeeming the Company's own

shares, carrying out employee shareholding operations and cancelling shares.

- Authorize the issue of bonds.
- Decide on the handing out of options or restricted/ performance shares within the limits of authorizations given at annual general Shareholders meetings.
- Authorize statutory conventions (conventions covered by Article L.225-38 and following of the Commercial Code).
- Authorize the issue of sureties, endorsements and guarantees.
- Decide on the constitution of study committees and name their members.
- Decide on the dates for the payment of dividends and any possible down-payments on dividends.
- Distribute Directors' fees allocated at the annual general Shareholders meeting amongst members of the Board of Directors.

In compliance with the provisions set forth in the Commercial Code, the Board of Directors delegates all powers to the Chairman serving as CEO (or the CEO if appropriate):

- For issuing, with the possibility of sub-delegating, sureties endorsements or guarantees within a maximum annual sum of 500 million euros, limited per surety, endorsement or guarantee to:
  - (i) 150 million Euros for commitment guarantees made by Group subsidiaries for Group financial optimization operations,
  - (ii) 250 million Euros for commitment guarantees made by Group subsidiaries, for taking over the Company's commitments whenever acquisition operations are made on companies or business activities,
  - (iii) 100 million Euros for other guarantees.

The above limits are not applicable to any sureties, endorsements and guarantees that may be issued with regard to tax or customs authorities.

- For formally noting any increases in capital following conversions of convertible bonds, exercising warrants and stock options, as well as subscribing to capital securities or shares giving access to Company capital in the context of increases in capital reserved for employees and carrying out all prior and subsequent formalities related to any such changes in capital and to any modifications to the articles of association.
3. To enable the Board to exercise its duties as defined in 1 and beyond its specific powers summarized in 2, the Board of Directors:
    - Shall be informed by its Chairman or by its committees of any significant event concerning the Company's efficient operation as well as the successful conclusions of any significant projects.
    - Shall give prior authorization for:
      - All disposals or acquisitions of holdings or assets by the Company or by a Company in the Group for a sum of more than 250 million euros.
      - Concluding any strategic partnership agreement.
    - Shall make an annual review of its composition, its organization and its operation.
  4. The works of the Board of Directors and its committees shall be included in the annual report.



### Article 3

#### Membership of the Board of Directors

In the proposals it makes and the decisions it takes, the Board of Directors shall ensure:

- That it reflects the international nature of the Group's activities and of its Shareholders by having a significant number of members of non-French nationality.
- That it protects the independence of the Board through the competence, availability and courage of its members.
- That it pursues its objective of feminizing the Board of Directors in compliance with the legal principle of attaining balanced representation between men and women on the Board.
- That it appoints persons with the expertise required for developing and implementing Group strategy.
- That employee shareholders shall continue to be represented on the Board in compliance with the provisions set forth in Article 11.3 of the articles of association.
- That it preserves the continuity of the Board by changing some of its members at regular intervals, if necessary by anticipating the expiry of members' terms of office.

### Article 4

#### Meetings of the Board of Directors

1. The Board of Directors shall meet whenever the interests of the Company so require and at the least six times per year, including one meeting for examining strategy in detail.  
Notices to attend shall be issued by all means, including orally. They shall be sent via the Board's secretary.

2. Board meetings shall be convened by the Chairman or, if such person is unable to do so, by the Vice-Chairman.

Moreover, if no Board meeting takes place for over two months, the Chairman must convene a meeting of the Board at a date no later than fifteen days after at least one third of the members of the Board have made a justified request for this purpose. If the request goes unheeded, the person or persons requesting the meeting may convene a meeting himself or themselves, stating the agenda of the proposed meeting.

Similarly, the Chief Executive Officer, if he is not Chairman of the Board of Directors may also address a request to the Chairman to convene a meeting on any given agenda.

The person responsible for convening the meeting shall set its agenda. The agenda may be modified or completed at the time of the meeting.

Board meetings shall be held at the Company's registered offices. However, they may be held at any other place specified in the notice of the meeting.

3. Any member of the Board may appoint another member to represent him at a Board meeting by means of a proxy form.

During the same meeting, each member of the Board may only use one proxy form that he has received further to the foregoing paragraph.

Members of the Board may attend Board meetings by videoconference or telecommunication links, which allow them to be identified and which guarantee their effective participation. However, for the purposes of checking and controlling annual

accounts, consolidated accounts and the management report, the members of the Board of Directors who attend the meeting by videoconference or telecommunication links shall not be taken into account for the purposes of determining the quorum or the majority.

Deliberations of the Board of Directors shall only be valid if at least half of the Directors are present. However, in application of Article 15 of the articles of association, the Board of Directors may only deliberate validly on the methods for exercising General Management if 2/3 of the Directors are present or represented.

Decisions shall be taken on a majority vote by the Directors present or represented. In the event of equality of votes, the Chairman of the meeting shall have the casting vote.

4. Besides the secretary to the Board of Directors, the Deputy CEO in charge of finance shall attend Board meetings.

The Board of Directors shall hear operational managers concerned by major issues submitted to examination by the Board.

The Board of Directors may authorize persons who are not members of the Board to attend Board meetings including by videoconference or by telecommunication links.

5. An attendance register shall be kept at the registered office.

The proceedings of the Board of Directors shall be recorded in minutes.

The secretary to the Board of Directors shall be authorized to certify copies or excerpts from the minutes of the Board's proceedings.

### Article 5

#### Information for the Board of Directors

Members of the Board of Directors shall be provided with all the information necessary to enable them to carry out their duties and this within time limits that enable them to familiarize themselves with this information in a meaningful way. They may procure any documents they require for this purpose prior to meetings.

Any request for information made by members of the Board on specific subjects shall be addressed to the Chairman serving as CEO (and, if appropriate, to the CEO), who will reply thereto as promptly as possible.

In order to provide members of the Board of Directors with complete information, visits to sites and customers shall be organized for them. Members of the Board of Directors shall have the right to meet main Company executives. They shall inform the Chairman serving as CEO (and, if appropriate, the CEO) thereof.

The Chairman serving as CEO shall meet each member of the Board individually once a year.

### Article 6

The status of members of the Board of Directors

1. Members of the Board of Directors shall represent all the Shareholders and shall act in the interests of the Company in all circumstances.
2. Members of the Board of Directors shall attend Board meetings and meetings of the committees of which they are members.

Any member, who has not attended at least half of the meetings held during the year, unless there are exceptional reasons, shall be deemed to wish to terminate his term of office and shall be invited to resign from the Board of Directors or the committee concerned, as appropriate.

3. Members of the Board of Directors shall be bound by a general confidentiality obligation with respect to the deliberations of the Board and the committees and with respect to information which is not in the public domain, which they receive further to performing their duties.
4. Members of the Board of Directors shall have a duty to inform the Board of Directors of any conflict of interest with the Company and they shall be invited not to take part in any vote and possibly any debate on the deliberations concerned.
5. During their term of office, members of the Board of Directors shall possess at least 1,000 shares in Schneider Electric SA. For applying this obligation, except for the 250 shares which must be held to comply with Article 11.1 of the articles of association, shares held via a Company Mutual Fund essentially invested in Company shares can be taken into account. The Schneider Electric shares that they hold shall either be in purely registered (nominatif pur) or in managed registered (administré) form.
6. Members of the Board of Directors shall notify the *Autorité des Marchés Financiers* (the French Financial Authority) promptly, by fax or by e-mail, with a copy to the secretary of the Board of Directors, of all acquisitions, disposals, subscriptions or exchanges involving Schneider Electric SA shares and all transactions involving said securities by means of financial futures, carried out by themselves or their spouse and minor children or other persons with whom they have close personal links, in the sense of the application decree of Article L.621-18-2 of the Monetary and Financial Code.
7. Members of the Board of Directors undertake to comply with the internal rules of conduct governing stock-market ethics Group's code of ethics, of which they have received a copy, with respect to their personal financial transactions. In consequence, members of the Board of Directors may not acquire or dispose of options or any other derivative relating to Schneider Electric SA shares, except authorized hedging of stock-options plans in order to hedge stock option plans (eg: hedging of shares subscribed upon exercise of options).

Members of the Board of Directors shall refrain from carrying out any transaction involving Company's listed shares during the 31 days before the day following publication of annual or half-yearly accounts, and during the 16-day period before the day following publication of quarterly information. The same principle applies when they hold privileged information, i.e. precise information concerning the Company, which has not been made public and which, if it were made public, could have a marked impact on share price or on any financial instrument related to them.

8. Members of the Board of Directors shall attend annual general shareholders meetings.
9. Members of the Board of Directors shall be remunerated by the payment of Directors' fees allocated at annual general Shareholders meetings. The said amount will be divided by the Board of Directors amongst its members.
10. Travelling expenses, notably including hotel and restaurant expenses, incurred by the members of the Board of Directors further to the performance of their duties, shall be borne by the Company on production of supporting documents.

## Article 7

### Non-voting directors

The non-voting directors shall attend Board meetings in a consultative capacity.

They shall receive the same information as the other members of the Board. They may be appointed as members of committees, except for the Audit Committee.

They shall act in the interests of the Company under all circumstances.

They shall be bound by the same general confidentiality obligation as the members of the Board of Directors and shall be subject to the same limitations regarding transactions involving the Company's shares. Their remuneration shall be determined by the Board of Directors.

## Article 8

### The committees of the Board of Directors

1. The committees created by the Board of Directors shall be as follows:
  - Governance Committee
  - Audit and Risk Committee,
  - Remunerations, Human Resources and Social Responsibility Committee
  - Strategy Committee
2. The role of these committees shall be to research and prepare certain matters to be considered by the Board of Directors. They shall make proposals, give recommendations and issue opinions, as appropriate, in their area of competence.
 

Created by virtue of Article 13 of the articles of association, they shall only have a consultative role and shall act under the authority of the Board of Directors.
3. The chairmen and members of the committees shall be appointed by the Board of Directors. However, the Vice-Chairman-Lead Independent Director shall preside over the Governance Committee. They shall be appointed in a personal capacity and may not be represented.

The terms of office of committee members shall coincide with their terms of office as members of the Board of Directors. The terms of office of committee members may be renewed.

4. Committees shall meet on the initiative of their Chairman or on request from the Chairman of the Board of Directors or the CEO.
5. The Chairman serving as CEO or the CEO shall be kept informed of committee meetings. He shall be in regular contact with committee chairmen.
6. Committee meetings shall be held at the Company's registered offices or any other place decided upon by the Chairman of the committee with an agenda prepared by the latter. If necessary they may be held by audio or video conference.

Members of the Board of Directors may attend meetings of committees of which they are not a member. Only the members of the committee shall take part in the committee's discussions.

A secretary will prepare the minutes of the meetings, which shall be recorded in an ad hoc register specific to each committee by the secretary to the Board of Directors.

A report on each committee's works shall be given by the committee's Chairman or one of its members at the next Board

meeting. Minutes of committee meetings shall be provided for the members of the Board of Directors.

After referring the matter to the Chairman of the Board, every committee may request studies from external consultants. Every committee may invite any person of its choice to its meetings, as and when required.

7. Other than the permanent specialist committees that it has created, the Board of Directors may also decide to set up any ad hoc committees for specific operations or assignments.

## Article 9

### The Audit and Risk Committee

#### 1. Membership and operation of the Audit Committee:

The committee shall be comprised of at least three members, two thirds of whom must be independent members of the Board of Directors. At least one of the members must possess special skills concerning matters of finance and accountancy and be independent with regard to specified, published criteria.

The Deputy CEO in charge of finance shall act as the Audit Committee's contact.

The secretary to the Board of Directors shall act as secretary to the Audit Committee.

The Committee shall meet at least five times a year. The Chairman of the Committee shall draw up agendas for meetings.

The meetings shall be attended by members of the finance department and of the Company's internal audit department and, with respect to meetings devoted to examining accounts, by the statutory auditors. The Committee may invite any person it wishes to hear to its meetings. It may also require the CEO to provide any documents it deems to be useful.

Outside the presence of Company representatives, the Committee shall regularly hear the statutory auditors and its Chairman the internal audit Director.

#### 2. The duties of the Audit Committee:

The Audit Committee monitors questions on drawing up and controlling accounting and financial information. It prepares the Board of Directors' decisions in these domains. It makes recommendations to the Board and gives its opinions. For this purpose:

- It shall prepare for annual and half-yearly accounts to be approved by the Board and therefore, more particularly:
  - Checks the appropriateness and consistency of the accounting methods used for drawing up consolidated and corporate accounts, as well as checking that significant operations on Group level have been dealt with appropriately and that rules relating to the consolidation perimeter have been complied with.
  - Examines off-balance-sheet risks and commitments as well as the cash situation.
  - Examines the process for drawing up financial information.
- It acquaints itself with the annual report, which has reference document status, the half-yearly report and, where applicable, any remarks made by the French Financial Market authority (AMF) concerning these reports, as well as the other key financial information documents.
- It handles follow-up on legal control of annual and consolidated accounts made by statutory auditors, notably by examining the

external audit plan and results of controls made by statutory auditors.

- After a consultation process, it shall suggest reappointing the existing statutory auditors or appointing new statutory auditors.
- It shall check the independence of statutory auditors, especially at the time of examining fees paid by the Group to their firm or their network, and by giving prior approval to any missions that are not strictly included in legal control of accounts.
- It monitors the efficiency of internal control and risk management systems. For this purpose:
  - It shall examine the organization and resources used for internal audit, as well as its annual work program. It shall receive summaries of reports produced on audits on a quarterly basis. However, the Chairman of the Committee shall receive these reports in full.
  - The Committee shall examine operational risk-mapping and make sure that measures exist for preventing or minimizing risks.
  - It shall examine how to optimize risk coverage on the basis of reports requested from internal audit.
  - It shall examine Group internal control measures and look into the results of entities' self-assessments with regard to internal control. It shall ensure that a relevant process exists for identifying and processing incidents and anomalies.
  - It shall acquaint itself with the draft report on internal control drawn up by the Chairman of the Board of Directors.
  - It shall examine rules of good conduct notably concerning competition and ethics and the measures implemented to ensure that these rules are circulated and applied.

The Audit Committee shall examine proposals for distribution as well as the amount of financial authorizations submitted for approval at annual general shareholders meetings.

The Audit Committee shall examine all financial and accounting questions and questions related to risk-management submitted to it by the Board of Directors.

The Audit Committee shall present the results of its duties to the Board together with any follow-up actions that it proposes to take. The Chairman of the Audit Committee shall keep the Chairman and the Vice-Chairman-Lead Independent Director promptly informed of any difficulties encountered by the Committee.

## Article 10

### Governance Committee

#### 1. Membership and operation of the Governance Committee

The Committee shall be comprised of at least three members.

The Governance Committee shall be presided by the Vice-Chairman-Lead Independent Director. Failing this, the Board shall appoint the Chairman of the Committee.

The secretary to the Board of Directors shall be the secretary of the Governance Committee.

The Committee shall meet at the initiative of its Chairman. The agenda shall be drawn up by the Chairman of the Committee after consultation with the Chairman of the Board of Directors. The Committee shall meet at least three times a year.

In order to carry out its assignments, the Committee may hear any person it wishes.

## **2. The Governance Committee's duties:**

The Committee will formulate proposals to the Board of Directors in view of any appointment made:

- (i) To the Board of Directors:
  - Directors or non-voting Directors,
  - Chairman of the Board of Directors, Vice-Chairman and Vice-Chairman-Lead Independent Director,
  - Chairmen and members of committees.
- (ii) For General Management of the Company. The Committee will also give its opinion to the Board on nominations for any Deputy CEO's.

The Committee shall propose measures to the Board of Directors that will reassure both Shareholders and the market that the Board of Directors carries out its duties with all necessary independence and objectivity. For this purpose, it will organize for yearly and two-yearly assessments to be made of the Board of Directors. It shall make proposals to the Board of Directors on:

- Determining and reviewing Directors' independence criteria and Directors' qualifications with regard to criteria.
- Missions carried out by the committees of the Board of Directors.
- The evolution, organization and operation of the Board of Directors.
- The Company's use of national and international corporate governance practices.
- The total value of Directors' fees proposed at annual general Shareholders meetings together with their allocation amongst members of the Board of Directors.

## **Article 11**

### **Remunerations, Human Resources and Social Responsibility Committee**

#### **1. Membership and operation of the Remunerations, Human Resources and Social Responsibility Committee**

The Committee shall be comprised of at least three members.

The Director of Group Human Resources shall be secretary to the Remunerations, Human Resources and Social Responsibility Committee.

The Committee shall meet at the initiative of its Chairman. The agenda shall be drawn up by the Chairman of the Committee after consultation with the Chairman serving as CEO. The Committee shall meet at least three times a year.

In order to carry out its assignments, the Committee may hear any person it wishes.

#### **2. The Committee's duties:**

The Committee shall formulate proposals to the Board of Directors on:

- Remuneration of executive corporate officers (Chairman of the Board of Directors and/or CEO, Deputy CEO's) and any forms of benefit granted to them. In this respect, it shall prepare annual assessments of the persons concerned.
- Setting up plans for share subscription or purchase options and the handing out of restricted shares as well as the value of handing out any options or shares to executive corporate officers.

The Committee shall formulate projects on proposals made by General Management on:

- Remuneration for members of the Executive Committee.
- Principles and conditions for determining the remuneration of Group executives.

The Committee shall be informed of any nomination of members of the Executive Committee and of main Group executives.

It shall examine succession plans for key Group executives.

The Committee shall prepare the Board of Directors' deliberations on (i) employee shareholder development, (ii) reviews made by the Board on social and financial impacts of major re-organization projects and major human resource policies, (iii) monitoring management of risks related to human resources and (iv) examining the different aspects of the Group "CSR" policy.

## **Article 12**

### **Strategy Committee**

#### **1. Membership and operation of the Strategy Committee**

The Committee shall be comprised of at least three members.

The Director of Group Strategy will be secretary to the Strategy Committee.

The Committee shall meet at the initiative of its Chairman. The agenda shall be drawn up by the Chairman of the Committee after consultation with the Chairman serving as CEO. The Committee shall meet at least three times a year.

In order to carry out its assignments, the Committee may hear any person it wishes and call upon the Strategy Director.

#### **2. The Strategy Committee's duties:**

The Committee will prepare the Board of Directors' deliberations on strategic matters. For this purpose:

- It shall give its opinion to the Board of Directors on the major acquisition, joint-venture and disposal projects that are presented to the Board for authorization.
- It shall look in detail at certain strategic matters on behalf of the Board.
- It shall give the Board its view and understanding of major tendencies that are relevant to Group business activities.

## **ARTICLE 13**

### **Perimeter of internal regulations:**

The present internal regulations have been unanimously approved by the Board of Directors. A purely internal act, their objective is to complete the articles of association by stipulating the main conditions of organization and operation of the Board of Directors. Their purpose is not to replace the articles of association. They may not be relied upon by Shareholders or third parties for use against members of the Board of Directors, the Company, or any Company in the Schneider Electric Group. They may be modified at any time solely by deliberation of the Board of Directors.

## Charter of the Vice-Chairman - Lead Independent Director

1. The Board of Directors may appoint a Vice-Chairman. He shall be appointed for a period that may not be any longer than his term of office as a Director. He is eligible for re-election. He may be removed from office by the Board of Directors at any time.
2. The Vice-Chairman shall preside over Board meetings in the absence of the Chairman.  
The Vice-Chairman shall be called upon to replace the Chairman of the Board of Directors in the event of any temporary inability of the latter to fulfill his functions or his death. In the event of the Chairman's inability to fulfill his functions, he will be replaced by the Vice-Chairman as long as his inability may last and, in the case of his death, until the election of a new Chairman.
3. In exception to 1 above, and in compliance with Article 12.2 of the articles of association, the appointment of a Vice-Chairman is compulsory if the functions of Chairman and CEO are exercised by the same person. In this case, the Vice-Chairman also exercises the function of lead independent director. In this respect:
  - the Vice-Chairman is kept informed of major events in Group life in the context of regular contacts and monthly meetings with the Chairman and CEO,
  - the Vice-Chairman is consulted by the Chairman and CEO on the agenda and the sequence of events for every Board meeting as well as on the schedule for Board meetings,
  - the Vice-Chairman may convene executive sessions with non-executive members of the Board of Directors, over which he will preside. An executive session shall be included on the agenda for every Board meeting. It is the vice-Chairman's responsibility to decide whether it should be held or not. It is therefore held as decided by the Vice-Chairman, either directly before or after each Board meeting. In addition, the Vice-Chairman may convene an executive session between two Board meetings. Any director may request the Vice-Chairman to convene an executive session,
  - the Vice-Chairman shall promptly report to the Chairman and CEO on the conclusions to executive sessions,
  - the Vice-Chairman shall draw the attention of the Chairman of the Board of Directors to any possible conflicts of interest that he may have identified,
  - the Vice-Chairman is Chairman of the Governance Committee,
  - like any other member of the Board, the Vice-Chairman may attend any meetings of Committees of which he is not a member,
  - in order to complement his knowledge, the Vice-Chairman may meet the Group's leading managers and make site visits,
  - the Vice-Chairman carries out annual and biennial assessments of the Board of Directors and, in this context, assess the real contribution made by every member of the Board to its deliberations,
  - the Vice-Chairman shall report on his action at Shareholders' Annual General Meetings,
  - the Vice-Chairman shall meet any shareholders who so wish and inform the Board of their preoccupations on questions of governance.
4. The Vice-Chairman-Lead Independent Director must be an independent member of the Board in respect of criteria published by the company.  
As a transitional measure, Article 12.2 of the articles of association provides for the first Vice-Chairman & lead director to be the former Chairman of the Supervisory Board for his remaining term of office.



### > 3. Supervisory Board comments on the report of the Management Board and Financial Statements pursuant to article L.225-68 of the French Commercial Code

Your Supervisory Board would like to thank the teams and especially the Management Board, which, in a complex economic environment, have made 2012 a year of consolidation and improved economic performance.

The Group's results for the financial year ended December 31, 2012 reflect:

- revenue of EUR24 billion, an increase of 7% over 2011;
- adjusted EBITA up 10% (EUR3.5 billion), a record high;
- adjusted EBITA operating margin at 14.7%, up 0.4 points;
- adjusted net income of more than EUR2 billion;
- record free cash flow of EUR2.1 billion;
- net earnings per share of EUR3.73, up 11%;
- a dividend proposal of EUR1.87 per share, an increase of 10%.

This performance illustrates the soundness of the strategy that has positioned Schneider Electric on the sustainable and growth markets in the area of energy efficiency while maintaining a balanced and diverse geographic exposure. It also illustrates the quality of the implementation of our strategies and how rigorously we are implementing the new "Connect" company program.

Your Supervisory Board also wishes to acknowledge the performance in the area of social and environmental responsibility. In one year, the Planet & Society Barometer, which measures the Group's commitments in this area based on 14 criteria, rose from 3 at 6.43, while the objective of the "Connect" program is to raise it to 8/10 by the end of 2014. The Supervisory Board is pleased that the performance of this indicator partially determines the variable portion of the remuneration of all Group managers and senior executives.

Your Supervisory Board has reflected extensively on the organization of corporate governance, following the decision by Mr. Henri Lachmann to resign as Chairman of the Supervisory Board.

At the initiative of Mr. Lachmann, it proposes that the governance be changed to establish a Board of Directors composed of the current members of the Supervisory Board and Mr. Jean-Pascal Tricoire, to whom it will transfer the functions of President and Chief Executive Officer. This choice is based on his performance as Chairman of the Management Board, his leadership and the high level of transparency he has shown *vis-à-vis* the Supervisory Board.

Your Supervisory Board asks you to adopt all of the resolutions proposed and/or approved by the Management Board that are subject to the approval of the Shareholders' Meeting.

## > 4. Auditors' special reports

*This is a free translation into English of the Statutory Auditors' special report on regulated agreements issued in French and it is provided solely for the convenience of English speaking users.*

*The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not.*

*This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

### Statutory Auditors' special report on regulated agreements

To the Shareholders,

In our capacity as Statutory Auditors of Schneider Electric SA, we present below our report on regulated agreements.

Our responsibility is to report to you, based on the information provided, on the main terms and conditions of agreements that have been disclosed to us or that we would have discovered at the time of our work, without commenting on their relevance or substance or researching the existence of other agreements. Under the provisions of article R. 225-58 of the French Commercial Code, it is the responsibility of shareholders to determine whether the agreements are appropriate and should be approved.

Furthermore, it is our responsibility, as appropriate, to inform you of the information set forth in the provisions of article R. 225-58 of the French Commercial Code pertaining to the signing during the past year of agreements already approved by the Shareholders at the Shareholders' Meeting.

We carried out our work on the financial statements relating to this mission in accordance with the professional standards of the French Statutory Auditors' Association. Those standards require that we perform procedures to verify that the information given to us agrees with the underlying documents.

#### Agreements submitted to the shareholders for approval at the Shareholders' Meeting

##### Agreements and obligations authorized during the financial year

Pursuant to the provisions of article L. 225-88 of the French Commercial Code, we have been advised of the following commitments and obligations, which were subject to advance authorization by your Supervisory Board.

##### Amendment to the outsourcing contract for the new top-hat pension plan with defined benefits for the Group's French senior executives (new article 39)

Persons concerned: Mr. Jean-Pascal Tricoire (Chairman of the Management Board) and Mr. Emmanuel Babeau (Member of the Management Board)

Your Supervisory Board, in its meeting of February 21, 2012, authorized the amendment of the supplementary defined benefits pension plan for Group senior executives subject to French social

security plans (article 39), the benefits of the amended plan for members of the Management Board and the signing by your company of an outsourcing agreement for the new plan under the terms of the regulated agreements and obligations. This agreement, presented in the second part of our report, was approved by the Shareholders at the Shareholders' Meeting of May 3, 2012.

As an addition to this agreement, your Supervisory Board, at its meeting of May 3, 2012, authorized the signing of an amendment to this outsourcing contract to set April 30, 2012 as the date of entry into force of the outsourcing contract of the new article 39 plan, which was originally set for July 1, 2012. The purpose of this change was to align the date of entry into force of the outsourcing contract of the new article 39 plan with that of the former article 39 plans.

##### Outsourcing contract for the defined benefits pension plan for the Group's French senior executives (former article 39)

Person concerned: Mr. Lachmann (Chairman of the Supervisory Board)

Your Supervisory Board, in its meeting of May 3, 2012, authorized the signature on the same day of an insurance contract for defined benefit company pensions (Article L. 137-11 of the Social Security Code) with AXA France Vie in order to outsource commitments under former article 39 plans:

- the 1995 senior executive plan (36 retirees, including the Chairman of the Supervisory Board, and 10 employees, including the Management Board members);
- the former SPEP plan (1 retiree);
- the former CAVICA plan (6 retirees).

The principle of this outsourcing was authorized by the Supervisory Board of December 15, 2010.

The nature of the contract's guarantees and the implementation and operation methods were defined in accordance with legislative and regulatory provisions. The contract was agreed with normal insurance contract conditions, under which execution depends on duration of human life.

It aims to guarantee payment of annuity arrears due under the rules of the different plans for contracting companies. It takes effect on April 30, 2012 and can be terminated each year by the parties provided notice is given before October 31 that will take effect on December 31 of the same year.



Premiums paid by contracting companies under contracts concluded with AXA France Vie are assigned to a collective pension fund of the contracting companies to cover all or part of their commitments under these plans.

The insurer is opening in its books an Annuities Guarantee Fund in which the mathematical reserves comprise the income guaranteed under the two contracts. The amount of the premiums for pre-financing of possible liabilities related to past services is determined by considering the periodic actuarial analyses. The financing of benefits for which payment is transferred to the insurer is calculated by the latter, on the basis of the regulatory tables.

#### **Amendment to the status of Mr. Jean-Pascal Tricoire**

Person concerned: Mr. Jean-Pascal Tricoire (Chairman of the Management Board)

Pursuant to the TEPA Act, the Supervisory Board of 21 February 2012 authorized the commitments and agreements in favor of Mr. Jean-Pascal Tricoire which are presented in the second part of our report. All of these conventions and agreements were approved by your Shareholders' Meeting of May 3, 2012.

Your Supervisory Board, in its meeting of May 3, 2012, decided to provide that involuntary severance pay will not be due if the dismissal or requested resignation of Mr. Tricoire is motivated by serious or gross misconduct according to the criteria adopted by jurisprudence.

This change of the status of Mr. Jean-Pascal Tricoire is subject to approval by the Shareholders' Meeting for approval of the financial statements for the fiscal year ended on December 31, 2012.

#### **Agreements already submitted to the shareholders for approval at the Shareholders' Meeting**

Pursuant to the provisions of Article R. 225-57 of the French Commercial Code, we were informed of the status of the following agreements already approved by the shareholders at the Shareholders' Meeting in prior years, which were continued during the past financial year:

#### **Changes to the top-hat pension plan with defined benefits for the Group's French senior executives (authorized by the Supervisory Board on February 21, 2012 and approved by the General Assembly on May 3, 2012)**

Persons concerned: Jean-Pascal Tricoire (Chairman of the Management Board) and Emmanuel Babeau (Member of the Management Board)

Your Supervisory Board, in its meeting of February 21, 2012, authorized the change to the top-hat pension plan with defined benefits for the Group's senior executives subject to French social

security plans (article 39), the benefits of the modified plan for members of the Board and the signing by your company of an outsourcing agreement for the new plan under the terms of the regulated agreements and obligations. The members of the Board have a direct or indirect interest.

The modification aims to make this plan compliant with the AFEF/MEDEF Business Governance Code by making provision for linking acquisition of rights to length of service in the company. In order to conform to these recommendations, it has been decided:

- to close the current article 39 plan to all new entrants;
- to implement a new article 39 plan open to members of the Executive Committee and the Management Board, which provides for the progressive vesting of rights according to seniority in the Group and the Executive Committee. Full rights are gained after 15 years of service for a new entrant to the plan, except for the Group service condition. Conditional rights under the new plan are deducted from the current article 39 plan maintained for its current beneficiaries.

This new plan is contingent upon completing a career in the company with the flexibility introduced by Social Security in 2004. A conditional assurance income is thus maintained in the event of dismissal or redundancy after 55 years of age without restarting work or for 2<sup>nd</sup> or 3<sup>rd</sup> category disability as defined by Social Security without restarting work.

In other cases, the new plan includes the provisions of the current plan, notably:

- limiting the top-hat pension to 25% of the Reference Salary (60% of the difference between the average remuneration for the last 3 years and the total annuities paid from external pension plans), taking into account the pension paid for the article 83 plans implemented by the Group (unchanged from current plan),
  - the right to a widow/widower's pension for the surviving partner,
  - a spouse's pension if a director dies before retirement age is limited to rights acquired by the date of death,
  - pension supplement paid to a director from the retirement date after disability occurring during work activities.
- outsourcing of the new article 39 plan: this outsourcing is mandatory. To this effect, an insurance contract for defined benefit company pensions (Article L. 137-11 of the Social Security Code) was signed on February 23, 2012 by Schneider Electric SA and Schneider Electric Industries SAS with AXA France Vie.

The nature of the contract's guarantees and the implementation and operation methods were defined in accordance with legislative and regulatory provisions. The contract was agreed with normal insurance contract conditions, under which implementation depends on duration of human life.

Its purpose is to guarantee the payment of the annuity installments due as payments under the new plan by contracting companies.

It may be terminated annually by the parties, subject to giving notice of its decision prior to October 31 for it to take effect on December 31 of the same year.

The amount of insurance premiums will be based on the results of periodic actuarial valuations on the respective commitments of contracting companies.

The guarantees granted by the insurer were entered into on normal terms and conditions.

**Provisions defining the new status of Jean-Pascal Tricoire (authorized by the Supervisory Board on February 21, 2012 and approved by the Shareholders' Meeting of May 3, 2012)**

Because of the abandonment of his employment contract with Schneider Electric Industries SAS on May 3, 2009, Mr. Jean-Pascal Tricoire has a redesigned status which provides that Mr. Jean-Pascal Tricoire:

**1°)** shall keep the benefits from the supplementary health, incapacity, disability and death cover available to the Group's French senior executives. The contingency and supplementary cover compensation are nevertheless now subject to performance criteria. Compensation is subject to one of the following two criteria being present: positive average net profit of the five years preceding the event, or positive average free cash flow for the five years preceding the event.

**2°)** shall benefit from termination benefits due in the event of leaving his corporate appointment, now capped at twice the mathematical average of the effective annual remuneration for the last three years (hereinafter "Maximum Amount") taking into account the non-compete compensation listed below and subject to performance criteria.

The right to compensation is available in the following cases:

- dismissal, non-renewal or resignation as a member or as Chairman of the Management Board in the 12 months following a material change in Schneider Electric's shareholder structure that could change the membership of the Supervisory Board;
- dismissal, non-renewal or resignation as a member or as Chairman of the Management Board in the event of a reorientation of the strategy pursued and promoted by him until that time, whether or not in connection with a change in shareholder structure as described above;
- dismissal, non-renewal or resignation as a member or as Chairman of the Management Board when the mathematical average of the rate of achievement of performance objectives used to calculate his variable bonus was 50% or higher in the four full financial years preceding his departure (or, if he has been a member and Chairman of the Management Board for less than four years, in the number of full financial years since his appointment).

Compensation will depend on the mathematical average of the rate of achievement of Group performance objectives used to determine the variable portion of Mr. Tricoire's compensation for the three financial years preceding the date of the Board Meeting at which the decision is made.

If the mathematical average of Group performance objectives rate over the past three financial years is:

- less than 50%: no compensation will be paid;
- equal to 50%: 75% of the Maximum Amount will be paid;
- equal to 100%: 100% of the Maximum Amount will be paid;
- between 50% and 100%: compensation is calculated on a straight-line basis at a rate of 75% to 100% of the Maximum Amount.

**3°)** retains forthwith, subject to performance criteria, the benefit of his stock options, stock grants and performance shares granted to him or that will be granted to him, should he leave the Company, the performance criterion depends on the mathematical average of the rate of achievement of Group performance objectives, used to determine Mr. Jean-Pascal Tricoire's bonus for the three completed financial years preceding his departure, will be equal to at least 50% of the target.

In addition, Mr. Jean-Pascal Tricoire shall continue to enjoy:

- the collective pension plan applicable to employees of Schneider Electric SA and Schneider Electric Industries SAS, covering sickness, disability and death.
- the modified top-hat pension plan for Schneider Group senior executives as authorized by the Supervisory Board on February 21, 2012.

Furthermore, he is bound by his non-compete agreement should he leave the company, unless a mutually agreeable arrangement is found; the agreement is for a period of one year and is remunerated (60% of target remuneration): fixed + variable).

**The benefit of top-hat pension plans of the Group's French executives granted Mr. Emmanuel Babeau**

The Supervisory Board, at its meetings held on April 23, 2009 and December 17, 2009, authorized Mr. Emmanuel Babeau to benefit from the top-hat pension plan for Schneider Electric senior executives, as he is entitled under his service contract with Schneider Electric Industries S.A.S. In the event that Mr. Babeau is still in office at the date of his retirement, these plans (defined contribution plan, article 83, and defined benefit plan, article 39) will ensure him a pension equal to 25% of his average salaries over the last three years. Nevertheless, in the event that Mr. Babeau leaves the Group before his retirement, the contributions related to article 83 would be his. These contributions represent a capital constituting a guaranteed income, capital which increases by twenty-two thousand euros per year.

Signed at Paris-La Défense and Courbevoie, March 20, 2013

The Statutory Auditors

**ERNST & YOUNG et Autres**

Yvon Salaün

**MAZARS**

David Chaudat

## Report of the Statutory Auditors on the issuance of shares or securities giving access to capital reserved for a category of beneficiaries

To the Shareholders,

In our capacity as Statutory Auditors of your Company and in fulfillment of the task provided for in Articles L. 228-92 and 225-135 *et seq.* of the French Commercial Code, we hereby present our report on the proposed delegation to the Board of Directors of the authority to decide on an issue of ordinary shares or of securities giving access to the share capital of the Company, with cancellation of the preferential subscription right reserved for: (i) employees and corporate officers of the Schneider Electric Group related to the Company under the terms of Article L.225-180 of the French Commercial Code and Article L. 3344-1 of the Labor Code and having their registered office outside France; (ii) and/or UCITS or other collective investment entities, whether or not they are bodies corporate, with employee shareholdings invested in the securities of the company whose unit holders or shareholders are the persons mentioned in point (i) of this paragraph; (iii) and/or any bank, or subsidiary of such an institution, acting at the request of the Company for the purposes of establishing a shareholding or savings plan for the benefit of the persons referred to in point (i) of this paragraph, upon which you are called to vote.

The maximum nominal amount of the increase in capital that may result from this issue is 1% of the share capital on the date that this act of delegation is implemented, it being specified that this amount shall be deducted from the ceiling of 2% referred to in the 18<sup>th</sup> resolution of this Shareholders' Meeting.

On the basis of its report, your Management Board proposes to delegate to the Board of Directors, with the right of sub-delegation, for a period of 18 months from the date of this shareholders' meeting, the authority to decide on an issue and to cancel your preferential subscription rights to the equity securities to be issued. It shall, if necessary, be responsible for determining the definitive issuance terms and conditions of this transaction. This delegation may only be used from August 1, 2013.

The delegation which would thus be granted to the Board of Directors shall inure to the benefit of the Management Board in the event of rejection of the eighth resolution of this shareholders'

meeting concerning changes in the way your company is administered and managed.

It is the responsibility of the Management Board to prepare a report in accordance with Articles R. 225-113 *et seq.* of the French Commercial Code. It is our responsibility to give our opinion on the accuracy of the numerical information taken from the accounts, on the proposed cancellation of preferential subscription rights, and on certain other information concerning the issue presented in this report.

We have performed the procedures we deemed necessary in accordance with the professional guidelines of the *Compagnie nationale des commissaires aux comptes* ('CNCC' or French Institute of Statutory Auditors) relevant to our task. These procedures consisted in verifying the contents of the Management Board's report on this transaction and the method of determining the issue price of the equity securities to be issued.

Subject to further examination of the terms and conditions of the issue which may be decided, we have no observation to make on the method of determining the issue price of the equity securities to be issued, set out in the Management Board's report.

Since the definitive terms and conditions on which the issue shall be made have not been set, we do not express an opinion on them nor, in consequence, on the proposed cancellation of the preferential subscription rights.

In accordance with Article R. 225-116 of the French Commercial Code, we shall issue a supplementary report, if any, when your Board of Directors makes use of this delegation.

Signed at Paris-La Défense and at Courbevoie, on March 20, 2013

The Statutory Auditors

ERNST & YOUNG *et Autres*

Yvon Salaün

Mazars

David Chaudat

## Report of the Statutory Auditors on the authorization to allocate bonus shares, existing or to be issued

To the Shareholders,

In our capacity as Statutory Auditors of your Company and in fulfillment of the task provided for in Article L. 225-197-1 of the French Commercial Code, we hereby present our report on the proposed authorization of the allocation of bonus shares, existing or to be issued, to corporate officers and employees of the Company and its related companies within the meaning of Article L. 225-197-2 of the French Commercial Code, upon which you are called to vote.

The total number of shares that may thus be awarded may not represent more than 1.8% of the capital of the Company at the date

of this Shareholders' Meeting, it being specified that the number of shares that may be granted annually to executive corporate officers of the Company by virtue of this authorization may not exceed 0.03% of the capital of the Company at the date of this Shareholders' Meeting.

On the basis of its report, your Management Board proposes to authorize the Board of Directors, for a period of 38 months from the date of this Shareholders' Meeting, to allocate bonus shares, existing or to be issued.





The authorization that would thus be granted to the Board of Directors shall inure to the benefit of the Management Board, in the event of rejection of the eighth resolution of this Shareholders' Meeting concerning changes in the way the company is administered and managed.

It is the Management Board's responsibility to prepare a report on these transactions with which it wishes the Board of Directors to proceed. It is our responsibility to give you our comments, if we have any, on the information that you have thus been given about the proposed transactions.

We have performed the procedures we deemed necessary in accordance with the professional guidelines of the *Compagnie nationale des commissaires aux comptes* ('CNCC' or French

Institute of Statutory Auditors) relevant to our task. These procedures consisted, in particular, in verifying that the methods planned and set out in the Management Board's report comply with the provisions of the law.

We have no comments to make on the information set out in the Management Board's report on the proposed authorization of the allocation of bonus shares.

Signed at Paris-La Défense and at Courbevoie, on March 20, 2013

The Statutory Auditors

**ERNST & YOUNG et Autres**

Yvon Salaün

**Mazars**

David Chaudat

## **Report of the Statutory Auditors on the authorization to allocate options to subscribe for or purchase shares**

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To the Shareholders,

In our capacity as Statutory Auditors of your Company and in fulfilment of the task provided for in Articles L. 225-177 and R.225-144 of the French Commercial Code we hereby present our report on the authorization to allocate options to subscribe for or purchase shares to the corporate officers and employees of the Company and its related companies within the meaning of Article L. 225-180 of the French Commercial Code, upon which you are called to vote.

The total number of options that may thus be awarded by virtue of this authorization may not give the right to subscribe for or purchase a number of shares in excess of 0.5% of the capital at the date of this Shareholders' Meeting, it being specified that allocations to executive corporate officers of the Company may not exceed each year 0.03% of the capital at the date of this Shareholders' Meeting.

On the basis of its report, your Management Board proposes to authorize the Board of Directors, for a period of 38 months from the date of this Shareholders' Meeting, to allocate options to subscribe for or purchase shares.

The authorization that would thus be granted to the Board of Directors shall inure to the benefit of the Management Board, in the event of rejection of the eighth resolution of this shareholders' meeting concerning changes in the way your company is administered and managed.

It is the Management Board's responsibility to prepare a report on the reasons for granting options to subscribe for or purchase shares as well as on the methods proposed for setting the subscription or purchase price. It is our responsibility to give you our opinion on the methods proposed for setting the subscription or purchase price of the shares.

We have performed the procedures we deemed necessary in accordance with the professional guidelines of the *Compagnie nationale des commissaires aux comptes* ('CNCC' or French Institute of Statutory Auditors) relevant to our task. These procedures consisted, in particular, in verifying that the methods proposed for setting the subscription or purchase price are accurately set out in the Management Board's report and that they comply with legal and regulatory provisions.

We have no comment to make on the methods proposed for setting the subscription or purchase price of the shares.

Signed at Paris-La Défense and at Courbevoie, on March 20, 2013

The Statutory Auditors

**ERNST & YOUNG et Autres**

Yvon Salaün

**Mazars**

David Chaudat

## Report of the Statutory Auditors on the reduction of capital

To the Shareholders,

In our capacity as Statutory Auditors of your Company and in fulfillment of the task provided for in Article L. 225-209 of the French Commercial Code in the event of a capital reduction by cancellation of acquired shares, we have prepared this report in order to inform you of our opinion on the causes for and the terms and conditions of the proposed capital reduction.

Your Management Board proposes to delegate to the Board of Directors, for a period of 24 months from the date of this Shareholders' Meeting, all powers to cancel, up to 10% of its capital per 24-month period, the shares purchased under the implementation of an authorization for purchase by your Company of its own shares under the provisions of the aforesaid Article.

The delegation that would thus be granted to the Board of Directors shall inure to the benefit of the Management Board, in the event of rejection of the eighth resolution of this Shareholders' Meeting concerning the changes in the way the company is administered and managed.

We have performed the procedures we deemed necessary in accordance with the professional guidelines of the *Compagnie nationale des commissaires aux comptes* ('CNCC' or French Institute of Statutory Auditors) relevant to our task. These procedures consisted in examining whether the causes for and the terms and conditions of the proposed capital reduction, which is not likely adversely to affect the equality of shareholders, are in order.

We have no comment to make on the causes for and the terms and conditions of the proposed capital reduction.

Signed at Paris-La Défense and at Courbevoie, on March 20, 2013

The Statutory Auditors

**ERNST & YOUNG et Autres**

Yvon Salaün

**Mazars**

David Chaudat

## Report of the Statutory Auditors on the issuance of shares or securities giving access to capital reserved for members of the Company Savings Plan

To the Shareholders,

In our capacity as Statutory Auditors of your Company and in fulfillment of the task provided for by Articles L.228-92 and L.225-135 *et seq.* of the French Commercial Code, we hereby present our report on the proposed delegation to the Board of Directors of the authority to decide on an issue of ordinary shares or securities giving access to the share capital of the Company, with cancellation of preferential subscription rights, reserved for members of the Company's Company Savings Plan and of the French or foreign companies related to the Company in accordance with Article L.225-180 of the French Commercial Code, upon which you are called to vote.

The maximum nominal amount of the increase in capital that may result from this issue is 2% of the share capital on the date of implementation of this act of delegation, it being specified that this amount shall be deducted from the ceilings referred to in the 10<sup>th</sup> and 12<sup>th</sup> resolutions of this Shareholders' Meeting.

This issue is submitted for your approval in accordance with the provisions of Articles L. 225-129-6 of the French Commercial Code and L. 3332-18 of the French Labor Code.

On the basis of its report, your Management Board proposes to delegate to the Board of Directors, with the right of sub-delegation, for a period of 26 months from the date of this shareholders' meeting, the authority to decide on an issue and to cancel your preferential subscription rights to the shares to be issued. If necessary, it will be responsible for determining the definitive terms and conditions of this transaction. This delegation may only be used from June 21, 2013.

The delegation that would thus be granted to the Board of Directors shall inure to the benefit of the Management Board in the event of rejection of the eighth resolution of this shareholders' meeting concerning changes in the way the company is administered and

managed. It is the responsibility of the Management Board to prepare a report in accordance with Articles R. 225-113 *et seq.* of the French Commercial Code. It is our responsibility to give our opinion on the accuracy of the numerical information taken from the accounts, on the proposed cancellation of preferential subscription rights, and on certain other information concerning the issue, presented in this report.

We have performed the procedures we deemed necessary in accordance with the professional guidelines of the *Compagnie nationale des commissaires aux comptes* ('CNCC' or French Institute of Statutory Auditors) relevant to our task. These procedures consisted in verifying the contents of the Management Board's report on this transaction and the method of determining the issue price of equity securities to be issued.

Subject to further examination of the terms and conditions of the issue which may be decided, we have no observation to make on the method of determining the issue price of the equity securities to be issued, set out in the Management Board's report.

Since the definitive terms of the issue have not been set, we do not express an opinion on them and, consequently, on the proposed cancellation of the preferential subscription rights.

In accordance with Article R. 225-116 of the French Commercial Code, we shall issue a supplementary report, if any, when your Board of Directors makes use of this delegation.

Signed at Paris-La Défense and at Courbevoie, on March 20, 2013

The Statutory Auditors

**ERNST & YOUNG et Autres**

Yvon Salaün

**Mazars**

David Chaudat





## Report of the Statutory Auditors on the issuance of shares or various securities with maintenance or cancellation of preferential subscription rights

To the Shareholders,

In our capacity as Statutory Auditors of your Company and in fulfillment of the task provided for in Articles L. 228-92 and L. 225-135 *et seq.* of the French Commercial Code, we hereby present our report on the proposals for delegation to the Board of Directors of various issues of ordinary shares or securities upon which you are called to vote.

The delegations that would thus be granted to the Board of Directors shall inure to the benefit of the Management Board in the event of rejection of the eighth resolution of this Shareholders' Meeting concerning changes in the way the company is administered and managed.

On the basis of its report, your Management Board proposes:

- To delegate to the Board of Directors, with the right of sub-delegation, for a period of 26 months from the date of this shareholders' meeting, the authority to decide on the following transactions and to set the definitive terms and conditions for these issues and proposes, where relevant, cancelling your preferential subscription right:
  - An issue of ordinary shares or securities giving access to the ordinary shares of the Company or, in accordance with Article L 228-93 of the French Commercial Code, of any company in which it owns directly or indirectly more than half the capital, or giving the right to allocate debt securities, with maintenance of preferential subscription rights (10<sup>th</sup> resolution);
  - An issue of ordinary shares or securities giving access to the ordinary shares of the Company or, in accordance with Article L 228-93 of the French Commercial Code, of any company in which it owns directly or indirectly more than half the capital, or giving the right to allocate debt securities, with cancellation of preferential subscription rights by means of a public offering (12<sup>th</sup> resolution); it being specified that these securities may be issued as payment for securities tendered to the Company in the context of a takeover bid for securities meeting the conditions laid down by Article L. 225-148 of the French Commercial code and that, moreover, the shares may be issued as a result of the issuance by the Company's subsidiaries of securities giving access to the Company's ordinary shares;
  - An issue of ordinary shares or securities giving access to the ordinary shares of the Company or, in accordance with Article L 228-93 of the French Commercial Code, of any company in which it owns directly or indirectly more than half the capital, or giving the right to allocate debt securities, with cancellation of preferential subscription rights by way of tenders referred to in Section II of Article L. 411-2 of the French Monetary and Financial Code (15<sup>th</sup> resolution);

- To authorize the Board of Directors, within the framework of the implementation of the delegation referred in the 15<sup>th</sup> resolution, to fix the issue price within the annual legal limit of 10% of share capital;
- To delegate to the Board of Directors, with the right of sub-delegation, for a period of 26 months from the date of this shareholders' meeting, the authority to determine the terms of an issue of ordinary shares or securities giving access to common shares, in order to remunerate contributions in kind granted to the Company in the form of shares or securities giving access to capital (14<sup>th</sup> resolution), within the limit of 9.9% of the share capital.

The total nominal amount of the increases in capital likely to be carried out immediately or in the future may not exceed EUR 800 million by virtue of the 10<sup>th</sup> resolution EUR 220 million by virtue of the 12<sup>th</sup> and 14<sup>th</sup> resolutions and EUR 110 million by virtue of the 15<sup>th</sup> resolution, it being specified that the limits for the 11<sup>th</sup>, 12<sup>th</sup>, 14<sup>th</sup>, 15<sup>th</sup> and 18<sup>th</sup> resolutions of the current Shareholders' Meeting and for the 22<sup>nd</sup> resolution of the Shareholders' Meeting of 21 April 2011 will be deducted from the total ceiling of EUR 800 million provided for in the 10<sup>th</sup> resolution.

The maximum nominal amount of debt securities that may be issued may not exceed EUR 3 billion for the 10<sup>th</sup>, 12<sup>th</sup> and 15<sup>th</sup> resolutions.

These ceilings reflect the additional number of shares to be created within the framework of the implementation of the delegations referred in the 10<sup>th</sup> and 12<sup>th</sup> resolutions, in accordance with Article L. 225-135-1 of the French Commercial Code, if you adopt the 13<sup>th</sup> resolution.

It is the responsibility of the Management Board to prepare a report in accordance with Articles R. 225-113 *et seq.* of the French Commercial Code. It is our responsibility to give our opinion on the accuracy of the numerical information taken from the accounts, on the proposed cancellation of preferential subscription rights, and on certain other information concerning these transactions, presented in this report.

We have performed the procedures we deemed necessary in accordance with the professional guidelines of the *Compagnie nationale des commissaires aux comptes* ('CNCC' or French Institute of Statutory Auditors) relevant to our task. These procedures consisted in verifying the contents of the Management Board's report concerning these transactions and the method of determining the issue price of equity securities to be issued.

Subject to further examination of the terms and conditions of the issues that may be decided, we have no observation to make on the method of determining the issue price of the equity securities to be issued, set out in the Management Board's report by virtue of the 12<sup>th</sup> and 15<sup>th</sup> resolutions.

Furthermore, since this report does not specify the method of determining the issue price of the equity securities to be issued as part of the implementation of the 10<sup>th</sup> and 14<sup>th</sup> resolutions, we are not able to give our opinion on the choice of computational elements of this issue price.

Since the definitive terms and conditions under which the issues may be made have not been set, we do not express an opinion on them nor, consequently, on the cancellation of the preferential subscription right which is proposed to you in the 12<sup>th</sup> and 15<sup>th</sup> resolutions.

In accordance with Article R. 225-116 of the French Commercial Code, we will issue a supplementary report, if necessary, on the

use of these delegations by the Board of Directors in the case of issues of securities giving access to capital or giving the right to the distribution of debt and in the case of issues with cancellation of preferential subscription rights.

Signed at Paris-La Défense and at Courbevoie, on March 20, 2013

The Statutory Auditors

**ERNST & YOUNG *et Autres***

Yvon Salaün

**Mazars**

David Chaudat



## > 5. Resolutions

### Ordinary Meeting

#### FIRST RESOLUTION (Approval of the 2012 Parent Company Financial Statements)

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, having heard the Report of the Management Board, noting the Supervisory Board's comments on the Management Board's Report and on the company financial statements of the Company and the Report of the Statutory Auditors, hereby resolve to approve the company financial statements for financial year 2012, as presented thereto, as well as the transactions reflected in such financial statements, or summarized in such Reports and showing net income of EUR225,115,148.73.

#### SECOND RESOLUTION (Approval of the 2012 Consolidated Financial Statements)

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, having heard the Report of the Management Board, noting the Supervisory Board's comments on the Management Board's Report and on the Company's Consolidated Financial Statements and the Report of the Statutory Auditors, hereby resolve to approve the Consolidated Financial Statements for financial year 2012, as presented thereto, as well as the transactions reflected in such financial statements, or summarized in such Reports.

#### THIRD RESOLUTION (Allocation of Net Income for the Financial Year and Declaration of a Dividend)

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, on the recommendation of the Management Board, hereby resolve to allocate distributable net income for financial year 2012, on the basis of 555,774,434 shares outstanding as of 31 January 2013, in light of:

- (i) retained earnings for the preceding financial year of EUR1,779,581,154.11;
- (ii) net income for the year of EUR225,115,148.73;
- (iii) less the statutory charge of EUR2,589,596.00 to reconstitute the legal reserve;

amounting to a total of EUR2,002,106,706.84, as follows:

Share dividend	EUR1,039,298,191.58
Retained earnings	EUR962,808,515.26
<b>TOTAL</b>	<b>EUR2,002,106,706.84</b>

Accordingly, the Shareholders hereby resolve to declare and pay a dividend of EUR1.87 per share for each share, nominal value EUR4 per share, for shares carrying dividend rights as of January 1, 2012.

The full dividend hereby declared shall be eligible for the 40% allowance for individuals domiciled in France, as set forth in Article 158-3 2° of the French Tax Code.

The Shareholders further resolve that the unpaid amounts reflecting the dividend attributable to shares held in the Company's treasury on the dividend payment date are to be allocated to retained earnings.

There is no income distributed or paid in connection with this Shareholders' Meeting other than the dividend declared above, whether or not eligible for the 40% allowance set forth in 2° of 3 of Article 158 of the French Tax Code.

Dividends paid by Schneider Electric SA in respect of the three most recent financial years are as follows:

	2009	2010	2011
Net dividend paid per share restated to reflect division of the par value by 2 <sup>(1)(2)</sup>	1.025	1.60	1.70

(1) The full dividend is eligible for a 40% allowance for individuals resident in France for tax purposes. The Company paid no dividends that were ineligible for the allowance.

(2) The stock split (division of the par value) took effect on September 2, 2011.

#### FOURTH RESOLUTION (Approval of Agreements with Related Parties in 2012 Relating to the Top Hat Defined Pension Plan Applicable to Members of the Management Board and to the Chairman of the Supervisory Board)

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, having heard the Report of the Management Board and the Special Report of the Statutory Auditors presented under and pursuant to Article L.225-88 of the Code of Commerce on the agreements described in Articles L.225-86, L.225-90-1 and L.225-79-1 of such Code, hereby resolve to approve the agreements presented in such Reports relating to the Top Hat Pension Plan with defined contributions applicable to members of the Management Board and to the Chairman of the Supervisory Board and take note of the information relating to the agreements and commitments undertaken during previous financial years and approved by the Shareholders at a General Meeting thereof relating to such Plans.

**FIFTH RESOLUTION****(Approval of an Amendment to the Status of Mr. Jean-Pascal Tricoire)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, having heard the Report of the Management Board and the Special Report of the Statutory Auditors presented under and pursuant to Articles L.225-88 and L.225-90-1 of the Code of Commerce hereby resolve to approve the Amendment to the indemnity plan for indemnities due to Mr. Jean-Pascal Tricoire should his responsibilities terminate and take note of the information relating to the agreements and commitments undertaken during the previous financial year relating to the status of Mr. Jean-Pascal Tricoire and approved by the Shareholders at a General Meeting thereof.

**SIXTH RESOLUTION****(Re-Election of a Member of the Supervisory Board: Mr. Gérard de La Martinière)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, having heard the Report of the Management Board, hereby resolve to re-elect Mr. Gérard de La Martinière for a term of 2 years, expiring at the close of the General Shareholders' Meeting held in 2016 to consider and act on the financial statements for the financial year ending December 31, 2015.

**SEVENTH RESOLUTION****(Authority Granted to the Management Board to Buy Back Shares of the Company – Maximum Purchase Price per Share EUR75)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, having heard the Report of the Management Board, hereby resolve to grant authority to the Management Board, in accordance with Article L.225-209 of the Code of Commerce and of European Regulation n° 2273/2003, dated December 22, 2003, to acquire shares of the Company for the purpose:

- of reducing the share capital within the maximum legal limit;
- meeting obligations relating to option plans or other plans involving awards of shares to employees or officers of the Company or a related or affiliated company;
- meeting obligations arising under, or in connection with, securities convertible into shares of the Company;
- undertaking acquisitions and external growth transactions (up to a limit of 5% of the share capital);
- stimulating the market for the Company's shares under and pursuant to a liquidity agreement filed with and recognized by the Autorité des marchés financiers; or
- implementing and carrying out any market practice that may be recognized by law or the *Autorité des marchés financiers*.

The maximum number of shares that may be acquired under and pursuant to this authority shall not exceed 10% of the aggregate number of shares constituting the share capital on the date of this Shareholders' Meeting (*i.e.*, for indicative purposes, 55,541,701 shares on the basis of the share capital as of December 31, 2012).

The maximum purchase price shall be EUR75 per share. If, however, all or part of the shares acquired on and under such terms and conditions should be used to grant stock options under and pursuant to Articles L.225-177 *et seq.* of the Code of Commerce, the sale price shall then be determined in accordance with legal provisions relating to options to purchase shares.

As a result of the aforesaid limits, the maximum aggregate amount of share buy-backs shall not exceed EUR4,165,627,605.

The acquisition, retention, sale, or transfer of such shares may be made on one or more occasions by any means, in the market, on a multilateral trading system (MTS/MTF), via a systemic internalizer, or by individual, person-to-person (over-the-counter) trade in compliance with applicable law and regulations. Such means and methods shall include acquisition or sale of blocks, use of any and all derivative financial instruments traded on a regulated exchange or directly between individuals (over-the-counter) and the implementation of option strategies (purchase and sale of put and call options and any combination thereof, to the exclusion of sale of put options), in compliance with applicable law and regulations.

The acquired shares may also be cancelled on the terms and conditions set forth in Articles L.225-204 and L.225-205 of the Code of Commerce and as provided in the Twentieth Resolution approved at this General Shareholders' Meeting.

The Management Board may adjust the prices set forth above in the event of capitalization of reserves or earnings giving rise either to an increase in the nominal amount, or par value, of the shares, or issuance and free awards of shares, in the event of a division of the nominal amount, or par, value, of the shares (stock split) or amalgamation of shares (reverse split), and, more generally, in the event of a transaction involving shareholders' equity, to account for the impact of the consequences of such transactions on the value, or price, of the shares, such price then to be adjusted by a multiplier coefficient equal to the relationship between the number of shares constituting the share capital prior to the transaction and such number following such transaction.

Any and all authority is hereby granted to the Management Board with power to grant delegations of authority to implement and carry out this Resolution.

The authority and delegations of authority hereby granted to the Management Board shall also inure to the benefit of the Board of Directors in the event of approval of the Eighth Resolution at this General Shareholders' Meeting relating to a change in the form of governance and management.

This authority shall be valid for a maximum of 18 months from the date of this General Shareholders' Meeting.



## Extraordinary Meeting

### EIGHTH RESOLUTION (Change in Form of Governance and Management of the Company by Adoption of a Board of Directors)

The Shareholders, acting on the basis of the quorum and majority requirements applicable to extraordinary shareholder meetings, having heard the Report of the Management Board, hereby resolve to adopt a form of governance for the Company, from and after this Shareholders' Meeting, as set forth in Articles L.225-17 to L.225-56 of the Code of Commerce that is structured around a Board of Directors and a Chief Executive Officer or Managing Director, rather than a Management Board and Supervisory Board.

As a result of the foregoing, the Shareholders hereby resolve to amend the Company's Articles of Association as follows, effective as of the end of this General Shareholders' Meeting:

- I.
  - (a) In Article 1, the first paragraph, shall read: "The Company shall be organized as a limited company with a Board of Directors";
  - (b) In Article 5, 2nd paragraph, the words "Supervisory Board" shall be replaced by "Board of Directors";
  - (c) In Article 5, 3rd paragraph, as well as in Article 10, the words "Management Board" shall be replaced by "Board of Directors".
- II. Articles 11 to 21 shall be replaced by the following (Articles 11 to 16 (new)).

#### "Article 11 Composition of the Board of Directors

1. *The Board of Directors has at least three and a maximum of eighteen members, who shall be individuals. In the event of a merger, this number may be increased within the limits and conditions prescribed by law.*

*Each Director must hold at least two hundred and fifty shares during the period he/she is in office.*

2. *Directors are appointed for four-year terms (renewable).*

*However, the first Directors who were members of the Company's Supervisory Board and who are elected at the Annual General Shareholders Meeting of April 25, 2013 will remain on the Board of Directors until the end of their term as members of the Company's Supervisory Board, with the exception of the first Director representing employee shareholders, who will be elected for a term of four years.*

*Furthermore, and as an exception to the provision above, the term given to a person aged 70 or more shall be for two years (renewable). In addition, when an election is made of a Director who will reach the age of 70 before the expiry of his/her term, the length thereof shall be limited to the period expiring at the close of the Ordinary General Shareholders Meeting called to approve the previous year's financial statements and held in the year during which such Director reaches the age of 70. The Shareholders may then re-elect such Directors for a two-year (renewable) term.*

*In the event that all of the members of the Board of Directors are to be re-elected, the term of half of the elected Directors, rounded down if necessary, shall expire at the end of two years, and the terms of the other members at the end of four years, based on a random draw to be conducted at a meeting of the Board of Directors.*

*The duties of the Directors shall cease at the close of the Ordinary General Shareholders Meeting called to approve the*

*previous year's financial statements and held in the year during which their terms expire.*

*No more than a third of the Directors may be aged 70 or more. In the event this limit should be exceeded, and in the absence of any voluntary resignation of a Director aged 70 or more, the oldest Directors shall be deemed to have resigned. However, should this limit be exceeded as a result of a decrease in the total number of Directors in office, the above requirement shall be waived in the event that, within three months, the departed members are replaced in such a manner as to enable the number of Directors in office aged 70 or more to be maintained.*

3. *The Board of Directors shall include one member representing employee shareholders, who shall be elected by the shareholders at a General Meeting according to a process determined by the Board of Directors.*

*If, however, employees of the company and of related companies (for purposes of Article L.225-180 of the Code of Commerce) hold over 3% of the company's share capital - as evidenced by the disclosures made in the annual report in application of Article L.225-102 of the Code of Commerce - such member shall be elected for a four-year term at the Ordinary General Shareholders Meeting voting on a motion tabled by the shareholders described in Article L.225-102 of the Code of Commerce on the basis set forth in paragraphs (i) to (iii) below.*

- (i) *The member of the Board of Directors representing employee shareholders shall take up his/her seat on the Board of Directors on the date of his/her election at the general meeting. Where applicable, he/she shall replace an incumbent member elected on the basis of the conditions set by the Board of Directors, whose term shall be considered as having expired. His/her term shall end at the close of the Ordinary General Shareholders Meeting called during the final year of the period for which he/she was elected. However, his/her term shall end ipso jure, and he/she will be considered as having resigned in the following cases:*

- *if he/she is no longer i) an employee of the company or a related company for purposes of Article L.225-180 of the Code of Commerce, ii) a shareholder or a holder of units in a mutual fund invested in the company's shares, iii) a member of the supervisory board of the mutual fund that proposed him or her as a candidate, or;*
- *where, at the end of a financial year, the annual report prepared by the Board of Directors under and pursuant to Article L.225-102 of the Code of Commerce discloses that the shares owned by the employees of the Company and of related companies for purposes of Article L.225-180 of the Code of Commerce amount to less than 3% of the Company's share capital.*

- (ii) *At a General Shareholders Meeting a vote shall be taken on the list of candidates presented by employee shareholders, selected as follows:*

- a) *When the voting rights attaching to shares held by the employees and former employees described in Article L.225-102 of the Code of Commerce are exercised by the supervisory boards of mutual funds invested in the Company's shares, each of these supervisory boards shall designate a maximum of two candidates, selected at their discretion. The supervisory boards shall be consulted by the Company's Chief Executive Officer, however, who may decide to consolidate one*

or more supervisory boards into a group responsible for designating, at its discretion, no more than a maximum of two candidates;

- b) When the voting rights attaching to shares held directly by employees or indirectly by employees or former employees through mutual funds invested in the Company's shares, are exercised directly by such employees or former employees, the candidates shall be nominated by a written ballot process initiated by the Chief Executive Officer. Only candidates endorsed by a group of employee shareholders together representing at least 5% of the shares held by employees who exercise their voting rights directly shall be eligible for election;
- c) Candidates for election to become a representative of employee shareholders on the Board of Directors must be employed under an employment contract that qualifies them to sit for a four-year term and must hold at least 25 Company shares or an equivalent number of units in a mutual fund invested in the Company's shares;
- d) The conditions and procedures for the nomination of candidates not specified by applicable laws and regulations and these Articles of Association shall be determined by the Chief Executive Officer, particularly as regards the timeline for the selection of candidates;
- e) The list of duly nominated candidates shall be drawn up by the Chief Executive Officer and appended to the notice for the General Meeting at which the member of the Board of Directors representing employee shareholders is to be elected.

- (iii) The candidate who receives the greatest number of votes cast by the shareholders present in person or by proxy at the general meeting shall be elected.

If the seat on the Board of Directors reserved for a representative of employee shareholders and filled as set forth above becomes vacant, his/her successor shall be chosen on the same basis no later than the next General Meeting, or if the next General Meeting is held within three months of the seat becoming vacant, then at such General Meeting. The Board of Directors may meet and validly transact business pending the appointment or election of a new member representing employee shareholders.

The selection process for the representative of employee shareholders entering his/her first term on the Board of Directors following a change in the administration and management of the Company, as decided at the Extraordinary General Meeting held April 25, 2013, shall be validly conducted by the implementation, prior to the change, of the procedure set forth in Article 11c) in the Company's Articles of Association, as in force for the members of the Supervisory Board.

#### Article 12 Chairman of the Board of Directors – Office of the Board of Directors

1. The Board of Directors shall appoint from its members a Chairman, for whom the term of office shall be determined within the limits of his/her term as a Director, and shall determine his/her compensation.

The Chairman of the Board of Directors shall be eligible for re-appointment. The age limit of the Chairman of the Board of Directors shall be 70 years; and the Chairman's responsibilities shall expire no later than at the end of the first Board meeting held after he/she reaches the age of 70 years.

The Chairman shall represent the Board of Directors. He/she shall organize and direct the work thereof and shall report thereon at the General Shareholders' Meeting. He/she shall ensure the smooth functioning of the Company management

and governance bodies and, in particular, shall ensure that the Directors are able to fulfill their responsibilities.

2. In addition, the Board of Directors, at its discretion, shall appoint from among its members a Vice-Chairman for whom the term of office shall be determined, within the limits of his/her term as a Board Member.

As an exception to the foregoing, the appointment of a Vice-Chairman shall be required, if the positions of Chairman and Chief Executive Officer of the Board of Directors are exercised by the same person. In such case, the Vice-Chairman shall also serve as Lead Director. The duties of the Lead Director shall be prescribed by the rules of procedure of the Board of Directors.

If the first meeting of the Board of Directors to be held after the Combined General Shareholders Meeting held April 25, 2013 chooses to appoint a Chief Executive Officer, the first Vice-Chairman, Lead Director will be the former Chairman of the Supervisory Board, for the remainder of his/her term.

3. The Board of Directors shall appoint a Secretary who may, but need not, be a Director or shareholder and who, along with the Chairman and Vice-Chairman, will form the Office of the Chairman. In the absence of the Secretary, the Board of Directors will appoint one of its members or a third party to act in his/her stead.
4. Meetings of the Board of Directors shall be chaired by the Chairman. In the event the Chairman is absent, Board meetings shall be chaired by the Vice-Chairman, or by default, a Director chosen by the Board at the beginning of the meeting.

#### Article 13 Powers and Duties of the Board of Directors

1. The Board of Directors shall determine the strategic orientation of the Company's business and oversee implementation thereof. It shall examine any and all matters related to the efficient operation of the business and make decisions about any and all issues concerning the Company, within the limits of the Company's purposes and except for those matters which, by law, are reserved to the shareholders acting at General Shareholders Meetings.

In dealing with third parties, the Company is bound by actions of the Board of Directors that fall outside Company's purposes, unless it can be shown that the third party knew that the action was ultra vires such purpose, or could not have been unaware thereof given the circumstances, provided, however, that mere publication of these Articles shall not be sufficient to constitute such proof.

2. The Board of Directors shall conduct any reviews or audits and verifications that it considers appropriate. The Board of Directors shall be provided with any and all necessary information to accomplish its tasks and may receive any documents that it deems necessary.
3. In addition, the Board of Directors may grant special authority to one or more Directors or to any other third party, who may, but need not, be a shareholder, to perform one or more specific tasks, with, or without, the power to delegate all or part of their authority to another person.
4. The Board of Directors may authorize the Chief Executive Officer to give payment conditions, guarantees or sureties on behalf of the Company, within a limit determined by the Board of Directors.
5. In addition to the specialized committee described in Article L.813-29 of the Code of Commerce, the Board of Directors may appoint from among its members one or more specialized committees, the membership and responsibilities of which it shall determine, which operate under the supervision of the





*Board of Directors. Each committee shall report on its work at the next Board meeting.*

6. *The Board of Directors shall adopt its own rules of procedure governing the operation thereof.*

#### **Article 14 Meetings of the Board of Directors**

1. *The Board of Directors shall meet as often as is required in the interest of the Company, and as often as it deems necessary, at the Registered Office or at any other location indicated in the notice of meeting.*
2. *Notice of meetings shall be given by the Chairman, or, in the absence thereof, by the Vice-Chairman by any means, even verbally, or at the request of the Chief Executive Officer, or of at least one third of the Directors, if the Board of Directors has not met for more than two (2) months.*
3. *Except as provided for in Article 15 of these Articles of Association, business shall be transacted on the basis of the quorum and majority requirements prescribed by law. In the event of a tie, the Chairman of the meeting shall have a deciding vote. An attendance list of the Directors signed by those who attending a meeting shall be kept.*

*The Board of Directors may meet by videoconference or by conference call in accordance with the regulations and the rules of procedure of the Board of Directors.*

4. *Minutes shall be prepared and copies or abstracts of the proceedings shall be issued and certified in accordance with law.*

#### **Article 15 General Management**

1. *The Company shall be managed either under the authority of the Chairman of the Board of Directors, who will then hold the title of Chairman and Chief Executive Officer, or of another individual, who may, but need not, be a member of the Board of Directors, appointed by the Board of Directors and having the title of Chief Executive Officer.*

*The choice between these two forms of General Management shall be made by the Board of Directors, provided that, which may validly act only if:*

- *The agenda of the meeting at which such action is to be taken is sent to all the Directors at least 15 days in advance of the meeting, provided that, as an exception to the foregoing, the choice between the two forms of General Management may be made at the first Board Meeting held after the Combined General Shareholders Meeting held on April 25, 2013 without conditions as to time limits;*
- *at least 2/3 of the Directors are present in person or by proxy.*

*Shareholders and third parties shall be given notice of such choice on the terms and conditions set forth in applicable law and regulations.*

*When general management of the Company is assumed by the Chairman of the Board of Directors, the provisions of these Articles of Association relating to the Chief Executive Officer shall apply to the Chairman. In this case, the appointment of a Vice-Chairman of the Board of Directors shall be mandatory, in accordance with Article 12.2 of these Articles of Association.*

2. *The Chief Executive Officer shall have the broadest authority to act in any and all circumstances in the name and on behalf of the Company, within the limits of the company purposes thereof and except for those matters which are reserved by law expressly to the shareholders at General Shareholders Meetings or to the Board of Directors.*

*The Chief Executive Officer shall represent the Company in its dealings with third parties. In dealing with third parties, the Company shall be bound by actions of the Chief Executive Officer that fall outside of its company purposes, unless it can be shown that the third party knew that the action was ultra vires such purposes or that it could not have been unaware thereof given the circumstances, provided that mere publication of these Articles shall not suffice to constitute such proof.*

*The Board of Directors shall determine the compensation of the Chief Executive Officer and his/her term of office, which may not exceed either the period with respect which the responsibilities of Chairman and of Chief Executive Officer are separated, or his/her term of office as Director, as the case may be.*

*The age limit of the Chief Executive Officer shall be 65 years old. His/her responsibilities will terminate no later than the end of the first Board meeting held after he/she reaches the age of 65.*

3. *On the Chief Executive Officer's recommendation, the Board of Directors may appoint one or more people to assist him/her having the title of Deputy Managing Director. In agreement with the Chief Executive Officer, the Board of Directors shall determine the extent and duration of the powers delegated to any Deputy Managing Directors. Deputy Managing Directors have the same powers as the Chief Executive Officer, with regard to third parties. The Board of Directors shall determine the compensation of the Deputy Managing Directors.*

*When the Chief Executive Officer is no longer able to exercise, or is prevented from exercising, his/her responsibilities, the Deputy Managing Directors shall remain in office and shall retain their authority, until a new Chief Executive Officer is appointed, unless otherwise decided by the Board.*

#### **Article 16 Compensation of Directors**

1. *As remuneration for their work, the Shareholders may grant Directors a fixed annual sum, as directors' fees, the amount of which shall be charged to the Company's general expenses.*
2. *The Board of Directors shall distribute such directors' fees among the Directors as it deems fit.*
3. *The Board of Directors may award exceptional remuneration for missions or mandates or tasks given to Directors. Should such be the case, the payments shall be charged to operating expenses and subject to the approval at an Ordinary General Shareholders' Meeting, in accordance with the procedure prescribed by law"*

#### **III.**

- (a) *Articles 22 to 28 shall be renumbered beginning with 18, as Articles 18 to 24.*

#### **(b)**

- (i) *Article 16 shall become Article 17;*

- (ii) *In Articles 17 and 19 (new) the words "Management Board" and/or "Supervisory Board" shall be replaced by "Board of Directors";*

- (iii) *In the last paragraph of Article 19 (new), the words "member of the Management Board" shall be deleted.*

- (c) *In Articles 20 and 22 (new), the words "Management Board" shall be replaced by "Board of Directors".*

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*The Shareholders hereby resolve that, the Board of Directors in office at the time of the General Shareholders' Meeting held to consider and act on the financial statements for the financial year ending on December 31, 2013, shall present and adopt the financial statements and annual report in respect of such financial year.*

The Shareholders hereby take due note that the responsibilities of the members of the Management Board and of the Supervisory Board shall terminate at the close of this General Shareholders' Meeting.

#### **NINTH RESOLUTION**

**(Further to the (i) 22nd Resolution approved at the Extraordinary General Shareholders' Meeting held on April 21, 2011 (Capital Increase Reserved to Employees Participating in a Company Investment Plan without the shareholders' preferential subscription right) and (ii) the 17th Resolution approved at the Extraordinary General Shareholders' Meeting held on May 3, 2012 (Capital Increase Reserved to a Class of Beneficiaries: in favor of employees of foreign companies of the Group, either directly or via entities acting on behalf thereof, without the shareholders' preferential subscription right) granted to the Management Board to inure to the benefit of the Board of Directors)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to extraordinary shareholder meetings, having heard the Report of the Management Board and subject to approval of the Eighth Resolution at this General Shareholders' Meeting, hereby take note that the grants of approvals and authorizations and delegations of authority heretofore made or granted to the Management Board under and pursuant to the resolutions described below shall inure to the benefit of the Board of Directors and shall be repeated and reiterated to the extent required for the benefit thereof for the time remaining that they have to run:

- Twenty-Second Resolution approved at the Extraordinary General Shareholders' Meeting held on April 21, 2011, valid for 26 months, expiring on June 20, 2013 (Capital increase reserved to employees participating in a Company Investment Plan, without the shareholders' preferential subscription right);
- Seventeenth Resolution approved at the Extraordinary General Shareholders' Meeting held on May 3, 2012, valid for 18 months, expiring on November 2, 2013 (Capital increase reserved to a class of beneficiaries: in favor of employees of foreign companies of the Group, either directly, or via entities acting on behalf thereof, without the shareholders' preferential subscription right).

#### **TENTH RESOLUTION**

**(Authority to the Board of Directors (i) to increase the share capital by an amount up to EUR800 million of nominal, or paid-in, capital by issuing ordinary shares or any securities carrying the right to acquire shares, with the shareholders' preferential subscription right, or (ii) to issue securities providing for the attribution of debt securities, with the shareholders' preferential subscription right)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to extraordinary shareholder meetings, having heard the Report of the Management Board and the Special Report of the Statutory Auditors and in accordance with Articles L.225-129 to L.225-129-6, L.225-132, L.225-134, L.228-91 to L.228-93 of the Code of Commerce:

- hereby resolve to authorize the Board of Directors, with the power to grant subdelegations of authority, to undertake (i) one or more capital increases by issuing, in the proportions and at the times it may deem appropriate, in France and/or outside France, ordinary shares of the Company and any and all other securities issued with, or without, consideration or carrying the right by any and all means, immediately and/or in the future, to acquire ordinary shares of the Company or of a company of which it owns, directly or indirectly, more than half the share capital, such securities to be denominated in Euros, or in any other currency or unit of account fixed by reference to several currencies, or (ii) by issuing, on the same terms and conditions, securities providing for the attribution of debt securities subject to Articles L.228-91 *et seq.* of the Code of Commerce; provided, however, that (a) the subscription for shares and other securities may be made either for cash, or by offset against receivables or claims and (b) the shares to be issued shall give rise to the same rights as previously-issued shares, subject to the effective date thereof;
- hereby resolve that the aggregate amount of the capital increases that may be undertaken immediately and/or in the future on the basis of this Resolution shall not exceed EUR800 million in nominal amount (or paid-in capital) (i.e., for illustrative purposes, 36% of the share capital as of December 31, 2012), an amount to which shall be added the additional amount of shares to be issued, as the case may be, to protect the rights of holders of securities carrying the right to acquire shares of the Company, options to subscribe for or purchase shares, or free shares or performance shares, in accordance with law and contractual provisions providing for other cases of adjustment. The capital increases undertaken on the basis of the Eleventh, Twelfth, Thirteenth, Fifteenth, and Eighteenth Resolutions approved at this General Shareholders' Meeting, as well as those undertaken, if any, on the basis of the Twenty-Second Resolution approved at the Extraordinary General Shareholders' Meeting held on April 21, 2011, shall be charged against such amount, without taking into consideration the adjustments necessary to protect the rights of holders of securities carrying the right to acquire shares of the Company, options to subscribe for or purchase shares, or free shares or performance shares, in accordance with law and contractual provisions providing for other cases of adjustment. Such limit of EUR800 million in nominal, or paid-in capital, amount shall not apply to capital increases reserved to employees or officers undertaken under and pursuant to the Sixteenth, Seventeenth, and Nineteenth Resolutions approved at this General Shareholders' Meeting, which are the subject of specific Resolutions;
- hereby resolve that the maximum nominal, or paid-in capital, amount of the shares carrying the right to receive debt securities that may be issued under and pursuant to this authorization in accordance with Articles L.228-91 and L.228-92 of the Code of Commerce shall be fixed at EUR3 billion, or the equivalent of such amount in the event of an issue in foreign currency, or in a unit of account fixed by reference to several currencies, such limit to apply to this Resolution and to other securities carrying the right to debt securities issued on the basis of the Twelfth and Fifteenth Resolutions approved at this General Shareholders' Meeting;
- hereby resolve that the securities carrying the right to acquire shares of the Company may consist, among others, of debt securities or be associated with the issuance of such securities, permit the issuance thereof as intermediate securities, or take the form of subordinated securities, or not, with, or without, a definite term;
- hereby resolve that the shareholders shall have a preferential right to subscribe for and acquire the securities issued under and pursuant to this authorization, proportional to the amount of their shares;

- hereby resolve that the Board of Directors shall fix the terms and conditions on which and the limits within which the shareholders may exercise their right to subscribe for and acquire shares on a basis that may not be reduced and may grant to shareholders a preferential right to subscribe for and acquire shares on an irrevocable entitlement basis (*à titre irréductible*), which shall be exercised proportionally to their right and within the limit of their applications therefor;
- hereby resolve that, if the subscriptions for shares to be issued on an irrevocable entitlement basis (*à titre irréductible*) and by entitlement subject to reduction (*à titre réductible*), as the case may be, do not take up the entire issue of shares or securities, as defined hereinabove, the Board of Directors may use the options made available under Article L.225-134 of the Code of Commerce and, in particular, place all or part of the shares for which no subscriptions are received via a public offering or a private placement in accordance with the terms and conditions set forth in Article 411-2 of the Monetary and Financial Code;
- hereby take note that this authorization shall constitute automatically and *ipso iure* a waiver by the shareholders in favor of the holders of securities that might be issued and carrying the right to acquire shares of the Company of their preferential right to subscribe for and acquire the ordinary shares of the Company which such securities carry the right to acquire;
- hereby resolve that the amount received, or to be received, by the Company for each of the shares issued, or to be issued, in connection with the above-described authorization shall be at least equal to the nominal, or paid-in capital, amount of the shares on the date of issue of such securities;
- hereby resolve that this authorization shall nullify and render void the Fourteenth Resolution approved at the Extraordinary General Shareholders' Meeting held on April 21, 2011, in respect of the amounts thereof not used by the Management Board;
- hereby resolve that the authorizations and delegations of authority granted to the Board of Directors under and pursuant to this authorization shall inure to the benefit of the Management Board, should the Eighth Resolution proposed at this General Shareholders' Meeting in respect of changing the Company's form of governance and management not be approved;
- hereby resolve to fix at 26 months from and after this General Shareholders' Meeting the period of validity of this authorization.

### ELEVENTH RESOLUTION (Authority to the Board of Directors to increase the share capital by capitalizing reserves, earnings, premiums, or other amounts for which capitalization may be allowed)

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, having heard the Report of the Management Board and in accordance with Articles L.225-192-2 and L.225-130 of the Code of Commerce:

- hereby resolve to authorize the Board of Directors, with the power to grant subdelegations of authority, to undertake one or more capital increases by capitalizing reserves, earnings, premiums, or other amounts for which capitalization is possible under law and the Articles of Association through the issuance or awarding of free shares or increasing the nominal, or paid-in capital, amount of existing shares, or both;
- hereby resolve that the maximum nominal, or paid-in capital, amount of capital increases that may be undertaken under and pursuant to this authorization shall be charged against the aggregate limit for capital increases of EUR800 million

set forth in the Tenth Resolution proposed at this General Shareholders' Meeting;

- hereby resolve that the rights giving rise to fractional shares shall be neither negotiable, nor alienable, and that the shares corresponding thereto shall be sold. The amounts arising from the sale shall be paid to the holders of the rights no later than 30 days after the date of registration or recording in their account of the whole number of shares attributed to them;
- hereby take note that the Board of Directors has full authority to implement and give effect to this authorization;
- hereby resolve that this authorization shall nullify and render void the Fifteenth Resolution adopted at the Extraordinary General Shareholders' Meeting held on April 21, 2011, for the amounts not used by the Management Board;
- hereby resolve that the authorizations and grants of authority to made to the Board of Directors under and pursuant to this authorization shall inure to the benefit of the Management Board, should the Eighth Resolution proposed at this General Shareholders' Meeting in respect of changing the Company's system of governance and management not be approved;
- hereby resolve to fix at 26 months from and after this General Shareholders' Meeting the period of validity of this authorization.

### TWELFTH RESOLUTION (Authority to the Board of Directors (i) to increase the share capital up to a limit of EUR220 million in nominal, or paid-in capital, amount by issuing ordinary shares of any and all securities carrying the right to acquire shares of the Company or any of the subsidiaries thereof, without the shareholders' preferential subscription right, or (ii) to issue securities providing for the attribution of debt securities, in both cases through a public offering, without the shareholders' preferential subscription right. This authorization may be used to pay for contributions of securities in connection with a public exchange offer initiated by the Company)

The Shareholders, acting on the basis of the quorum and majority requirements applicable to extraordinary shareholder meetings, having heard the Report of the Management Board and the Special Report of the Statutory Auditors and in accordance with Articles L.225-129 to L.225-129-6, L.225-135, L.225-136, L.228-91 to L.228-93 of the Code of Commerce:

- hereby resolve to authorize the Board of Directors, with the power to grant subdelegations of authority, to undertake, through a public offering (i) one or more capital increases by issuing, in the proportions and at the times it may deem appropriate, in France and/or outside France, ordinary shares of the Company, or any and all securities carrying the right by any and all means, immediately and/or in the future, to acquire ordinary shares of the Company or of any company of which it may own, directly or indirectly, more than half the share capital, such securities to be denominated in Euros or in any other currency or unit of account fixed by reference to several currencies, or (ii) on the same terms and conditions, by issuing securities providing for the attribution of debt securities subject to Articles L.228-91 *et seq.* of the Code of Commerce; provided, however, that (a) the subscription for, and acquisition of, the shares and other securities pay be paid either in cash, or by offset against receivables or claims, (b) new shares shall have the same rights as previously-issued shares, subject to the effective date thereof;



- hereby resolve that the issuance of shares by the Company may result, in accordance with Article L.228-93 of the Code of Commerce, from securities issued by companies of which it owns, directly or indirectly, more than half the share capital and that carry the right, by any and all means, to acquire ordinary shares of the Company;
- hereby resolve that the aggregate amount of the capital increases that may be undertaken immediately and/or in the future on the basis of this Resolution shall not exceed EUR220 million in nominal amount (or paid-in capital) (i.e., as an indication, 9.9% of the share capital as of December 31, 2012), amount to which shall be added the additional amount of shares to be issued, as the case may be, to protect the rights of holders of securities carrying the right to acquire shares of the Company, options to subscribe for or purchase shares, or free shares or performance shares, in accordance with law and contractual provisions providing for other cases of adjustment, provided, however, that the amount of EUR220 million shall be charged against the aggregate limit of capital increases of EUR800 million set forth in the Tenth Resolution approved at this General Shareholders' Meeting;
- hereby resolve that the maximum nominal, or paid-in capital, amount of the shares providing for the attribution of debt securities that may be issued under and pursuant to this authorization in accordance with Articles L.228-91 and L.228-92 of the Code of Commerce shall be fixed at EUR3 billion, or the equivalent of such amount in the event of an issue in foreign currency, or in a unit of account fixed by reference to several currencies, such limit to be apply to this Resolution and to other securities providing for the attribution of debt securities issued on the basis of the Tenth and Fifteenth Resolutions approved at this General Shareholders' Meeting;
- hereby resolve that the securities carrying the right to acquire shares of the Company may consist, in particular, of debt securities or be associated with the issuance of such securities, permit the issuance thereof as intermediate securities, or take the form of subordinated securities, or not, with, or without, a definite term;
- hereby resolve that the shareholders' preferential right to subscribe for and acquire shares or securities that may be issued in accordance with applicable law shall not apply thereto, provided, however, that there shall be instituted in favor of the shareholders a priority right for a minimum number and/or a variable number to subscribe therefor in accordance with Article L.225-135 of the Code of Commerce;
- hereby resolve that the amount received, or to be received, by the Company for each of the shares issued, or to be issued, after taking into consideration, in the event of an issue of warrants to subscribe for, or be attributed shares, the issue price of such warrants, shall be at least equal to the minimum price contemplated by applicable law and/or regulations on the issue date, i.e., presently at the weighted average of the trading price during the three most-recent trading sessions preceding the setting of the issue price, possibly reduced by a maximum discount of 5%, after correction, if appropriate, of such amount to take account of the effective date;
- hereby take note that this authorization shall constitute automatically and *ipso iure* a waiver by the shareholders in favor of the holders of securities that might be issued and carrying the right to acquire shares of the Company of their preferential right to subscribe for ordinary shares of the Company which such securities carry the right to acquire;
- hereby resolve that this authorization may be used to pay for shares contributed in connection with a public exchange offer initiated by the Company, within the limits and on the terms and conditions set forth in Article L.225-148 of the Code of Commerce;

- hereby resolve that this authorization shall nullify and render void the Sixteenth Resolution adopted at the Extraordinary General Shareholders' Meeting held on April 21, 2011, in the amounts thereof not used by the Management Board;
- hereby resolve that the authorizations and delegations of authority approved by the Board of Directors under and pursuant to this authorization shall inure to the benefit of the Management Board, should the Eighth Resolution proposed at this General Shareholders' Meeting in respect of changing the Company's form of governance and management not be approved;
- hereby resolve to fix at 26 months from and after this General Shareholders' Meeting the period of validity of this authorization.

### THIRTEENTH RESOLUTION

#### (Authorization to the Board of Directors to increase the amount of the initial issue, as approved pursuant to the Tenth and Twelfth Resolutions, respectively, with or without the shareholders' preferential subscription right)

The Shareholders, acting on the basis of the quorum and majority requirements applicable to extraordinary shareholder meetings, having heard the Report of the Management Board and the Special Report of the Statutory Auditors and acting in accordance with Article L.225-135-1 of the Code of Commerce:

- hereby resolve to authorize the Board of Directors for a period of 26 months from and after this General Shareholders' Meeting, with the power to grant subdelegations of authority, to decide that, for each of the issues authorized under and pursuant to the Tenth and Twelfth Resolutions approved at this General Shareholders' Meeting the number of ordinary shares and securities to be issued may be increased by the Board of Directors on the terms and conditions of law and regulations and up to the limit of the maximum amounts set forth in the Ten and Twelfth Resolutions, respectively, approved at this General Shareholders' Meeting;
- hereby take note that the Board of Directors shall have full authority to implement and give effect to this authorization;
- hereby resolve that the authorizations and delegations of authority granted to the Board of Directors under and pursuant to this authorization shall inure to the benefit of the Management Board, should the Eighth Resolution proposed at this General Shareholders' Meeting in respect of changing the Company's form of governance and management not be approved;
- hereby resolve that this authorization shall nullify and render void the Seventeenth Resolution approved at the Extraordinary General Shareholders' Meeting held on April 21, 2011, in respect of the amounts not used by the Management Board.

### FOURTEENTH RESOLUTION

#### (Authorization to the Board of Directors to increase the share capital within a limit of 9.9% of the share capital for the purpose of paying for contributions in kind)

The Shareholders, acting on the basis of the quorum and majority requirements applicable to extraordinary shareholder meetings, having heard the Report of the Management Board and the Special Report of the Statutory Auditors and acting in accordance with Article L.225-147 of the Code of Commerce:

- hereby resolve to grant to the Board of Directors the authority necessary to undertake one or more capital increases, on the report of the Statutory Auditors, within a limit of 9.9% of the share capital for the purpose of paying for contributions in kind made



to the Company and consisting of equity securities or securities carrying the right to acquire shares, when Article L.225-148 does not apply;

- hereby resolve that, in any event, the amount of the capital increases made under and pursuant to this Resolution shall be charged against the maximum amount of capital increases of EUR220 million set forth in the Twelfth Resolution approved at this General Shareholders' Meeting;
- hereby resolve that the Board of Directors shall have full authority, with the power to grant subdelegations of authority, to implement and give effect to this authorization, in particular for the purpose of:
  - determine any and all terms and conditions of the authorized transactions and especially appraise the value of the contributions as well as grant particular benefits, as the case may be,
  - fix the number of shares or securities to be issued as consideration and payment for the contributions, as well as the effective date of the securities to be issued,
  - make any charge against contribution premiums and, in particular, those with respect to costs, fees, and expenses incurred in connection with undertaking the issues,
  - record the capital increases resulting therefrom and amending the Articles of Association accordingly,
  - generally take any and all measures that may be useful and enter into any and all agreements, undertake and carry out any and all formalities required for admission of the shares to trading and undertake and carry out any and all required publication measures for the record;
- hereby resolve that this authorization shall nullify and render void the Eighteenth Resolution approved at the Extraordinary General Shareholders' Meeting held on April 21, 2011, in respect of the amounts not used by the Management Board;
- hereby resolve that the authorizations and delegations of authority granted to the Board of Directors under and pursuant to this authorization shall inure to the benefit of the Management Board, should the Eighth Resolution proposed at this General Shareholders' Meeting in respect of changing the Company's form of governance and management not be approved;
- hereby resolve to fix at 26 months from and after this General Shareholders' Meeting the period of validity of this authorization.

## FIFTEENTH RESOLUTION

**(Authorization to the Board of Directors to undertake, through an offering as set forth in II of Article L.411-2 of the Monetary and Financial Code, without the shareholders' preferential subscription right, (i) a capital increase up to a limit of EUR110 million in nominal, or paid-in capital, amount (i.e., for illustrative purposes, 4.95% of the share capital) by issuing ordinary shares or any and all securities carrying the right to acquire shares of the Company or any of its subsidiaries the issue price of which shall be decided by the Board of Directors in accordance with terms and conditions determined at a General Shareholders' Meeting, or (ii) issuing securities providing for the attribution of debt securities)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to extraordinary shareholder meetings, having heard the Report of the Management Board and the

Special Report of the Statutory Auditors and acting in accordance with the Code of Commerce, in particular Articles L.225-129 to L.225-129-6, L.225-135, L.225-136, L.228-91 to L.228-93 thereof and of II of Article L.411-2 of the Monetary and Financial Code:

- hereby resolve to authorize the Board of Directors, with the power to grant subdelegations of authority, to undertake, through an offering as set forth in II of Article L.411-2 of the Monetary and Financial Code, on one or more occasions, without the shareholders' preferential subscription right, in the proportion and at the times that it shall deem appropriate, in France and/or outside France, either in Euros or in any other currency or unit of account determined by reference to several currencies:
  - (i) a capital increase through an issue of ordinary shares or of securities subject to Articles L.228-91 *et seq.* of the Code of Commerce carrying the right by any and all means, immediately and/or in the future, to acquire ordinary shares of the Company or of any company of which it owns or holds, directly or indirectly, more than half the share capital (a "Subsidiary") (whether newly issued or existing shares of the Company are involved), or
  - (ii) on the same terms and conditions, an issue of securities providing for the attribution of debt securities subject to Articles L.228-91 *et seq.* of the Code of Commerce; provided, however, that (a) the subscription for, and acquisition of, the shares or other securities may be made either for cash, or by offset of receivables or claims and (b) the new shares will have the same rights as previously-issued shares, subject to the effective date thereof;
- hereby resolve that the aggregate amount of the capital increases that may be undertaken immediately and/or in the future on the basis of this Resolution shall not exceed EUR110 million in nominal, or paid-in capital, amount, to which shall be added the additional number of shares to be issued to protect the rights of holders of securities carrying the right to acquire shares of the Company, options to subscribe for or purchase shares, or free shares or performance shares, in accordance with law and contractual provisions providing for other cases of adjustment, provided, however, that the amount of EUR110 million shall be charged against the aggregate limit of capital increases of EUR220 million set forth in the Twelfth Resolution and against the aggregate limit of capital increases of EUR800 million set forth in the Tenth Resolution approved at this General Shareholders' Meeting;
- hereby resolve that the maximum nominal, or paid-in capital, amount of the securities providing for the attribution of debt securities that may be issued under and pursuant to this authorization in accordance with Articles L.228-91 and L.228-92 of the Code of Commerce shall be fixed at EUR3 billion, or the equivalent of such amount in the event of an issue in foreign currency, or in a unit of account fixed by reference to several currencies, such limit being common to this Resolution and to the securities providing for the attribution of debt securities issued on the basis of the Tenth and Twelfth Resolutions approved at this General Shareholders' Meeting;
- hereby resolve that there shall be no shareholders' preferential subscription right in respect of the securities that are the subject of this Resolution;
- hereby take note that this authorization shall constitute automatically and *ipso iure* a waiver by the shareholders in favor of the holders of securities that might be issued and carrying the right to acquire shares of the Company of their preferential right to subscribe for ordinary shares of the Company which such securities carry the right to acquire;
- hereby resolve to authorize the Board of Directors, as provided in Article L.225-136 of the Code of Commerce, to derogate from the terms and conditions for setting the price set forth in applicable law and regulations at the time the authority granted under and pursuant to this Resolution is used and to set freely the

price of the ordinary shares or any and all securities carrying the right to acquire shares, provided, however, that the issue price shall not be less, at the discretion of the Board of Directors, than:

- (i) the weighted average of the trading prices of the shares on NYSE Euronext in Paris over a maximum period of six months preceding the date on which the issue price is set, or
- (ii) the weighted average trading price by volume of the shares on NYSE Euronext in Paris on the trading day preceding the setting of the issue price,

possibly reduced, in both cases, by a maximum discount of 5%.

- hereby resolve that, if the subscriptions do not take up the total amount of the issue of shares or securities, the Board of Directors may limit the issue to the amount of the subscriptions therefor on the terms and conditions provided by law applicable at the time the authority granted under this authorization is used;
- hereby resolve that this authorization shall nullify and render void the Nineteenth Resolution adopted at the Extraordinary General Shareholders' Meeting held on April 21, 2011, for the amounts not used by the Management Board;
- hereby resolve that the authorizations and delegations of authority granted to the Board of Directors under and pursuant to this authorization shall inure to the benefit of the Management Board, should the Eighth Resolution proposed at this General Shareholders' Meeting in respect of changing the Company's form of governance and management not be approved;
- hereby resolve to fix at 26 months from and after this General Shareholders' Meeting the period of validity of this authorization.

## SIXTEENTH RESOLUTION

**(Authorization to the Board of Directors to make grants of free shares (on the basis of existing shares or shares to be issued) to officers and employees of the Company or of companies affiliated therewith, subject to performance conditions, as the case may be, up to a limit of 1.8% of the share capital, without the shareholders' preferential subscription right)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to extraordinary shareholder meetings, having heard the Report of the Management Board and the Special Report of the Statutory Auditors and acting in accordance with Articles L.225-197-1 *et seq.* of the Code of Commerce:

- hereby resolve to authorize the Board of Directors to make grants, on one or more occasions to members of the staff or certain categories thereof that it shall determine from among the employees of the Company or of companies affiliated therewith for purposes of Article L.225-197-2, as well as to officers who meet the conditions set forth in Article L.225-197-1 of the Code of Commerce of free existing shares or shares to be issued of the Company;
- hereby resolve that the Board of Directors shall determine who is to benefit from the grants as well as the terms and conditions thereof and the performance criteria, if any, to which all or part of the shares granted under and pursuant to annual long-term incentive plans shall be subject, provided, however, that 100% of the shares granted to officers of the Company and to members of the Company's Executive Committee under and pursuant to long-term incentive plans shall be subject to meeting one or more performance goals, and 50% of the shares granted to the other beneficiaries, in such connection, shall be subject to meeting one or more performance goals;

- hereby resolve that the aggregate number of shares granted shall not amount to more than 1.8% of the Company's share capital on the date on which this General Shareholders' Meeting is being held;
- hereby resolve that the shares granted annually to officers of the Company under and pursuant to this authorization shall not account for a percentage greater than 0.03% of the Company's share capital on the date on which this General Shareholders' Meeting is being held;
- hereby resolve that the grants of shares to the beneficiaries or recipients thereof shall be final, subject to the terms and conditions and meeting the performance goals established by the Board of Directors, as the case may be, at the end of a vesting period set by the Board of Directors. The Board of Directors shall have the right to set the vesting and lock-up or holding periods, in accordance with Article L.225-197-1 of the Code of Commerce and to provide for a minimum vesting period of 4 years for all or a portion of the shares, without a lock-up or holding period, except as may be provided or required for tax or health insurance/social security purposes, and/or a minimum vesting period of 2 years, with a minimum lock-up or holding period of 2 years;
- hereby resolve, as an exception to the foregoing paragraph, that final effectiveness of grants of shares and the right to sell or transfer them freely shall vest, however, in a beneficiary or recipient thereof, if he or she should become subject to any of the cases of disability set forth in Article L.225-197-1 of the Code of Commerce;
- hereby resolve to authorize the Board of Directors to make adjustments, as the case may be, during the vesting period to the number of shares in connection with possible transactions involving the Company's share capital, so as to protect and preserve the rights of the beneficiaries and recipients;
- hereby take note that this authorization shall constitute automatically and *ipso iure* an express waiver by the shareholders in favor of the beneficiaries and recipients of free shares of their preferential right to subscribe for and acquire the shares to be issued that are awarded on a free basis. The capital increase corresponding thereto shall be fully and finally completed solely as a result of the final and effective grant of the shares to the beneficiaries and recipients thereof;
- hereby resolve that the authorizations and delegations of authority granted to the Board of Directors under and pursuant to this authorization shall inure to the benefit of the Management Board, should the Eighth Resolution proposed at this General Shareholders' Meeting in respect of changing the Company's form of governance and management not be approved;
- hereby resolve to fix at 38 months from and after this General Shareholders' Meeting the period of validity of this authorization, which shall nullify and render void the authorization granted at the General Shareholders' Meeting held on April 21, 2011, in respect of the amounts thereof not used by the Management Board.

The Shareholders hereby resolve to grant any and all authority to the Board of Directors, with the right to grant subdelegations of authority within the limits provided by law, to implement and give effect to this authorization, undertake and perform any actions, formalities, and statements or declarations, make any adjustments, as the case may be, to any transactions involving the Company's share capital, record the increase or increases in share capital completed pursuant to this authorization, amend the Articles of Association as a result thereof, and generally do whatever may be necessary.

The Shareholders hereby take due note that the Board of Directors shall set the terms and conditions of lock-up and holding period applicable to shares granted to eligible officers, in accordance with Article L.285-197-1 II of the Code of Commerce.







**SEVENTEENTH RESOLUTION**  
**(Authorization to the Board of Directors to grant to officers and employees of the Company or of companies affiliated therewith options to subscribe for or to purchase shares up to a limit of 0.5% of the share capital, without the shareholders' preferential subscription right)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to extraordinary shareholder meetings, having heard the Report of the Management Board and the Special Report of the Statutory Auditors:

- hereby resolve to authorize the Board of Directors to grant, on the terms and conditions set forth in Article L.225-180 of the Code of Commerce, on one or more occasions, to persons it may designate from among the members of the staff and officers of the Company and the companies or groupings affiliated therewith options carrying the right to subscribe for new shares of Schneider Electric SA or to purchase existing shares of the Company acquired by Schneider Electric SA on the terms and conditions provided by law;
  - provided, however, that the subscription or purchase price on the date the option is granted may not be less than the average trading price quoted during the twenty trading sessions preceding the date of grant, provided, however, that the purchase price, furthermore, shall not be less than 80% of the average purchase price of the shares owned by the Company under and pursuant to Articles L.225-208 and L.225-209 of the Code of Commerce;
- provided, however, that:
  - (i) the aggregate number of options granted under and pursuant to this authorization and not yet exercised may not give rise to a right to subscribe for, or purchase, a number of shares greater than 0.5% of the share capital on the date of this General Shareholders' Meeting, not taking into consideration adjustments that might be made to protect the rights of beneficiaries or recipients in accordance with law or regulations, as well as applicable contractual provisions, and that within such limit of 0.5% the grants to Company officers shall not exceed annually 0.03% of the share capital on the date of this Shareholders' Meeting (excluding adjustment),
  - (ii) the options shall have a term of between five and ten years, and
  - (iii) the total number of the options granted to officers of the Company and to members of the Company's Executive Committee in connection with annual long-term incentive plans shall be subject to meeting one or more performance goals, and that 50% of the options granted to the other beneficiaries and recipients shall be subject to meeting one or more performance goals;
- this authorization shall automatically and *ipso iure* constitute an express waiver in favor of the beneficiaries and recipients of the subscription options by the shareholders of their preferential right to subscribe for and acquire the shares to be issued as the options are exercised;
- hereby resolve to grant any and all authority to the Board of Directors, within the limits set forth hereinabove, to implement and give effect to this authorization and, in particular:
  - to determine any and all terms and conditions of the transactions, set the terms and conditions on which and to whom the options shall be granted and designate the beneficiaries and recipients of the options,

- set the length of validity of the options, the dates or periods for exercising the options,
- to determine the terms and conditions on which the price and number of shares to be acquired by subscription or purchase may be adjusted to take into consideration financial transactions undertaken by the Company,
- to carry out, or cause to be carried out, any and all actions and formalities to make final the capital increase or increases undertaken under and pursuant to this authorization, amend the Articles of Association as a result thereof, and generally do whatever may be necessary,
- all under and subject to the law and regulations applicable on the date the options are granted.

The Shareholders hereby take note that the Board of Directors, under and pursuant to Article L.225-185 of the Code of Commerce, shall set the terms and conditions for exercising the options granted to the eligible officers of the Company.

The Board of Directors each year shall report at the Ordinary General Shareholders' Meeting on transactions undertaken in connection with this authorization.

The Shareholders hereby resolve that the authorizations and delegations of authority granted to the Board of Directors under and pursuant to this authorization shall inure to the benefit of the Management Board, should the Eighth Resolution proposed at this General Shareholders' Meeting in respect of changing the Company's form of governance and management not be approved;

This authorization shall remain valid for a maximum of 38 months from and after the date of this General Shareholders' Meeting.

It shall nullify and render void the authorization granted in the Twentieth Resolution approved at the General Shareholders' Meeting held on April 21, 2011, in respect of the amounts thereunder not used by the Management Board.

**EIGHTEENTH RESOLUTION**  
**(Authorization to the Board of Directors to undertake capital increases reserved to participants in a Company Investment Plan up to a limit of 2% of the share capital, without the shareholders' preferential subscription right)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to extraordinary shareholder meetings, having heard the Report of the Management Board and the Special Report of the Statutory Auditors and in accordance with Articles L.3332-1 *et seq.* of the Labor Code and Articles L.225-129-2, L.225-129-6, and L.225-138-1 of the Code of Commerce and in accordance with such Code:

- hereby resolve to grant its authority to the Board of Directors, with the power to grant subdelegations of authority, for a period of 26 months from and after the date of this General Shareholders' Meeting to undertake a capital increase on one or more occasions at its discretion by issuing shares or securities carrying the right to acquire shares of the Company, on the terms and conditions set forth in Article L.225-180 of the Code of Commerce and L.3344-1 of the Labor Code, reserved to participants in an Investment Plan of the Company and French or non-French companies affiliated with the Company in a maximum nominal, or paid-in capital, amount of 2% of the share capital on the date this authorization is implemented and given effect, provided, however, that (i) such limit shall be charged against the limits set forth in the Tenth and Twelfth Resolutions approved at this General Shareholders'

Meeting (ii) this authorization may be used only from and after June 21, 2013;

- hereby resolve to set a maximum discount to be offered in connection with the Company Investment Plan at 20% of an average of the trading price of the Company's shares on NYSE Euronext in Paris during the twenty trading sessions preceding the date of the action of the Board of Directors or of its authorized representative setting the date to begin taking subscriptions. The Shareholders, however, hereby resolve expressly to authorize the Board of Directors to reduce the above-described discount within applicable legal and regulatory limits, or not to grant one, to take account of the law and regulations applicable in countries where such offer may be implemented and given effect;
- hereby resolve that the characteristics of the other securities carrying the right to acquire shares of the Company shall be decided and determined by the Board of Directors on the terms and conditions set by applicable law and regulations;
- hereby resolve to waive in favor of the participants in a Company Investment Plan the shareholders' preferential right to subscribe for and acquire the shares and securities carrying the right to acquire shares to be issued under and pursuant to this Resolution;
- hereby resolve to waive the preferential right to subscribe for and acquire the issued shares to which the securities issued on the basis of this Resolution may give rise;
- hereby resolve that this authorization shall nullify and render void from and after June 20, 2013, the authorization granted at the General Shareholders' Meeting held on April 21, 2011, in the Twenty-Second Resolution thereof and reiterated in the Ninth Resolution submitted at this General Shareholders' Meeting in respect of the amounts thereof not used by the Management Board or the Board of Directors, as the case may be;
- hereby resolve that the authorizations and delegations of authority granted to the Board of Directors under and pursuant to this authorization shall inure to the benefit of the Management Board, should the Eighth Resolution proposed at this General Shareholders' Meeting in respect of changing the Company's form of governance and management not be approved;
- the Shareholders hereby take note that the Board of Directors has all authority, with the power to grant subdelegations of authority, to undertake the transactions set forth in this Resolution and to record and complete the capital increases resulting therefrom.

## NINETEENTH RESOLUTION

**(Authorization to the Board of Directors to undertake capital increases reserved to a class of beneficiaries or recipients: in favor of employees of foreign companies of the Group, either directly, or via entities acting on behalf thereof to offer to employees of foreign companies of the Group benefits comparable to those offered to participants in the Company Investment Plan up to a limit of 1% of the share capital, without the shareholders' preferential subscription right)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to extraordinary shareholder meetings, having heard the Report of the Management Board and the Special Report of the Statutory Auditors and in accordance with Articles L.225-129-2 and L.225-138 of the Code of Commerce:

- hereby resolve to grant to the Board of Directors the authority, with the power to grant subdelegations of authority, necessary

to undertake increases in the share capital on one or more occasions, at the times and in the proportions it deems appropriate up to a maximum of 1% of the share capital on the date of this General Shareholders' Meeting by issuing shares or securities carrying the right to acquire shares of the Company, having the same rights as previously-issued shares, such issue to be reserved to persons meeting the characteristics of the class defined hereinabove, provided, however that (i) the 1% limit set forth above shall be charged against the 2% limit set forth in the Eighteenth Resolution submitted to this General Shareholders' Meeting, but, on the other hand is separate and apart from the limits set forth in the Tenth and Twelfth Resolutions approved at this General Shareholders' Meeting, (ii) this authorization may be used only from and after August 1, 2013;

- hereby resolve to waive the shareholders' preferential right to subscribe for and acquire the shares or other securities carrying the right to acquire shares issued under and pursuant to this Resolution and to reserve the right to subscribe therefor to one and/or another class of beneficiaries or recipients having the following characteristics: (i) employees and officers of companies of Schneider Electric Group affiliated with the Company on the terms and conditions set forth in Article L.225-180 of the Code of Commerce and Article L.3344-1 of the Labor Code and the registered office of which is located outside France; (ii) and/or OPCVM mutual investment funds or other entities, with or without legal personality, of employee shareholders invested in equity securities of the Company the unitholders or shareholders of which consist of persons described in (i) of this paragraph; (iii) and/or any banking institution or affiliate or subsidiary of such institution acting at the Company's request for purposes of implementing and giving effect to a shareholder incentive or investment or savings plan for the benefit of the persons described in (i) of this paragraph, to the extent that subscription of the person authorized in accordance with this Resolution would make it possible for employees of subsidiaries located outside France to benefit from and take advantage of forms of shareholder incentive or investment or savings plans equivalent in terms of economic benefit to those from which the other employees of the Group benefit;
- hereby resolve that the issue price per share of the shares to be issued under and pursuant to this Resolution shall be decided by the Board of Directors on the basis of the trading price of the Company's shares on NYSE Euronext in Paris; the issue price shall be determined at the discretion of the Board of Directors on the basis either (i) of the first or last quoted trading price of the Company's shares at the trading session on the date of the action by the Board of Directors or the authorized representative thereof setting the issue price, or (ii) of an average of the trading prices for the Company's shares during the twenty trading sessions preceding the date of the action by the Board of Directors or the authorized representative thereof setting the issue price under and pursuant to this Resolution or setting the issue price under and pursuant to the Eighteenth Resolution approved at this General Shareholders' Meeting; the Board of Directors may set the issue price by applying a discount of a maximum of 20% of the trading price of the Company's shares determined in accordance with either of the two methods set forth in clauses (i) and (ii) of this paragraph, the percentage of such discount applied to the trading price of the Company's shares to be determined by the Board of Directors taking into consideration, among other things, legal, tax, and regulatory provisions of foreign law applicable, as the case may be, to the persons benefiting from the issue;
- hereby resolve that the Board of Directors shall have full authority, on the terms and conditions provided by law and within the limits set forth hereinabove, to implement and give effect to this authorization and determine the list of the beneficiaries

and recipients within the classes described in this Resolution and the number of shares or equity securities to be offered to each thereof, provided, however, that the Board of Directors may decide that the capital increase shall be completed for the amounts subscribed, on the condition that a minimum of 75% of the shares or other securities carrying the right to acquire shares offered have been subscribed, as well as, among other things:

- determine the characteristics of the securities to be issued, decide on the issue price, dates, time periods, terms and conditions of subscribing therefor, paying the paid-in capital, or nominal amount, thereof, delivery and effectiveness of the shares and equity securities, within applicable limits of law and regulations,
- record and determine the capital increase, undertake the issuance of the shares and other securities carrying the right to acquire shares, amend the Articles of Association accordingly,
- and, as a general matter, enter into any agreement, in particular to ensure the due and punctual completion of the contemplated issuances, take any and all steps and carry out and complete any and all formalities useful in connection with the issue, the listing and financial servicing of the equity securities issued under and pursuant to this authorization, as well as the exercise of the rights attaching thereto, and, more generally, do whatever may be necessary;
- hereby resolve that this authorization shall nullify and render void from and after August 1, 2013, the authorization granted at the General Shareholders' Meeting held on May 3, 2012, in the Seventeenth Resolution approved thereat and reiterated in the Ninth Resolution submitted to this General Shareholders' Meeting in respect of the amounts not used by the Management Board, or by the Board of Directors, as the case may be;
- hereby resolve that the authorizations and delegations of authority granted to the Board of Directors under and pursuant to this authorization shall inure to the benefit of the Management Board, should the Eighth Resolution proposed at this General Shareholders' Meeting in respect of changing the Company's form of governance and management not be approved.

The authorization granted under and pursuant to this Resolution shall be valid for 18 months from and after this General Shareholders' Meeting.

## Ordinary Meeting

### TWENTY-FIRST RESOLUTION (Election of Mr. Jean-Pascal Tricoire as a Director)

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, subject to approval of the Eighth Resolution submitted to this General Shareholders' Meeting, hereby resolve to elect Mr. Jean-Pascal Tricoire as a Director for a term of 4 years, *i.e.*, until the close of the General Shareholders' Meeting to be held in 2017 to consider and act on the financial statements for the financial year ending December 31, 2016.

### TWENTY-SECOND RESOLUTION (Election of Mr. Henri Lachmann as a Director)

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, subject to approval of the Eighth Resolution submitted to this General

### TWENTIETH RESOLUTION

#### (Authorization to the Board of Directors to cancel shares of the Company, if any, bought back, up to a maximum of 10% of the share capital, on the terms and conditions approved at the General Shareholders' Meeting)

The Shareholders, acting on the basis of the quorum and majority requirements applicable to extraordinary shareholder meetings, having heard the Report of the Management Board and the Special Report of the Statutory Auditors hereby resolve to authorize the Board of Directors, as provided in Article L.225-209 of the Code of Commerce, to cancel the Company's own shares acquired under and pursuant to authorizations granted at General Shareholders' Meetings in accordance with Article L.225-209 of the Code of Commerce, on the following terms and conditions:

- the Board of Directors shall be, and hereby is, authorized to cancel at its discretion, on one or more occasions over a 24-month period from and after this General Shareholders' Meeting, all or a portion of the shares acquired under and pursuant to the authorizations to buy back the Company's own shares up to a limit of 10% of the share capital and to make corresponding reductions in the share capital in the amount thereof;
- the difference between the purchase price of the cancelled shares and the nominal, or paid-in capital, value thereof shall be charged against the issue premiums thereof and, if necessary, against the legal reserve up to an amount equal to 10% of the cancelled share capital;
- the Board of Directors shall, and hereby does, have any and all necessary authority, with the power to grant subdelegations of authority, to set the terms and conditions of such cancellation(s), to carry out and undertake any and all actions, formalities, statements and declarations for the purpose of cancelling the shares and making the capital reductions final and amending the Articles of Association accordingly.

The Shareholders hereby resolve that the authorizations and delegations of authority granted to the Board of Directors under and pursuant to this authorization shall inure to the benefit of the Management Board, should the Eighth Resolution proposed at this General Shareholders' Meeting in respect of changing the Company's form of governance and management not be approved;

This authorization shall be valid for 24 months from and after this General Shareholders' Meeting.

Shareholders' Meeting, hereby resolve to elect Mr. Henri Lachmann as a Director for a term of one year, equal to the time remaining to run in respect of his term of office as a member of the Supervisory Board, *i.e.*, until the close of the General Shareholders' Meeting to be held in 2014 to consider and act on the financial statements for the financial year ending December 31, 2013.

### TWENTY-THIRD RESOLUTION (Election of Mr. Léo Apotheker as a Director)

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, subject to approval of the Eighth Resolution submitted to this General Shareholders' Meeting, hereby resolve to elect Mr. Léo Apotheker as a Director for a term of 3 years, equal to the time remaining to run in respect of his term of office as a member of the Supervisory Board, *i.e.*, until the close of the General Shareholders' Meeting to be held in 2016 to consider and act on the financial statements for the financial year ending December 31, 2015.

**TWENTY-FOURTH RESOLUTION  
(Election of Ms. Betsy Atkins as a Director)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, subject to approval of the Eighth Resolution submitted to this General Shareholders' Meeting, hereby resolve to elect Ms. Betsy Atkins as a Director for a term of 2 years, equal to the time remaining to run in respect of her term of office as a member of the Supervisory Board, *i.e.*, until the close of the General Shareholders' Meeting to be held in 2015 to consider and act on the financial statements for the financial year ending December 31, 2014.

**TWENTY-FIFTH RESOLUTION  
(Election of Mr. Gérard de La Martinière as a Director)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, subject to approval of the Eighth Resolution submitted to this General Shareholders' Meeting, hereby resolve to elect Mr. Gérard de La Martinière as a Director for a term of 2 years, equal to the time remaining to run in respect of his term of office as a member of the Supervisory Board, *i.e.*, until the close of the General Shareholders' Meeting to be held in 2015 to consider and act on the financial statements for the financial year ending December 31, 2014.

**TWENTY-SIXTH RESOLUTION  
(Election of Mr. Xavier Fontanet as a Director)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, subject to approval of the Eighth Resolution submitted to this General Shareholders' Meeting, hereby resolve to elect Mr. Xavier Fontanet as a Director for a term of 3 years, equal to the time remaining to run in respect of his term of office as a member of the Supervisory Board, *i.e.*, until the close of the General Shareholders' Meeting to be held in 2016 to consider and act on the financial statements for the financial year ending December 31, 2015.

**TWENTY-SEVENTH RESOLUTION  
(Election of Mr. Noël Forgeard as a Director)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, subject to approval of the Eighth Resolution submitted to this General Shareholders' Meeting, hereby resolve to elect Mr. Noël Forgeard as a Director for a term of one year, equal to the time remaining to run in respect of his term of office as a member of the Supervisory Board, *i.e.*, until the close of the General Shareholders' Meeting to be held in 2014 to consider and act on the financial statements for the financial year ending December 31, 2013.

**TWENTY-EIGHTH RESOLUTION  
(Election of Mr. Antoine Gosset-Grainville as a Director)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, subject to approval of the Eighth Resolution submitted to this General Shareholders' Meeting, hereby resolve to elect Mr. Antoine Gosset-Grainville as a Director for a term of 3 years, equal to the time

remaining to run in respect of his term of office as a member of the Supervisory Board, *i.e.*, until the close of the General Shareholders' Meeting to be held in 2016 to consider and act on the financial statements for the financial year ending December 31, 2015.

**TWENTY-NINTH RESOLUTION  
(Election of Mr. Willy R. Kissling as a Director)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, subject to approval of the Eighth Resolution submitted to this General Shareholders' Meeting, hereby resolve to elect Mr. Willy R. Kissling as a Director for a term of one year, equal to the time remaining to run in respect of his term of office as a member of the Supervisory Board, *i.e.*, until the close of the General Shareholders' Meeting to be held in 2014 to consider and act on the financial statements for the financial year ending December 31, 2013.

**THIRTIETH RESOLUTION  
(Election of Ms. Cathy Kopp as a Director)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, subject to approval of the Eighth Resolution submitted to this General Shareholders' Meeting, hereby resolve to elect Ms. Cathy Kopp as a Director for a term of one year, equal to the time remaining to run in respect of her term of office as a member of the Supervisory Board, *i.e.*, until the close of the General Shareholders' Meeting to be held in 2014 to consider and act on the financial statements for the financial year ending December 31, 2013.

**THIRTY-FIRST RESOLUTION  
(Election of Ms. Dominique Sénéquier as a Director)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, subject to approval of the Eighth Resolution submitted to this General Shareholders' Meeting, hereby resolve to elect Ms. Dominique Sénéquier as a Director for a term of 2 years, equal to the time remaining to run in respect of her term of office as a member of the Supervisory Board, *i.e.*, until the close of the General Shareholders' Meeting to be held in 2015 to consider and act on the financial statements for the financial year ending December 31, 2014.

**THIRTY-SECOND RESOLUTION  
(Election of Mr. G. Richard Thoman as a Director)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, subject to approval of the Eighth Resolution submitted to this General Shareholders' Meeting, hereby resolve to elect Mr. G. Richard Thoman as a Director for a term of one year, equal to the time remaining to run in respect of his term of office as a member of the Supervisory Board, *i.e.*, until the close of the General Shareholders' Meeting to be held in 2014 to consider and act on the financial statements for the financial year ending December 31, 2013.





### **THIRTY-THIRD RESOLUTION** **(Election of Mr. Serge Weinberg as a Director)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, subject to approval of the Eighth Resolution submitted to this General Shareholders' Meeting, hereby resolve to elect **Mr. Serge Weinberg** as a Director for a term of one year, equal to the time remaining to run in respect of his term of office as a member of the Supervisory Board, *i.e.*, until the close of the General Shareholders' Meeting to be held in 2014 to consider and act on the financial statements for the financial year ending December 31, 2013.

### **THIRTY-FOURTH RESOLUTION\*** **(Election of a Director Representing Employee Shareholders)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, subject to approval of the Eighth Resolution submitted to this General Shareholders' Meeting, hereby resolve to elect **Mr. Claude Briquet** as a Director representing employee shareholders, for a term of 4 years, *i.e.*, until the close of the General Shareholders' Meeting held in 2017 to consider and act on the financial statements for the financial year ending December 31, 2016.

### **THIRTY-FIFTH RESOLUTION\*** **(Election of a Director Representing Employee Shareholders)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, subject to approval of the Eighth Resolution submitted to this General Shareholders' Meeting, hereby resolve to elect **Ms. Magali Herbaut** as a Director representing employee shareholders, for a term of 4 years, *i.e.*, until the close of the General Shareholders' Meeting held in 2017 to consider and act on the financial statements for the financial year ending December 31, 2016.

### **THIRTY-SIXTH RESOLUTION\*** **(Election of a Director Representing Employee Shareholders)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, subject to approval of the Eighth Resolution submitted to this General Shareholders' Meeting, hereby resolve to elect **Mr. Thierry Jacquet** as a Director representing employee shareholders, for a term of 4 years, *i.e.*, until the close of the General Shareholders' Meeting held in 2017 to consider and act on the financial statements for the financial year ending December 31, 2016.

### **THIRTY-SEVENTH RESOLUTION\*** **(Election of a Director Representing Employee Shareholders)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, subject to approval of the Eighth Resolution submitted to this General Shareholders' Meeting, hereby resolve to elect **Mr. Jean-Michel Vedrine** as a Director representing employee shareholders, for a term of 4 years, *i.e.*, until the close of the General Shareholders' Meeting held in 2017 to will consider and act on the financial statements for the financial year ending December 31, 2016.

*\* Resolutions Thirty-Four to Thirty-Seven: in accordance with Article 11-3 of the Company's Articles of Association, since only one seat for a member of the Board of Directors representing employee shareholders is to be filled, only the nominee winning the largest number of votes of shareholders present in person or by proxy may be elected. Accordingly, the Management Board, on the recommendation of the Supervisory Board, approved the 35<sup>th</sup> Resolution, and, accordingly, you are requested to vote in favor of such Resolution and to abstain from voting on the 34<sup>th</sup>, 36<sup>th</sup> and 37<sup>th</sup> Resolutions.*

### **THIRTY-EIGHTH RESOLUTION** **(Determination of the Amount of Directors' Fees to be Awarded to the Board of Directors)**

The Shareholders, acting on the basis of the quorum and majority requirements applicable to ordinary shareholder meetings, subject to approval of the Eighth Resolution submitted to this General Shareholders' Meeting, hereby resolve to set at EUR1,300,000 the annual amount of directors' fees to be paid to the Board of Directors.

### **THIRTY-NINTH RESOLUTION** **(Authority for Formalities)**

The Shareholders hereby resolve to grant any and all authority to a bearer of a copy or an abstract of the Minutes recording this Meeting for the purpose of accomplishing and carrying out any and all legal and administrative formalities.

# Persons responsible for the Registration Document

## > Persons responsible for the Registration Document

### Attestation

The Management Board declares that, having taken all reasonable care to ensure that such is the case, the information contained in the registration document is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

The Management Board declares that, to the best of my knowledge, the financial statements have been prepared in accordance with applicable accounting standards and that they present fairly the assets, financial position and results of the company and the consolidated Group. To the best of its knowledge, the business review accurately presents the changes in business, results and financial position of the company and the consolidated Group, as well as a description of their principal risks and contingencies.

It obtained a statement from the Statutory Auditors at the end of their engagement affirming that they had reviewed the entire registration document and examined the information about the financial position and the historical accounts contained therein.

The report on the consolidated financial statements for the period ended 31 December 2010 contains an observation referring to the presentation of the consolidated financial statements and the new applicable accounting standards.

Executed on 21 March 2013

On behalf of the Management Board

Jean-Pascal Tricoire

Chairman of the Management Board Schneider Electric SA

Pursuant to Article 28 of Commission regulation 809/2004/EC, the following information is incorporated by reference in the present registration document:

- the consolidated financial statements and corresponding Auditors' Reports provided in Chapter 6 of the registration document for the ended December 31, 2010, registered with *Autorité des Marchés Financiers* (AMF) under number D11-0151 on March 21, 2011,
- the consolidated financial statements and corresponding Auditors' Reports provided in Chapter 5 of the registration document for the ended Thursday, December 31, 2011, registered with *Autorité des Marchés Financiers* (AMF) under number D12-0198 on March 22, 2012,
- the annual company financial statements and corresponding Auditors' Reports provided in Chapter 7 of the registration document for the ended December 31, 2010, registered with *Autorité des Marchés Financiers* (AMF) under number D11-0151 on March 21, 2011,
- the annual company financial statements and corresponding Auditors' Reports provided in Chapter 6 of the registration document for the ended Thursday, December 31, 2011, registered with *Autorité des Marchés Financiers* (AMF) under number D12-0198 on March 22, 2012,
- the business review provided in Chapter 4 of the registration document for the ended December 31, 2010, registered with *Autorité des Marchés Financiers* (AMF) under number D11-0151 on March 21, 2011,
- the business review provided in Chapter 4 of the registration document for the ended Thursday, December 31, 2011, registered with *Autorité des Marchés Financiers* (AMF) under number D12-0198 on March 22, 2012.

Passages not incorporated in this document are either irrelevant for the investor or covered in another section of the registration document.

## > Persons responsible for the audit of the financial statements

	Date appointed	Appointment expires
<b>Statutory Auditors</b>		
Ernst & Young et Autres Tour First-1, place des Saisons - 92037 Paris-la-Défense-Cedex Represented by Yvon Salaün	1992	2016
Mazars Tour Exaltis - 61, rue Henri-Regnault - 92400 Courbevoie Represented by David Chaudat	2004	2016
<b>Alternate Auditors</b>		
Auditex	2010	2016
Thierry Blanchetier	2010	2016

*Ernst & Young et Autres and Mazars are members of the Auditor's Regional Company of Versailles.*





# Financial Calendar

## Investor relations

<b>April 25, 2013</b>	Shareholders' Annual Meeting (Paris)
<b>May 7, 2013</b>	Dividend payment

## Financial releases

<b>February 21, 2013</b>	2012 Annual Results
<b>April 23, 2013</b>	Q1 2013 Sales
<b>July 31, 2013</b>	Half Year Results
<b>October 25, 2013</b>	Q3 2013 Sales

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Incorporated in France,

governed by a Management Board

and Supervisory Board,

with issued capital of EUR 2,221,668,056

Registered in Nanterre, R.C.S. 542 048 574

Siret n°: 542 048 574 01 091