

Consolidated financial statements at December 31, 2018

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1. Consolidated statement of income

1. Consolidated statement of income

<i>(in millions of euros except for earnings per share)</i>	Note	Full year 2018	Full year 2017
Revenue	3	25,720	24,743
Cost of sales		(15,677)	(15,245)
Gross profit		10,043	9,498
Research and development expenses	4	(597)	(501)
Selling, general and administrative expenses		(5,572)	(5,346)
Adjusted EBITDA*	3	3,874	3,651
Other operating income and expenses	6	(103)	(15)
Restructuring costs		(198)	(286)
EBITA**		3,573	3,350
Amortization expenses and impairment loss of purchase accounting intangible assets	5	(177)	(140)
Operating income		3,396	3,210
Interest income		53	51
Interest expense		(235)	(270)
Finance costs, net		(182)	(219)
Other financial income and expense	7	(128)	(148)
Net financial income/(loss)		(310)	(367)
Profit from continuing operations before income tax		3,086	2,843
Income tax expense	8	(693)	(600)
Income of discontinued operations, net of income tax	1	(23)	(94)
Share of profit/(loss) of associates and joint ventures	12	61	61
PROFIT FOR THE PERIOD		2,431	2,210
<i>attributable to owners of the parent</i>		2,334	2,150
<i>attributable to non-controlling interests</i>		97	60
Basic earnings (attributable to owners of the parent) per share (in euros per share)	19.2	4.21	3.85
Diluted earnings (attributable to owners of the parent) per share (in euros per share)	19.2	4.16	3.81

* Adjusted EBITA (Earnings Before Interest, Taxes, Amortization of Purchase Accounting Intangibles).
Adjusted EBITA corresponds to operating profit before amortization expenses and impairment loss of purchase accounting intangible assets, before goodwill impairment, other operating income and expenses and restructuring costs.

** EBITA (Earnings Before Interest, 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>	Note	Full year 2018	Full year 2017
Profit for the year		2,431	2,210
Other comprehensive income:			
Translation adjustment		307	(1,517)
Cash-flow hedges		(23)	(94)
Income tax effect of cash-flow hedges	19.6	(6)	32
Net gains/(losses) on financial assets		(9)	(6)
Income tax effect of gains/(losses) on financial assets	19.6	–	–
Actuarial gains/(losses) on Defined Benefit plans	20.1	285	48
Income tax effect of actuarial gains/(losses) on Defined Benefit plans	19.6	(61)	(182)
Other comprehensive income for the year, net of tax		493	(1,719)
<i>of which to be recycled in income statement</i>		270	(1,585)
<i>of which not to be recycled in income statement</i>		223	(134)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,924	491
<i>Attributable to owners of the parent</i>		2,793	445
<i>Attributable to non-controlling interests</i>		131	46

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

2. Consolidated statement of cash flows

2. Consolidated statement of cash flows

<i>(in millions of euros)</i>	Note	Full year 2018	Full year 2017
Profit for the year		2,431	2,210
Losses/(gains) from discontinued operations		23	94
Share of (profit)/losses of associates		(61)	(61)
Income and expenses with no effect on cash flow:			
Depreciation of property, plant and equipment	11	386	387
Amortization of intangible assets other than goodwill	10	474	399
Impairment losses on non-current assets		66	68
Increase/(decrease) in provisions	21	(83)	(69)
Losses/(gains) on disposals of assets		(3)	(93)
Difference between tax paid and tax expense		90	48
Other non-cash adjustments		82	37
Net cash provided by operating activities		3,405	3,020
Decrease/(increase) in accounts receivable		(51)	(257)
Decrease/(increase) in inventories and work in progress		(287)	(173)
(Decrease)/increase in accounts payable		(98)	304
Decrease/(increase) in other current assets and liabilities		(97)	47
Change in working capital requirement		(533)	(79)
TOTAL I – CASH FLOWS FROM OPERATING ACTIVITIES		2,872	2,941
Purchases of property, plant and equipment	11	(486)	(434)
Proceeds from disposals of property, plant and equipment		54	61
Purchases of intangible assets	10	(338)	(315)
Proceeds from disposals of intangible assets		–	–
Net cash used by investment in operating assets		(770)	(688)
Acquisitions & disposals of businesses, net of cash acquired & disposed	2.2	(730)	(416)
Other long-term investments		(31)	26
Increase in long-term pension assets		(174)	(160)
Sub-total		(935)	(550)
TOTAL II – CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		(1,705)	(1,238)
Issuance of bonds	22	740	740
Repayment of bonds	22	(749)	(1,025)
Sale/(purchase) of own shares		(829)	(171)
Increase/(decrease) in other financial debt		220	111
Increase/(decrease) of shares capital		164	161
Dividends paid by Schneider Electric SE	19	(1,223)	(1,133)
Dividends paid to non-controlling interests		(80)	(64)
Purchases of minority interests	2.2	–	(141)
TOTAL III – CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		(1,757)	(1,522)
TOTAL IV – NET FOREIGN EXCHANGE DIFFERENCE		61	(33)
TOTAL V – EFFECT OF DISCONTINUED OPERATIONS		(7)	89
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS: I +II +III +IV +V		(536)	237
Net cash and cash equivalents at January 1		2,767	2,530
Increase/(decrease) in cash and cash equivalents		(536)	237
NET CASH AND CASH EQUIVALENTS AT DECEMBER 31	18	2,231	2,767

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

3. Consolidated balance sheet

3. Consolidated balance sheet

Assets

<i>(in millions of euros)</i>	Note	Dec. 31, 2018	Dec. 31, 2017
NON-CURRENT ASSETS			
Goodwill, net	9	18,373	16,423
Intangible assets, net	10	4,874	4,335
Property, plant and equipment, net	11	2,521	2,490
Total tangible and intangible assets		7,395	6,825
Investments in associates and joint ventures	12	530	547
Non-current financial assets	13	665	436
Deferred tax assets	14	2,040	2,097
TOTAL NON-CURRENT ASSETS		29,003	26,328
CURRENT ASSETS			
Inventories and work in progress	15	3,091	2,844
Trade and other operating receivables	16	5,804	5,763
Other receivables and prepaid expenses	17	1,910	1,693
Current financial assets		30	32
Cash and cash equivalents	18	2,361	3,045
TOTAL CURRENT ASSETS		13,196	13,377
Assets of discontinued operations		60	144
TOTAL ASSETS		42,259	39,849

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

3. Consolidated balance sheet

Liabilities

<i>(in millions of euros)</i>	Note	Dec. 31, 2018	Dec. 31, 2017
EQUITY	19		
Share capital		2,317	2,388
Additional paid-in capital		2,977	5,147
Retained earnings		15,721	12,768
Translation reserve		(233)	(506)
Equity attributable to owners of the parent		20,782	19,797
Non-controlling interests		1,482	145
TOTAL EQUITY		22,264	19,942
NON-CURRENT LIABILITIES			
Pensions and other post-employment benefit obligations	20	1,558	1,783
Other non-current provisions	21	1,253	1,431
Total non-current provisions		2,811	3,214
Non-current financial liabilities	22	5,923	5,650
Deferred tax liabilities	14	1,147	996
Other non-current liabilities		10	10
TOTAL NON-CURRENT LIABILITIES		9,891	9,870
CURRENT LIABILITIES			
Trade and other operating payables		4,142	4,148
Accrued taxes and payroll costs		2,194	2,250
Current provisions	21	878	842
Other current liabilities		1,232	1,018
Current debt	22	1,574	1,691
TOTAL CURRENT LIABILITIES		10,020	9,949
Liabilities of discontinued operations		84	88
TOTAL EQUITY AND LIABILITIES		42,259	39,849

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

4. Consolidated statement of changes in equity

4. Consolidated statement of changes in equity

<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-controlling interests	Total
DEC. 31, 2016 PUBLISHED	592,499	2,370	6,232	(1,880)	12,775	997	20,494	159	20,653
IFRS 9 restatement*					(100)		(100)		(100)
JAN. 1, 2017 RESTATED	592,499	2,370	6,232	(1,880)	12,675	997	20,394	159	20,553
Profit for the year					2,150		2,150	60	2,210
Other comprehensive income					(202)	(1,503)	(1,705)	(14)	(1,719)
Comprehensive income for the year					1,948	(1,503)	445	46	491
Capital increase	2,413	10	132				142		142
Exercise of stock option plans and performance shares	2,004	8	16		(6)		18		18
Dividends			(1,133)				(1,133)	(64)	(1,197)
Change in treasury shares				(154)	(17)		(171)		(171)
Share-based compensation expense					102		102		102
Other			(100)	(119)	219		–	4	4
DEC. 31, 2017	596,916	2,388	5,147	(2,153)	14,921	(506)	19,797	145	19,942
Profit for the year					2,334		2,334	97	2,431
Other comprehensive income					186	273	459	34	493
Comprehensive income for the year					2,520	273	2,793	131	2,924
Capital increase	2,407	10	144		–		154		154
Exercise of stock option plans and performance shares	1,846	1	9		–		10		10
Dividends			(1,107)		(116)		(1,223)	(80)	(1,303)
Change in treasury shares	(22,000)	(88)	(1,126)	(829)	1,214		(829)		(829)
Share-based compensation expense					131		131	4	135
AVEVA acquisition impact**					–		–	1,256	1,256
Other		6	(90)		33		(51)	26	(25)
DEC. 31, 2018	579,169	2,317	2,977	(2,982)	18,703	(233)	20,782	1,482	22,264

* 2017 opening retained earnings were restated from IFRS9 adoption impacts (Note 1.1).

** Cf. AVEVA's acquisition described in Note 2.2.

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

5. Notes to the consolidated financial statements

5. Notes to the consolidated financial statements

Note		Note			
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2	Changes in the scope of consolidation	292	17	Other receivables and prepaid expenses	303
3	Segment reporting	293	18	Cash and cash equivalents	303
4	Research and development	294	19	Equity	303
5	Impairment losses, depreciation and amortization expenses	295	20	Pensions and other post-employment benefit obligations	308
6	Other operating income and expenses	295	21	Provisions for contingencies and charges	311
7	Other financial income and expense	295	22	Total current and non-current financial liabilities	312
8	Income tax expense	295	23	Classification of financial instruments	314
9	Goodwill	296	24	Employees	318
10	Intangible assets	297	25	Related party transactions	319
11	Property, plant and equipment	298	26	Commitments and contingent liabilities	319
12	Investments in associates and joint ventures	300	27	Subsequent events	319
13	Non-current financial assets	301	28	Statutory Auditors' fees	320
14	Deferred taxes by nature	301	29	Consolidated companies	321
15	Inventories and work in progress	302			

Please note

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, 2018 were authorized for issue by the Board of Directors on February 13, 2019. They will be submitted to shareholders for approval at the Annual General Meeting of April 25, 2019.

The Group's main businesses are described in Chapter 1 of the registration document.

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, 2018. The same accounting methods were used as for the consolidated financial statements for the year ended December 31, 2017, except for the application of the new standard IFRS 15 – *Revenue from contracts with customers*.

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, 2018:

- IFRIC 22 – *Foreign Currency Transactions and Advance Consideration*;
- amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*;
- amendments to IAS 40 – *Transfers of Investment Property*;
- annual improvements to IFRS Standards 2014-2016 Cycle (December 2016);
- amendments to IFRS 4 – *Apply IFRS 9 Financial instruments with IFRS 4 Insurance contracts*;

The Group did not apply the following standards and interpretations for which mandatory application is subsequent to December 31, 2018:

- standards adopted by the European Union:
 - amendments to IFRS 9 – *Prepayment Features with Negative Compensation*;
 - IFRS 16 – *Leases*;
 - IFRIC 23 – *Uncertainty over Income Tax Treatments*;
- standards not yet adopted by the European Union:
 - IFRS 17 – *Insurance Contracts*;
 - amendments to IAS 19 – *Plan Amendment, Curtailment or Settlement*;
 - amendments to *References to the Conceptual Framework in IFRS Standards*;
 - amendments to IAS 28 – *Long-term Interests in Associates and Joint Ventures*;
 - annual improvements to IFRS 2015-2017 Cycle (December 2017);
 - amendments to IFRS 10 and IAS 28 – *Sales or contributions of assets between an investor and its associate/joint venture*;
 - amendments to IFRS 3 – *Business Combinations*;
 - amendments to IAS 1 and IAS 8 – *Definition of materials*;

The Group is currently assessing the potential effect on the Group's consolidated financial statements of the standards not yet applicable as of December 31, 2018 (see below).

Application of IFRS 9 – *Financial Instruments since 2017*

IFRS 9 – *Financial Instruments*, released by the IASB in July 2014 and adopted by the European Union on November 29, 2016, replaces IAS 39 – *Financial Instruments: Recognition and Measurement* with mandatory application from January 1, 2018. The new standard introduces: new principles for classification and measurement of financial instruments based on the Group's management intention and the nature of expected flows (phase 1); a dynamic impairment model for credit risk on financial assets based on expected losses (phase 2); new rules for hedge accounting (phase 3).

The first two phases were applied as of 2017.

The Group decided to first apply IFRS 9 standard on hedge accounting (phase 3) prospectively starting on January 1, 2018.

The implementation of IFRS 9 on hedge accounting has no material impact on the financial statements given the nature of derivatives used by Schneider Electric. The Group started in 2018 to document FX derivatives used to hedge financing transactions in Fair Value Hedge, so as to take advantage of the option offered by IFRS 9 enabling to amortize on a straight-line basis forward points over the life of the hedge within the cost of debt. The notes to financial statements were also updated as a consequence of the first application of IFRS 9 on hedge accounting.

First Application of IFRS 15 – *Revenue from contracts with customers*

On October 29, 2016, the European Union adopted IFRS 15 – *Revenue from Contracts with Customers*, which is applied since January 1, 2018.

The Group has performed analysis on each of the revenue streams described in Note 1.24: transactional sales, service revenue and long-term contracts.

For transactional and services revenue, the Group accounting practices under IAS 18 were already compliant with the new standard.

The analysis carried out on the commercial rebates granted to certain distributors evidenced an undervaluation of the accruals for rebates, resulting in a decrease of EUR 129 million in the opening consolidated reserves (disclosed in the line "Others" on the statement of change in equity) as of December 31, 2018.

5. Notes to the consolidated financial statements

Regarding long-term contracts, IFRS 15 requires that both the existence of enforceable right to payment and the absence of alternative use are demonstrated, to be able to recognize revenue over time using the percentage of completion method. The Group has analyzed a representative sample of current contracts. This analysis has proven that the application of IFRS 15 requirements had no significant impact in comparison with the previous accounting practices. The Group has adjusted its long-term contracts internal processes to comply fully with all IFRS 15 requirements.

In conclusion, there is no significant deviation from IFRS 15 new requirements with regards to revenue recognition methods applied.

IFRS 16 – Leases, applicable in 2019

IFRS 16 – Leases was adopted by the European Union on October 31, 2017, and will be mandatory for financial years beginning on or after January 1, 2019. This standard requires all leases to be recognized in the lessee's balance sheet in the form of a right-of-use asset, with a corresponding financial liability. Currently, leases classified as "operating leases" are reported as off-balance sheet items (see Note 11.3).

The Group's lease contracts essentially concern real estate assets (office buildings), and to a lesser extent vehicles and forklifts.

The Group has identified the potential impacts of the application of IFRS 16 and collected information about the features of operating leases in force to date. In 2018, the Group has adjusted its internal processes relating to lease information collection and accuracy.

The Group intends to apply this standard from January 1, 2019 without restating the figures for the comparative periods (modified retrospective approach).

The two exemptions proposed by the standard on the following contracts will be used:

- short-term leases, or with a residual maturity below twelve months
- leases for which the underlying asset is of low value

As a practical expedient, the Group will not reassess whether a contract is or contains a lease at the date of initial application.

Based on this work, application of IFRS 16 to the Group's financial statements would not have a significant impact on the Group adjusted EBITA and net result, and would increase net indebtedness between EUR 1.4 billion and EUR 1.8 billion at January 1, 2019.

IFRIC 23 – Uncertainty over Income Tax Treatments, applicable in 2019

IFRIC 23 clarifies the application of IAS 12 – *Income Taxes* regarding recognition and measurement of taxes when there is uncertainty over the income tax treatment. The impact on the Group's valuation of tax exposure is expected to be limited.

1.2 – Application of IFRS 5 – Non-current assets held for sale and discontinued operations

On April 20, 2017, the Group announced its decision to dispose of its "Solar" activity. During the second semester of 2018, the Group disposed the "Mobile" line of business. The Group also decided to restructure the "Power Plant" line of business and to keep the "Commercial & Industrial" line of business under strategic review.

This activity used to be reported within the *Low Voltage* business segment of Schneider Electric. Solar activity net loss of EUR 23 million has been reclassified to discontinued operations in the Group consolidated financial statements.

1.3 – Basis of presentation

The financial statements have been prepared on a historical cost basis, except for derivative instruments and certain 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 commitments 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 1.09 and 1.10) and the measurement of impairment losses (Note 1.11);
- the measurement of the recoverable amount of non-current financial assets (Note 1.12 and Note 13);
- the realizable value of inventories and work in progress (Note 1.13);
- the recoverable amount of trade and other operating receivables (Note 1.14);
- the valuation of share-based payments (Note 1.20);
- the calculation of provisions or risk contingencies (Note 1.21);
- the measurement of pension and other post-employment benefit obligations (Note 1.19 and Note 20);
- the recoverability of deferred tax assets related to tax loss carryforward (Note 14).

1.5 – Consolidation principles

Subsidiaries, over which the Group exercises exclusive control, either directly or indirectly, are fully consolidated.

Group investments in entities controlled jointly with a limited number of partners, such as joint ventures and companies over which the Group has significant influence (“associates”) are accounted for by the equity 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 main subsidiaries, joint ventures and associates can be found in Note 29.

The reporting date for all companies included in the scope of consolidation is December 31, with the exception of certain immaterial 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*. Acquisition costs are presented under “Other operating income and expenses” in the statement of income.

All acquired assets, liabilities and contingent liabilities are recognized at their fair value at the acquisition date, the fair value 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 expenses and impairment losses of purchase accounting intangible assets”.

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, backlog and cash flow items are translated at average annual exchange rates.

Gains or losses on translation are recorded in consolidated equity under “Cumulative translation reserve”.

Impacts from the Group’s subsidiaries in hyperinflation economies (Venezuela and Argentina) are not significant for the Group.

1.8 – Foreign currency transactions

Foreign currency transactions are recorded using the exchange rate in effect at the date the transaction is recorded or at the hedging rate. At the balance sheet date, monetary items in foreign currency (eg. payables, receivables, etc.) are translated into the functional currency of the entity at the closing rate or at 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.

However, 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*. As such, the impact of exchange rate fluctuations is recorded in equity and recognized in the statement of income when the investment is sold or when the long-term receivable or loan is reimbursed.

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, technologies 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.

5. Notes to the consolidated financial statements

Intangible assets are generally 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 expenses and impairment losses on intangible assets acquired in a business combination are presented on a separate statement of income line item, "Amortization expenses and impairment losses of purchase accounting intangible assets".

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.

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 monitored;
- 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.

Before the commercial launch, capitalized development projects are tested for impairment at least annually. From the date of the commercial launch, capitalized development projects are amortized over the lifespan of the underlying technology, which generally ranges from three to ten years. The amortization expenses of such capitalized projects are 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 whole item 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 and 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 be 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, with their counterpart being a financial debt, when 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.

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 based on 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 assets 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 business plans over a period generally not exceeding five years, and 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. The WACC stood at 7.0% at December 31, 2018 (7.1% at December 31, 2017). This rate is based on (i) a long-term interest rate of 1.08%, 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 2018, and is completed by, for CGUs WACC only, (iii) the weighted country risk premium for the Group's businesses in the countries in question.

The perpetuity growth rate is 2.0%, unchanged from 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 are *Low Voltage*, *Medium Voltage*, *Industrial Automation* and *Secure Power*. CGUs net assets were allocated 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 (*Low Voltage*, *Medium Voltage* and *Industrial Automation* mainly).

The WACC used to determine the value in use of each CGU was 7.6% for *Low Voltage*, 7.7% for *Industrial Automation*, 7.9% for *Secure Power*, and 8.0% for *Medium Voltage*.

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 fair value less costs to sell. Where the tested CGU comprises goodwill, any impairment losses are firstly deducted from goodwill.

1.12 – Non-current financial assets

Investments in non-consolidated companies are initially recorded at their cost of acquisition and subsequently measured at fair value. 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).

IFRS 9 standard allows two accounting treatments for equity instruments:

- change in fair value is recognized through "Other Comprehensive Income", in the comprehensive income statement, and, in balance sheet, in equity under "Other reserves", with no subsequent recycling in the income statement even upon sale.
- change in fair value, as well as gain or loss in case of sale, are recognized in the income statement.

The election between those two methods is to be made from inception for each equity investment and is irrevocable.

Venture capital (FCPR) / Mutual funds (SICAV) are recognized at fair value through income statement, in accordance with IFRS 9.

5. Notes to the consolidated financial statements

Loans, recorded under "Non-current financial assets", are carried at amortized cost. In accordance with IFRS 9, a depreciation is booked from inception to reflect the expected credit risk losses within 12 months. In case of significant degradation of the credit quality, the initial level of depreciation is modified to cover the entire expected losses over the remaining maturity of the loan.

1.13 – Inventories and work in progress

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

Trade and other operating receivables are depreciated according to the simplified IFRS 9 model. From inception, trade receivables are depreciated to the extent of the expected losses over their remaining maturity.

The credit risk of trade receivables is assessed on a collective basis country by country, as the geographical origin of receivables is considered representative of their risk profile. Countries are classified by risk profile using the assessment provided by an external agency. The provision for expected credit losses is evaluated using (i) the probabilities of default communicated by a credit agency, (ii) historical default rates, (iii) aging balance, (iv) as well as the Group's assessment of the credit risk considering actual guarantees and credit insurance.

Once it is known with certainty that a doubtful receivable 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 discounting impact is significant.

1.15 – Assets held for sale and liabilities of discontinued operations

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 lower 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 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. Considering their nature and maturities, these instruments represent insignificant risk of changes in value and are treated as cash equivalents.

1.18 – Schneider Electric SE shares

Schneider Electric SE 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 canceled 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. As the Group is not committed beyond these contributions, no provision related to these plans has been booked.

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 service costs rendered during the period) 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, and net of plan assets.

When 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 performance shares to senior executives and certain employees.

Pursuant to the application of IFRS 2 – *Share-based payments*, 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 performance shares and stock options, this expense is offset in the equity. 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 discounted price (Note 19.4).

1.21 – Provisions and risk contingencies

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. A provision is recognized when it is probable that the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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 the impact from discounting is significant.

Provisions are primarily set aside to cover:

- **economic risks:** these provisions cover tax risks and financial risks arising primarily from litigation;
- **customer risks:** these provisions are primarily established to cover 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 clean-up 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.

5. Notes to the consolidated financial statements

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 any direct transaction costs are deducted. 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 FX forwards, FX options, cross currency swaps, interest rate swaps and commodities future, swaps or options, depending on the nature of the exposure to be hedged.

All derivatives are recorded in the balance sheet at fair value with changes in fair value recorded in the statement of income, except when they are qualified in a hedging relationship.

Foreign currency hedges

The Group periodically enters into FX 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. In this case, the Group does not apply hedge accounting because gains and losses generated on these instruments naturally offset within "Net financial income/(loss)" with gains or losses resulting from the translation at end-of-year rates of payables and receivables denominated in foreign currency.

The Group also hedges future cash flows, including recurring future transactions and planned acquisitions or disposals of investments. In accordance with IFRS 9, these are treated as cash flow hedges. These hedging instruments are recognized at fair value in the balance sheet. 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 Group also hedges FX risk financing receivables or payables (including current account and loan with subsidiaries) using FX derivatives than can be documented either in Cash Flow Hedge or Fair Value Hedge depending on the nature of the derivative.

The Group may also designate FX derivatives or borrowings as hedging instruments of its investments in foreign operations (net investment hedge). Changes of value of those hedging instruments are accumulated in equity and recognized in the statement of income symmetrically to the hedged items.

The Group documents FX derivative based on the spot rate. The Group adopted the cost of hedging option offered by IFRS 9 to limit volatility in the statement of income related to forward points:

- for FX derivatives hedging a monetary item on the balance sheet: Forward points are amortized in statement of income on a straight-line basis. Forward points related to FX derivatives hedging financing transactions are included in "Finance costs, net";
- for FX derivatives hedging future transactions not yet recorded on the balance sheet: Forward points are recorded in the statement of income when the hedged transaction impacts the statement of income.

Interest rate hedges

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 as an adjustment to interest income or expense over the life of the agreement. The Group applies hedge accounting as described in IFRS 9 for interest rate swaps. Gains and losses on re-measurement of interest rate swaps at fair value on the balance sheet are recognized in equity (for Cash Flow Hedges) or in profit or loss (for Fair Value Hedges).

Borrowings hedged by an interest rate derivative in a fair value hedge are reevaluated at fair value for the portion of risk being hedged, with offsetting entry in the statement of income.

Cross-currency swaps may be presented both as foreign exchange hedges and interest rate hedges depending on the characteristics of the derivative.

Commodity hedges

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 IFRS 9, these qualify as cash flow hedges. These instruments are recognized in the balance sheet at fair value at the period-end (mark to market). The effective portion of the hedge is recognized separately in equity (under "Other reserves") and then recognized in income (gross margin) when the underlying hedge affects consolidated income. The effect of this hedging is then incorporated in the cost price of the products sold.

Shares hedges

Schneider Electric shares are hedged in relation to last Stock Appreciation Rights granted to US employees before 2012 using derivatives documented in cash flow hedge.

Time value of options documented in a hedging relationship is recorded using the same approach used for forward points.

Any ineffectiveness arising from a derivative documented in a hedging relationship is recorded 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 opted for accounting subsequent fair value changes of put options granted to minority shareholders with counterpart in equity.

1.24 – Revenue recognition

The Group's revenues primarily include transactional sales and revenues from services, and system contracts (projects).

Some contracts may include the supply to the customer of distinct goods and services (for instance contracts combining build followed by operation and maintenance). In such situations, the contract is analyzed and segmented into several components ("performance obligations"), each component being accounted for separately, with its own revenue recognition method and margin rate. The selling price is allocated to each performance obligation in proportion to the specific selling price of the underlying goods and services. This allocation should reflect the share of the price to which Schneider Electric expects to be entitled in exchange for the supply of these goods or services.

Revenue associated with each performance obligation identified within a contract is recognized when the obligation is satisfied, i.e. when the control of the promised goods or services is transferred to the customer.

The following revenue recognition methods can be applied:

Recognition of revenue at a point of time

Revenue from sales is recognized at a point of time, when the control of the promised goods or services is transferred to the customer. This method is applicable for all transactional sales and for specific services such as spare parts deliveries, or on-demand services.

Recognition over time

To demonstrate that the transfer of goods is progressive and recognize revenue over time, the following cumulative criteria are required:

- the goods sold have no alternative use, and
- enforceable right to payment (corresponding to costs incurred, plus a reasonable profit margin) for the work performed to date exists, in the event of early termination for convenience by the customer.

When these criteria are fulfilled, revenue is recognized using the percentage-of-completion method, based on the percentage of costs incurred in relation to total estimated costs of the performance obligation. The cost incurred includes direct and indirect costs relating to the contracts.

Expected losses on contracts are fully recognized as soon as they are identified.

Penalties for late delivery or for the improper execution of a contract are recognized as a deduction from revenue.

This method is applicable for systems contracts (projects) as the constructed assets are highly customized, and thus the Group would incur significant economic losses to redirect the built solutions to other customers.

Revenue from the majority of services contracts is recognized over time, as the customer simultaneously receives and consumes the benefits of the services provided. When costs incurred are stable over the contract's period, revenue is linearized over the contract's length.

Provisions for the discounts offered to distributors are accrued 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.

Backlog and balance sheet presentation

Backlog (as disclosed in Note 3.1) corresponds to the amounts of the selling price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) at closing date.

5. Notes to the consolidated financial statements

The cumulated amount of revenue accounted for, less progress payments and accounts receivable (presented on a dedicated line of the balance sheet) is determined on a contract-by-contract basis. If this amount is positive, the balance is recognized under "contract assets" in the balance sheet. If it is negative, the balance is recognized under "contract liabilities" (see Note 16). Reserves for onerous contracts (so-called reserves for loss at completion) are excluded from contract assets and liabilities and presented among the "reserves for contingencies" item.

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, net of bank overdrafts and facilities.

Note 2: Changes in the scope of consolidation

The principal companies consolidated are listed in the Note 29.

2.1 – Follow-up on acquisitions and divestments occurred in 2017 with significant effect in 2018

Acquisitions

On July 27, 2017, Schneider Electric announced that it has signed an agreement to acquire Asco Power Technologies ("ASCO"), a leader in the Automatic Transfer Switch ("ATS") market for a consideration of circa USD 1,258 million in an all cash transaction. The transaction was finalized on October 31, 2017. ASCO is fully consolidated in the *Low Voltage* business since November 1, 2017. As at December 31, 2018, the Group recognized intangible assets for an amount of EUR 438 million (trademark, patents and customer relationship), and of a goodwill of EUR 744 million.

The Group also acquired the minority interest of Luminous in the first semester 2017.

Disposals

On April 3, 2017, the Group announced that it has signed an agreement to sell its Telvent DTN business to TBG AG. On May 31, 2017, the transaction was finalized with a final base sale price established at USD 900 million.

2.2 – Acquisitions and divestments occurred during the year

Acquisitions

AVEVA

On September 5, 2017, the Group announced that it had reached agreement with AVEVA Group PLC on the terms and conditions of a Combination of AVEVA and Schneider Electric Software business, to create a global leader in engineering and industrial software.

On February 28, 2018, the transaction was finalized, following the issue of ordinary shares in the capital of AVEVA to Schneider Electric. The Group owns 60% of the enlarged AVEVA Group, on a fully diluted basis. AVEVA is fully consolidated in the Industrial Automation business since March 1, 2018. The consideration paid amounts EUR 1,994 million, of which EUR 577 million paid in cash (net of acquired cash).

The purchase accounting resulting from the acquisition is not completed at the closing date. As at December 31, 2018, the Group recognized intangible assets for a preliminary amount of EUR 553 million (trademark, patents and customer relationship), and an amount of Goodwill of EUR 1,449 million.

The impact on non-controlling interests reflects 40% of the AVEVA total consideration combined with the carrying value of the Schneider Electric Software business evaluated at the time of the acquisition of Invensys Group by Schneider Electric.

IGE+XAO

On November 8, 2017, the Group announced the signing of a memorandum of understanding, pursuant to which SEI SAS have filed with the Autorité des Marchés Financiers (AMF) a voluntary public tender offer for the shares of IGE+XAO.

On January 25, 2018, after the successful public tender offer and following the delivery of the shares tendered to the offer, the Group announced that SEI SAS owned directly and indirectly 70.57% of the share capital of IGE+XAO, and therefore has taken the control of the Company.

Since February 22, 2018, after the reopening of the public tender, the Group owns 70.69% of the share capital of IGE+XAO.

IGE+XAO, is fully consolidated in the Low Voltage business since February 1, 2018. The consideration paid amounts EUR 86 million (net of acquired cash).

The purchase accounting resulting from the acquisition is not completed at the closing date. As at December 31, 2018, the Group recognized intangible assets for a preliminary amount of EUR 56 million (trademark, technologies and customer relationship), and an amount of Goodwill of EUR 100 million.

Disposals

No significant disposals occurred during 2018.

Cash-flows impacts

The effect of acquisitions and divestments during the year is a net cash outflow amounting to EUR 730 million in 2018:

	2018	2017
Acquisitions	(751)	(1,165)
Purchase of minority interests	–	(141)
Disposals	21	749
NET FINANCIAL INVESTMENT	(730)	(557)

In 2018, the cash outflow from acquisitions is mainly related to AVEVA acquisition.

In 2017, the cash inflow from disposals is mainly related to the price received for the Telvent DTN divestment. The cash outflow from acquisitions is mainly related to the price paid for ASCO.

Note 3: Segment reporting

The Group is structured around four businesses and organized as follows:

Energy Management

- **Low Voltage** provides low voltage power and building automation products and solutions that address the needs of all end markets from buildings to industries and infrastructure to data centers to help customers improve the energy efficiency of the buildings;
- **Medium Voltage**, combines all Medium Voltage and grid automation activities;
- **Secure Power**, covers Secure Power activities.

Automation

- **Industrial Automation**, includes Industrial Automation and Industrial Control activities, across Discrete, Process & Hybrid industries.

Expenses concerning General Management that cannot be allocated to a particular segment are presented under "Central Functions & Digital costs".

Operating segment data is presented to the Board of Directors, which has been identified as the main decision-making body for allocating resources and evaluating segment performance. Performance and decisions on the allocation of resources are assessed by the Board of Directors notably based on Adjusted EBITA.

Share-based payment is presented under "Central Functions & Digital costs".

The Board of Directors does not review assets and liabilities by operating segment.

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

3.1 – Information by operating segment

Full year 2018

	Energy Management			Automation		Central Functions & Digital costs	Total
	Low Voltage	Medium Voltage	Secure Power	Industrial Automation			
Backlog	2,425	2,455	1,108	1,471	–		7,459
Revenue	11,572	4,320	3,628	6,200	–		25,720
Adjusted EBITA*	2,382	481	616	1,118	(723)		3,874
Adjusted EBITA %	20.6%	11.1%	17.0%	18.0%	–		15.1%

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

As of December 31, 2018, the amount of backlog to be executed over one year amounts to EUR 350 million.

5. Notes to the consolidated financial statements

Full year 2017

	Energy Management			Automation		Central Functions & Digital costs	Total
	Low Voltage	Medium Voltage	Secure Power	Industrial Automation			
Revenue	10,812	4,500	3,615	5,816		–	24,743
Adjusted EBITA*	2,232	449	600	1,021		(651)	3,651
Adjusted EBITA %	20.6%	10.0%	16.6%	17.6%		–	14.8%

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

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.

Full year 2018

	Western Europe	of which France	North America	of which USA	Asia-Pacific	of which China	Rest of the world	Total
Revenue by country market	6,991	1,643	7,183	6,101	7,338	3,666	4,208	25,720
Non-current assets as of Dec. 31, 2018	11,121	1,859	9,617	7,602	3,859	942	1,171	25,768

Full year 2017

	Western Europe	of which France	North America	of which USA	Asia-Pacific	of which China	Rest of the world	Total
Revenue by country market	6,731	1,654	6,794	5,741	6,866	3,256	4,352	24,743
Non-current assets as of Dec. 31, 2017	8,793	1,717	9,278	7,408	3,894	949	1,283	23,248

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

	Full year 2018		Full year 2017	
Revenue – Mature countries	14,987	58%	14,327	58%
Revenue – New economies	10,733	42%	10,416	42%
TOTAL	25,720	100%	24,743	100%

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 2018	Full year 2017
Research and development costs in cost of sales	(387)	(382)
Research and development costs in R&D costs*	(597)	(501)
Capitalized development costs	(315)	(300)
TOTAL RESEARCH AND DEVELOPMENT COSTS IN THE YEAR	(1,299)	(1,183)

* Of which EUR 41 million of research and development tax credits in full year 2018 and EUR 41 million in full year 2017.

Amortization expenses of capitalized development costs amounted to EUR 255 million for the 2018 financial year, compared with EUR 238 million in 2017.

Note 5: Impairment losses, depreciation and amortization expenses

	Full year 2018	Full year 2017
Depreciation and amortization included in cost of sales	(534)	(518)
Depreciation and amortization included in selling, general and administrative expenses	(155)	(151)
Amortization expenses of purchase accounting intangible assets	(171)	(117)
Impairment losses of purchase accounting intangible assets	(6)	(23)
IMPAIRMENT LOSSES, DEPRECIATION AND AMORTIZATION EXPENSES	(866)	(809)

Impairment tests performed in 2018 have not led to impairment losses being recognized on the CGUs' other assets. 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 in the growth rate;
- a 0.5 point decrease in the margin rate.

Note 6: Other operating income and expenses

Other operating income and expenses break down as follows:

	Full year 2018	Full year 2017
Impairment losses on assets	(36)	(92)
Gains on assets disposals	10	108
Losses on assets disposals	(6)	(8)
Costs of acquisitions and integrations	(69)	(75)
Pension plan curtailments and settlements	20	103
Others	(22)	(51)
OTHER OPERATING INCOME AND EXPENSES	(103)	(15)

In 2017, gains on asset disposals mostly include the impact of the disposal of Telvent DTN business.

The line "Pension plan curtailments and settlements" includes provision releases in the USA in 2018; and in 2017 in the USA and in France.

The costs of acquisitions and integrations relates to major acquisitions and disposals from 2017 and 2018.

"Others" in 2018 and 2017 include mainly provisions for litigation on non-operating expenses.

Note 7: Other financial income and expenses

	Full year 2018	Full year 2017
Exchange gains and losses, net	(5)	(24)
Financial component of Defined Benefit plan costs	(61)	(69)
Dividends received	1	2
Fair value adjustment of financial assets	3	(2)
Other financial expenses, net	(66)	(55)
OTHER FINANCIAL INCOME AND EXPENSES	(128)	(148)

Note 8: Income tax expense

When regulatory requirements are met, Group entities file consolidated tax returns. Schneider Electric SE has chosen this option for the French subsidiaries it controls directly or indirectly through Schneider Electric Industries SAS.

8.1 – Analysis of income tax expense

	Full year 2018	Full year 2017
Income tax	(635)	(681)
Deferred tax	(58)	81
INCOME TAX (EXPENSE)/BENEFIT	(693)	(600)

5. Notes to the consolidated financial statements

8.2 – Tax proof

	Full year 2018	Full year 2017
Profit attributable to owners of the parent	2,334	2,150
Income of discontinued operations, net of income tax	(23)	(94)
Income tax (expense)/benefit	(693)	(600)
Non-controlling interests	(97)	(60)
Share of profit of associates	61	61
Profit before tax	3,086	2,843
Geographical weighted average Group tax rate	25.2%	27.5%
Reconciling items:		
Theoretical income tax expense	(777)	(782)
Tax credits and other tax reductions	180	126
Impact of tax losses	(29)	(31)
Other permanent differences	(42)	75
Income tax (expense)/benefit before impact from tax reforms	(668)	(612)
EFFECTIVE TAX RATE BEFORE IMPACT FROM TAX REFORMS	21.6%	21.5%
Impact from Tax reforms	(25)	12
INCOME TAX (EXPENSE)/BENEFIT	(693)	(600)
EFFECTIVE TAX RATE	22.5%	21.1%

Theoretical tax expense from continuing operations is reconciled above from the Company's weighted-average global tax rate (rather than from the French domestic statutory tax rate), as the Company's consolidated income from continuing operations is predominantly generated outside of France.

In 2018, the tax reforms in the USA led to an additional negative adjustment of EUR 25 million.

In 2017, the tax reforms in the USA and in Belgium, as well as the additional reform in France, led together to a positive adjustment of EUR 12 million.

Note 9: Goodwill

9.1 – Main items of goodwill

Group goodwill is broken down by business as follows:

	Dec. 31, 2018, net	Dec. 31, 2017, net
<i>Low Voltage</i>	5,999	5,647
<i>Industrial Automation</i>	7,338	5,763
<i>Secure Power</i>	3,181	3,136
<i>Medium Voltage</i>	1,855	1,877
TOTAL	18,373	16,423

9.2 – Movements during the year

The main movements during the year are summarized as follows:

	Full year 2018	Full year 2017
Net goodwill at opening	16,423	17,785
Acquisitions	1,634	716
Disposals	–	(536)
Translation adjustment	263	(1,489)
Reclassifications	53	(53)
NET GOODWILL AT YEAR END	18,373	16,423
<i>Included cumulative impairment</i>	(366)	(354)

Acquisitions

Goodwill generated by acquisitions made during the year totaled EUR 1,634 million, mainly from:

- AVEVA preliminary goodwill, allocated to the *Industrial Automation*
- IGE+XAO preliminary goodwill, allocated to the *Low Voltage*
- the adjustment of ASCO's Goodwill in 2018 (*Low Voltage*)

Impairment tests performed on all the Group's CGUs have not led to goodwill impairment losses being recognized.

Other changes

Translation adjustments concern principally goodwill in US dollars and UK pound sterling.

Note 10: Intangible assets

10.1 – Change in intangible assets

Gross Value

	Trademarks	Software	Development projects (R&D)	Acquired technologies and customer relationships	Other	Total
Dec. 31, 2016	3,084	888	2,800	2,200	273	9,245
Acquisitions	–	–	314	–	1	315
Disposals	–	–	–	–	–	–
Translation adjustments	(319)	(20)	(99)	(240)	(32)	(710)
Reclassifications	–	7	(90)	–	(38)	(121)
Changes in scope of consolidation and other	112	(14)	(82)	291	36	343
Dec. 31, 2017	2,877	861	2,843	2,251	240	9,072
Acquisitions	–	18	315	1	4	338
Disposals	–	–	–	–	–	–
Translation adjustments	90	16	23	90	20	239
Reclassifications	–	20	–	–	(20)	–
Changes in scope of consolidation and other	37	(25)	(58)	500	2	456
DEC. 31, 2018	3,004	890	3,123	2,842	246	10,105

Amortization and impairment

	Trademarks	Software	Development projects (R&D)	Acquired technologies and customer relationships	Other	Total
Dec. 31, 2016	(776)	(765)	(1,505)	(1,424)	(201)	(4,671)
Depreciations	(10)	(50)	(235)	(104)	–	(399)
Impairments	(22)	(4)	(64)	(1)	–	(91)
Translation adjustments	48	16	55	123	6	248
Reclassification	–	–	10	–	35	45
Changes in scope of consolidation and other	–	41	77	36	(23)	131
Dec. 31, 2017	(760)	(762)	(1,662)	(1,370)	(183)	(4,737)
Depreciations	–	(48)	(255)	(166)	(5)	(474)
Impairments	–	–	(13)	–	–	(13)
Translation adjustments	(13)	(1)	(24)	(21)	(10)	(69)
Reclassifications	–	–	–	–	–	–
Changes in scope of consolidation and other	25	20	42	(23)	(2)	62
DEC. 31, 2018	(748)	(791)	(1,912)	(1,580)	(200)	(5,231)

Net value

	Trademarks	Software	Development projects (R&D)	Acquired Technologies and Customer relationships	Other	Total
Dec. 31, 2016	2,308	123	1,295	776	72	4,574
Dec. 31, 2017	2,117	99	1,181	881	57	4,335
DEC. 31, 2018	2,256	99	1,211	1,262	46	4,874

In 2018, change in intangible assets is mainly related to the acquisition of AVEVA.

5. Notes to the consolidated financial statements

The amortization expenses and impairment losses of intangible assets other than goodwill restated in statutory cash flow are as follows:

	Full year 2018	Full year 2017
Amortization expenses of intangible assets other than goodwill	474	399
Impairment losses of intangible assets other than goodwill	13	91
TOTAL*	487	490

* Includes amortization & impairment of intangible assets from purchase price allocation for EUR 177 million for the year 2018 (EUR 140 million in 2017).

10.2 – Trademarks

At December 31, 2018, the main trademarks recognized were as follows:

	Dec. 31, 2018	Dec. 31, 2017
APC (<i>Secure Power</i>)	1,619	1,533
Clipsal (<i>Low Voltage</i>)	157	166
ASCO (<i>Low Voltage</i>)	123	132
Pelco (<i>Low Voltage</i>)	110	117
AVEVA (<i>Industrial Automation</i>)*	79	–
Invensys – Triconex and Foxboro (<i>Industrial Automation</i>)	48	46
Digital (<i>Industrial Automation</i>)	43	40
Other	77	83
NET	2,256	2,117

* Preliminary assessment as of December 31, 2018

All the above trademarks are considered to have an indefinite life.

The Pelco trademark has been impaired for a total of EUR 318 million since its acquisition by the Group.

Impairment tests carried out on main trademarks in 2018 did not led to additional impairments.

Note 11: Property, plant and equipment

11.1 – Change in property, plant and equipment

Gross value

	Land	Buildings	Machinery and equipment	Other	Total
Dec. 31, 2016	171	1,960	4,423	1,072	7,626
Acquisitions	–	270	128	49	447
Disposals	(6)	(96)	(116)	(43)	(261)
Translation adjustments	(8)	(100)	(205)	(47)	(360)
Reclassifications	(3)	(174)	110	2	(65)
Changes in scope of consolidation and other	(1)	(14)	12	(27)	(30)
Dec. 31, 2017	153	1,846	4,352	1,006	7,357
Acquisitions	–	281	144	58	483
Disposals	(5)	(62)	(111)	(85)	(263)
Translation adjustments	–	2	6	(6)	2
Reclassifications	2	(135)	128	35	30
Changes in scope of consolidation and other	–	(65)	(10)	88	13
DEC. 31, 2018	150	1,867	4,509	1,096	7,622

Amortization and impairment

	Land	Buildings	Machinery and equipment	Other	Total
Dec. 31, 2016	(20)	(948)	(3,418)	(598)	(4,984)
Depreciations and impairment	(1)	(69)	(257)	(60)	(387)
Reversals	1	37	121	39	198
Translation adjustments	1	36	147	35	219
Reclassifications	1	16	6	12	35
Changes in scope of consolidation and other	1	22	5	24	52
Dec. 31, 2017	(17)	(906)	(3,396)	(548)	(4,867)
Depreciations and impairment	(4)	(89)	(256)	(64)	(413)
Reversals	1	36	110	67	214
Translation adjustments	–	(1)	(8)	4	(5)
Reclassifications	–	(13)	5	(22)	(30)
Changes in scope of consolidation and other	–	1	11	(12)	–
DEC. 31, 2018	(20)	(972)	(3,534)	(575)	(5,101)

Net value

	Land	Buildings	Machinery and equipment	Other	Total
Dec. 31, 2016	151	1,012	1,005	474	2,642
Dec. 31, 2017	136	940	956	458	2,490
DEC. 31, 2018	130	895	975	521	2,521

Reclassifications primarily correspond to assets put into use.

The cash impact of purchases of property, plant and equipment in 2018 was as follows:

	Full year 2018	Full year 2017
Increase in property, plant and equipment	(483)	(447)
Changes in receivables and liabilities on property, plant and equipment	(3)	13
TOTAL	(486)	(434)

The depreciation and impairment of property, plant and equipment restated in the statement of cash flows were as follows:

	Full year 2018	Full year 2017
Depreciation of property, plant and equipment	386	387
Impairment of property, plant and equipment	27	–
TOTAL	413	387

11.2 – Finance leases

Property, plant and equipment primarily include the following finance leases:

	Dec. 31, 2018	Dec. 31, 2017
Buildings	10	10
Machinery and equipment	30	30
Other property, plant and equipment	–	1
Accumulated depreciation	(39)	(40)
ASSETS UNDER FINANCE LEASE	1	1

5. Notes to the consolidated financial statements

11.3 – Operating leases

Rental expense breaks down as follows:

	Full year 2018	Full year 2017
Minimum rentals	265	112
Sub-lease rentals	5	5
TOTAL RENTAL EXPENSE	270	117

Operating lease commitments break down as follows at December 31, 2018:

	Minimum payments	Discounted minimum payments
Less than one year	240	240
Between one and five years	630	576
Five years and more	285	261
TOTAL COMMITMENTS	1,155	1,077
Discounting effect	(79)	–
Discounted minimum payments	1,077	1,077

Note 12: Investments in associates and joint ventures

Investments in associates and joint ventures can be analyzed as follows:

	Delixi	Fuji Electric FA Components & Systems	Sunten Electric Equipment	Schneider Electric DMS, LLC Power Engineering	InnoVista Sensors	Delta Dore Finance	Other	Total
% of interest								
Dec. 31, 2018	50.0%	36.8%	25.0%	57.0%	30.0%	20.0%	–	–
Dec. 31, 2017	50.0%	36.8%	25.0%	57.0%	30.0%	20.0%	–	–
CLOSING VALUE DEC. 31, 2016	279	115	52	40	77	18	20	601
Net income/(loss)	39	16	1	2	2	1	–	61
Dividends distribution	(26)	(8)	(2)	–	(42)	–	(6)	(84)
Perimeters changes	–	–	–	–	–	–	2	2
Translation impacts & others	(14)	(7)	(3)	2	(10)	–	(1)	(33)
CLOSING VALUE DEC. 31, 2017	278	116	48	44	27	19	15	547
Net income/(loss)	50	16	(1)	(7)	3	–	–	61
Dividends distribution	(57)	(4)	(1)	–	(28)	–	(1)	(91)
Perimeters changes	–	–	–	–	–	–	–	–
Translation impacts & others	(2)	8	(1)	7	1	–	–	13
CLOSING VALUE DEC. 31, 2018	269	136	45	44	3	19	14	530

Note 13: Non-current financial assets

Non-current financial assets, primarily comprising investments, are detailed below:

	% interest	Dec. 31, 2018			Dec. 31, 2017	
		Acquisition cost	Revaluation	Fair value	Fair value	
LISTED FINANCIAL ASSETS						
NVC Lighting	9.2%	129	(113)	16	23	
Gold Peak Industries Holding Ltd	4.4%	6	(3)	3	3	
Other		6	–	6	–	
TOTAL LISTED FINANCIAL ASSETS		141	(116)	25	26	
UNLISTED FINANCIAL ASSETS						
FCPR SEV1	100%	6	9	15	15	
FCPR Aster II (part A, B and C)	38.3%	47	(9)	38	26	
FCPR Growth	100%	18	5	23	36	
FCPI Energy Access Ventures Fund	30.6%	7	(1)	6	3	
SICAV SESS	63.1%	10	1	11	11	
SICAV Livelihoods Fund SIF	15.2%	4	–	4	3	
Foundries	100%	42	–	42	7	
Shenzhen Aster	30.4%	24	–	24	13	
Raise Foundation	4.8%	9	–	9	9	
Schneider Electric Energy Access	81.1%	3	–	3	3	
Others*		8	(5)	3	3	
TOTAL UNLISTED FINANCIAL ASSETS		178	–	178	129	
PENSIONS ASSETS		361	–	361	182	
OTHER		101	–	101	99	
TOTAL NON-CURRENT FINANCIAL ASSETS		781	(116)	665	436	

* Unit gross value lower than EUR 3 million.

Changes in fair value for listed financial assets are recorded through "Other Comprehensive Income" since 2017 (Note 1.2). Gains or losses realized upon sale will be maintained in "Other Comprehensive Income" (no recycling in income statement).

The fair value of investments quoted in an active market corresponds to the stock price on the balance sheet date.

Others include mainly loans to non-consolidated companies, and securities given to third parties.

Note 14: Deferred taxes by nature

Deferred taxes by type can be analyzed as follows:

	Dec. 31, 2018	Dec. 31, 2017
Tax loss carryforwards (net)	721	683
Provisions for pensions and other post-retirement benefit obligations (net)	278	332
Non-deductible provisions and accruals (net)	223	273
Differences between tax and accounting depreciation on tangible assets (net)	(55)	(45)
Differences between tax and accounting amortization on intangible assets (net)	(803)	(625)
Differences on working capital (net)	370	277
Deferred tax at other/reduced tax rates	24	63
Other deferred tax assets/(liabilities) (net)	135	143
TOTAL NET DEFERRED TAX ASSETS/(LIABILITIES)	893	1,101
<i>of which total deferred tax assets</i>	<i>2,040</i>	<i>2,097</i>
<i>of which total deferred tax liabilities</i>	<i>(1,147)</i>	<i>(996)</i>

Deferred tax assets recorded in respect of tax loss carried forward at December 31, 2018 essentially concern France (EUR 583 million).

5. Notes to the consolidated financial statements

Note 15: Inventories and work in progress

Inventories and work in progress changed as follows:

	Dec. 31, 2018	Dec. 31, 2017
COST		
Raw materials	1,258	1,218
Production work in progress	275	263
Semi-finished and finished products	1,277	1,142
Finished goods	414	407
Solution work in progress	184	135
INVENTORIES AND WORK IN PROGRESS AT COST	3,408	3,165
IMPAIRMENT		
Raw materials	(148)	(154)
Production work in progress	(9)	(5)
Semi-finished and finished products	(148)	(150)
Finished goods	(7)	(7)
Solution work in progress	(5)	(5)
IMPAIRMENT LOSS	(317)	(321)
NET		
Raw materials	1,110	1,064
Production work in progress	266	258
Semi-finished and finished products	1,129	992
Finished goods	407	400
Solution work in progress	179	130
INVENTORIES AND WORK IN PROGRESS, NET	3,091	2,844

Note 16: Trade accounts receivable

	Dec. 31, 2018	Dec. 31, 2017
Accounts receivable	5,114	4,945
Unbilled revenue	851	888
Notes receivable	199	293
Advances to suppliers	119	115
Accounts receivable at cost	6,283	6,241
Impairment	(479)	(478)
Accounts receivable, net	5,804	5,763
<i>Of which:</i>		
<i>On time</i>	4,855	4,880
<i>Less than one month past due</i>	461	408
<i>One to two months past due</i>	203	181
<i>Two to three months past due</i>	80	81
<i>Three to four months past due</i>	79	74
<i>More than four months past due</i>	126	139
ACCOUNTS RECEIVABLE, NET	5,804	5,763

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 2018	Full year 2017
Provisions for impairment on January 1	(478)	(531)
Additions	(74)	(89)
Utilizations	42	52
Reversals of surplus provisions	43	44
Translation adjustments	5	43
Other	(17)	3
PROVISIONS FOR IMPAIRMENT ON DECEMBER 31	(479)	(478)

The contracts assets and liabilities, respectively reported within the "Trade and other operating receivables" and "Trade and other operating payables", are as follows:

	Dec. 31, 2018	Dec. 31, 2017
Unbilled revenue (Contract Assets)	851	888
Contract liabilities	(797)	(797)
NET CONTRACT ASSETS	54	91

Note 17: Other receivables and prepaid expenses

	Dec. 31, 2018	Dec. 31, 2017
Other receivables	549	386
Other tax receivables	992	922
Derivative instruments	45	135
Prepaid expenses	324	250
TOTAL	1,910	1,693

Note 18: Cash and cash equivalents

	Dec. 31, 2018	Dec. 31, 2017
Marketable securities	527	1,393
Negotiable debt securities and short-term deposits	25	107
Cash and cash equivalents	1,809	1,545
Total cash and cash equivalents	2,361	3,045
Bank overdrafts	(130)	(278)
NET CASH AND CASH EQUIVALENTS	2,231	2,767

Non-recourse factorings of trade receivables were realized during the second semester of 2018 for a total amount of EUR 130 million, compared with EUR 103 million during the second semester of 2017

Note 19: Equity

19.1 – Capital

Share capital

The company's share capital at December 31, 2018 amounted to EUR 2,316,675,076 represented by 579,168,769 shares with a par value of EUR 4, all fully paid up.

At December 31, 2018, a total of 608,153,573 voting rights were attached to the 579,168,769 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.

5. Notes to the consolidated financial statements

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, 2016 were as follows:

<i>(in number of shares and in euros)</i>	Cumulative number of shares	Share capital
CAPITAL AT DEC. 31, 2016	592,498,759	2,369,995,036
Exercise of stock options	2,004,115	8,016,460
Employee share issue	2,413,368	9,653,472
CAPITAL AT DEC. 31, 2017	596,916,242	2,387,664,968
Cancellation of own shares*	(22,000,000)	(88,000,000)
Exercise of stock options	1,845,942	7,383,768
Employee share issue	2,406,585	9,626,340
CAPITAL AT DEC. 31, 2018	579,168,769	2,316,675,076

* Cancellation of 22 million treasury shares following the Board of Directors held on February 15, 2018.

The share premium account increased by EUR 154 million following the exercise of options and the increases in capital.

19.2 – Earnings per share

Determination of the share base used in calculation

<i>(in thousands)</i>	Full year 2018		Full year 2017	
	Basic	Diluted	Basic	Diluted
Common shares*	554,006	554,006	557,731	557,731
Performance shares	–	6,463	–	6,337
Stock options	–	118	–	303
AVERAGE WEIGHTED NUMBER OF SHARES	554,006	560,587	557,731	564,371

* Net of treasury shares and owned shares.

Earnings per share

<i>(in euros)</i>	Full year 2018		Full year 2017	
	Basic	Diluted	Basic	Diluted
Profit before tax	5.57	5.50	5.10	5.04
EARNINGS PER SHARE	4.21	4.16	3.85	3.81

19.3 – Dividends paid and proposed

In 2018, the Group paid out the 2017 dividend of EUR 2.20 per share (with a nominal value of EUR 4), for a total of EUR 1,223 million.

At the Shareholders' Meeting of April 25, 2019, shareholders will be asked to approve a dividend of EUR 2.35 per share (with a nominal value of EUR 4) for fiscal year 2018. At December 31, 2018 Schneider-Electric SE had distributable reserves in an amount of EUR 3,061 million (*versus* EUR 5,141 million at the previous year-end), not including profit for the year.

19.4 – Share-based payments

Current stock option and stock grant plans

The Board of Directors of Schneider Electric SE 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, 2018:

Stock option plans

Plan no.	Date of the board meeting	Type of plan*	Starting date of exercise period	Expiration date	Price (in euros)	Number of options initially granted	Options canceled because targets not met
31	01/05/2009	S	01/05/2013	01/04/2019	23.78	1,358,000	133,760
33	12/21/2009	S	12/21/2013	12/20/2019	34.62	1,652,686	–
TOTAL						3,010,686	133,760

* S = Options to subscribe new shares.

Rules governing the stock option plans are as follows:

- to exercise the option, the grantee must generally be an employee or corporate officer of the Group. Vesting is also conditional on the achievement of performance criteria;
- the options expire after six years;
- the vesting period is three or four years in the United States and four years in the rest of the world.

Performance shares

Plan no.	Date of board meeting	Vesting Date	End of lock-up period	Number of shares granted originally	Grants canceled because targets not met
19 a	02/18/2015	02/18/2017	02/20/2020	4,925	–
19 b	02/18/2015	02/18/2018	02/19/2020	9,100	–
20 a	02/18/2015	02/18/2017	02/20/2020	11,475	–
20 b	02/18/2015	02/18/2018	02/19/2020	11,950	–
20 c	02/18/2015	02/18/2019	02/18/2020	9,300	–
21	03/27/2015	03/27/2017	03/28/2019	719,670	110,367
21 bis	10/28/2015	10/28/2017	10/29/2019	1,500	217
22	03/27/2015	03/27/2019	03/28/2019	2,095,610	310,776
22 bis	10/28/2015	10/28/2019	10/29/2019	32,650	4,585
22 ter	10/28/2015	10/28/2019	10/29/2019	24,570	–
23	03/23/2016	03/23/2018	03/24/2020	7,983	–
24	03/23/2016	03/23/2020	03/24/2020	27,042	–
25	03/23/2016	03/23/2019	03/24/2021	744,540	36,860
26	03/23/2016	03/23/2020	03/24/2020	2,291,200	104,617
27	10/26/2016	10/26/2019	10/27/2019	35,700	2,285
28	03/24/2017	03/24/2020	03/24/2021	25,800	–
29	03/24/2017	03/24/2020	03/24/2020	2,405,220	–
29 bis	10/25/2017	10/25/2020	10/25/2020	32,400	–
30	03/26/2018	03/26/2021	03/26/2022	25,800	–
31	03/26/2018	03/26/2021	03/26/2021	2,318,140	–
31 bis	10/24/2018	10/24/2021	10/24/2021	28,000	–
TOTAL				10,862,575	569,707

Rules governing the stock grant plans are as follows:

- to receive the stock, the grantee must generally 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 three years.

Outstanding options and grants

Change in the number of options

Plan no.	Number of options outstanding at Dec. 31, 2017	Number of options exercised and/or created in 2018	Number of options canceled or restated in 2018*	Number of options outstanding at Dec. 31, 2018
31	156,633	(137,718)	651	19,566
33	400,350	(196,956)	6,962	210,356
TOTAL	556,983	(334,674)	7,613	229,922

* Including cancellations due to targets not being met or options being granted to employees without being exercised.

To exercise the options granted under plans 31 and 33, and the SARs (« Stock Appreciation Rights »), the grantee must generally 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 and performance shares plans, Schneider Electric SE has created 1,845,942 shares in 2018.

5. Notes to the consolidated financial statements

Change in the number of performance shares

Plan no.	Number of performance shares at Dec. 31, 2017	Number of shares granted or to be granted	Number of shares canceled in 2018	Number of shares outstanding at Dec. 31, 2018
18	1,486,408	(1,472,884)	(13,524)	–
18 bis	25,721	(16,821)	(8,900)	–
19	9,100	(9,100)	–	–
20	21,250	(11,950)	–	9,300
22	1,512,164	(513)	(103,033)	1,408,618
22 bis	27,065	–	(7,268)	19,797
22 ter	24,570	–	–	24,570
23	7,983	(7,983)	–	–
24	27,042	–	–	27,042
25	737,740	–	(23,600)	714,140
26	2,120,750	(850)	(157,000)	1,962,900
27	34,700	–	(1,000)	33,700
28	25,800	–	–	25,800
29	2,359,370	(2,000)	(98,200)	2,259,170
29 bis	32,400	–	(600)	31,800
30	–	25,800	–	25,800
31	–	2,284,940	–	2,284,940
31 bis	–	28,000	–	28,000
TOTAL	8,452,063	816,639	(413,125)	8,855,577

For performance shares to vest, the grantee must be an employee or corporate officer of the Group. In addition, vesting of some performance shares is conditional on the achievement of annual objectives based on financial indicators.

Valuation of performance shares

In accordance with the accounting policies described in Note 1.20, the stock grant plans have been valued based on an average estimated life of 4 to 5 years using the following assumptions:

- a pay-out rate of between 3.0% and 3.5%;
- a discount rate of between 0% and 1.0%, corresponding to a risk-free rate over the life of the plans (source: Bloomberg).

Based on these assumptions, the expense recorded under “Selling, general and administrative expenses” breaks down as follows:

	Full year 2018	Full year 2017
Plan 16 and 16 bis	–	(1)
Plan 17 and 17 bis	–	–
Plan 18 and 18 bis	1	12
Plan 19	–	–
Plan 20	–	–
Plan 21 and 21 bis	–	4
Plan 22, 22 bis and 22 ter	19	20
Plan 23 and 24	–	–
Plan 25	9	11
Plan 26	19	23
Plan 27	1	1
Plan 28	–	–
Plan 29 and 29 bis	44	32
Plan 30	–	–
Plan 31 and 31 bis	33	–
TOTAL	126	102

In 2018, the Group also recorded an additional expense of EUR 9 million in relation with AVEVA subgroup's stock grant plan, bringing the total Group expense to EUR 135 million.

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 been proposed the classic plan.

Under the classic plan, employees may purchase Schneider Electric shares at a 15% 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 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 a natural person with an average credit rating.

As regards the first semester 2018, Schneider Electric gave its employees the opportunity to purchase shares at a price of EUR 64.47 per share, as part of its commitment to employee share ownership, on April 3rd, 2018. This represented a 15% discount to the reference price of EUR 75.86 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, 2.4 million shares were subscribed, increasing the Company's capital by EUR 155 million as of July 10, 2018. 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 since 2012. 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 2018 and 2017.

	Full year 2018		Full year 2017	
	%	Value	%	Value
Plan characteristics:				
Plan maturity (years)		5		5
Reference price (euros)		75.86		69.23
Subscription price (euros)		64.47		59.11
Discount:	15.0%		15.0%	
Amount subscribed by employees		155.2		142.7
Total amount subscribed		155.2		142.7
Total number of shares subscribed (millions of shares)		2.4		2.4
Valuation assumptions:				
Interest rate available to market participant (bullet loan) *	3.4%		3.8%	
Five-year risk-free interest rate (euro zone)	0.3%		0.3%	
Annual interest rate (repo)	1.0%		1.0%	
Value of discount (a):	15.0%	27.4	15.0%	24.4
Value of the lock-up period for market participant (b)	26.4%	48.1	23.8%	39.8
TOTAL EXPENSE FOR THE GROUP (a)-(b)		–		–
Sensitivity				
decrease in interest rate for market participant**	-0.5%	5.1	-0.5%	4.7

Amounts in millions of euros, unless otherwise stated.

* Average interest rate charged on an ordinary, non-revolving personal loan, with a five-year maturity to a natural person with an average credit rating.

** A decline in the interest rate for market participants reduces the lock-up cost and increases the expense booked by the issuer.

19.5 – Schneider Electric SE shares

At December 31, 2018, the Group held 29,691,016 Schneider Electric shares in treasury stock, which have been recorded as a deduction from retained earnings.

The Group has repurchased 12.4 million shares for a total amount of EUR 829 million in 2018.

5. Notes to the consolidated financial statements

19.6 – Income tax recorded in equity

Total income tax recorded in Equity amounts to EUR 174 million as of December 31, 2018 and can be analyzed as follows:

	Dec. 31, 2018	Dec. 31, 2017	Change in tax
Cash-flow hedges revaluation	55	61	(6)
Financial assets revaluation	(7)	(7)	–
Actuarial gains (losses) on Defined Benefits	127	188	(61)
Other	(1)	(1)	–
TOTAL	174	241	(67)

19.7 – Non-controlling interests

The main contributor is AVEVA, for which 40% of the shares correspond to non-controlling interests for the Group.

Note 20: 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.

Defined Benefit Pension Plans

The Group's main Defined Benefit pension plans are located in the United Kingdom (UK) and the United States (US). They respectively represent 63% (2017: 61%) and 22% (2017: 26%) of the Group's total Defined Benefit Obligations (DBO) on pensions. The majority of benefit obligations under these plans, which represent 93% of the Group's total commitment at December 31, 2018, are partially or fully funded through payments to external funds. These funds are never invested in Group assets.

United Kingdom

The Group companies operate several Defined Benefit pension plans in the UK. The main one is related to the Invensys Pension Scheme. Pensions payable to employees depend on average final salary and length of service within the Group. These plans are registered schemes under UK tax law and managed by independent Boards of Trustees. They are closed to new entrants, and for most of them, the vested rights were frozen as they have been replaced by Defined Contributions plans.

These plans are funded by employer contributions, which are negotiated every three years based on plan valuations carried out by independent actuaries, so that the long term financing services are ensured.

In relation to risk management and asset allocation, the Board of Trustees' aims of each plan are to ensure that it can meet its obligations to the plan's beneficiaries both in the short and long term. The Board of Trustees is responsible for the plan's long-term investment strategy, defines and manages long-term investment strategies to reduce risks, including interest rate risks and longevity risks. A certain proportion of assets hedges the liability valuation change resulting from the interest rates evolution. Those assets are primarily invested in fixed income investments, particularly intermediate and longer term instruments.

Following the agreement reached with the Trustee of the Invensys Pension Scheme on February 2014, Schneider Electric SE guaranteed all obligations of the Invensys subsidiaries which participate in the scheme, up to a maximum amount of GBP 1.75 billion. At December 31, 2018, plan assets exceed the value of obligations subject to this guarantee and thus this guarantee cannot be called.

Schneider UK pension plans contain provisions of pension called Guaranteed Minimum Pension ("GMP"). GMPs were accrued for individuals who subscribed to the State Second Pension prior to 6 April 1997. Historically, there was an inequality in the benefits between male and female members concerning GMP.

A High Court case concluded on 26 October 2018, confirmed that all UK pension plans must equalize GMPs between men and women. In the light of these events and new information, the Group updated the related assumptions, leading to a net experience adjustment in "Other Comprehensive Income" of EUR 56 million.

United States

The United States' subsidiaries operate several Defined Benefit pension plans. These plans are closed to new entrants, frozen to future accruals and have been replaced by Defined Contributions plans. Pensions payable to employees depend on average final salary and length of service within the Group.

Each year, the Group companies contribute a certain amount to the Defined Benefit pension plans. This amount is determined actuarially and is comprised of service costs, administrative expenses and payments toward any existing deficits. Since the plans are closed and frozen, there is generally no service cost component.

The companies delegate various responsibilities to Pension Committees. These committees define and manage long-term investment strategies to reduce risks, including interest rate risks and longevity risks. A certain proportion of assets hedges the liability valuation change, resulting from the interest rates evolution. Those assets are primarily invested in fixed income investments, particularly intermediate and longer term instruments.

In 2018, Schneider Electric purchased annuities contracts to settle obligations in several of its defined benefits pension plans. The annuity contracts were purchased from high quality insurance companies in accordance with US regulations for such transactions. In total, DBO for USD 623 million was removed from the gross pension liability, requiring the use of USD 599 million of pension assets.

Assumptions

Actuarial valuations are generally performed each year. The assumptions used vary according to the economic conditions prevailing in the country concerned, as follows:

	Group weighted average rate		Of which United Kingdom		Of which United States	
	2018	2017	2018	2017	2018	2017
Discount rate	3.00%	2.65%	2.85%	2.50%	4.33%	3.50%
Rate of compensation increases	3.25%	3.28%	3.53%	3.54%	n.a.	n.a.

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 AA and AAA investment-grade corporate bonds.

In the Euro zone, the discount rate currently stands at 1.25% for a 10 years duration and 1.75% for a 15 years duration.

20.1 – Changes in provisions for pensions and other post-employment benefit obligations

Annual changes in obligations, the market value of plan assets and the corresponding assets and provisions recognized in the financial statements can be analyzed as follows:

	DBO Benefit Obligation	Plan assets	Asset Ceiling	Net Liability
DEC. 31, 2016	(11,537)	9,688	(133)	(1,982)
Service cost	(53)	–	–	(53)
Past service cost	79	–	–	79
Curtailments and Settlements	342	(318)	–	24
Interest cost	(287)	–	(3)	(290)
Interest income	–	222	–	222
Net impact in Profit & Loss, (expenses)/profit	81	(96)	(3)	(18)
of which UK	(150)	147	(3)	(6)
of which US	242	(250)	–	(8)
Benefits paid	620	(556)	–	64
Plan participants' contributions	(5)	5	–	–
Employer contributions	–	161	–	161
Changes in the scope of consolidation	1	–	–	1
Actuarial gains/(losses) recognized in equity	(4)	19	34	49
Translation adjustment	655	(535)	4	124
Other changes	–	–	–	–
DEC. 31, 2017	(10,189)	8,686	(98)	(1,601)
Service cost	(41)	–	–	(41)
Past service cost	6	–	–	6
Curtailments and Settlements	528	(508)	–	20
Interest cost	(258)	–	(2)	(260)
Interest income	–	199	–	199
Net impact in Profit & Loss, (expenses)/profit	235	(309)	(2)	(76)
of which UK	(153)	148	(2)	(7)
of which US	444	(464)	0	(20)
Benefits paid	593	(534)	–	59
Plan participants' contributions	(5)	5	–	–
Employer contributions	–	167	–	167
Changes in the scope of consolidation	(99)	94	–	(5)
Actuarial gains/(losses) recognized in equity	611	(237)	(89)	285
Translation adjustment	(57)	29	2	(26)
Other changes	–	–	–	–
DEC. 31, 2018	(8,911)	7,901	(187)	(1,197)
of which UK	(5,592)	6,009	(187)	230
of which US	(1,961)	1,384	–	(577)

5. Notes to the consolidated financial statements

The total present value of Defined Benefit Obligations breaks down as follows between wholly or partly funded plans and wholly unfunded plans:

	Dec. 31, 2018	Dec. 31, 2017
Present value of wholly or partly funded benefit obligation	(8,261)	(9,528)
Fair value on plan assets	7,901	8,686
Effect of assets ceiling	(187)	(98)
Net position of defined benefits wholly or partly funded	(547)	(940)
Present value of wholly unfunded benefit obligation	(650)	(661)
NET LIABILITY FROM FUNDED AND UNFUNDED PLANS	(1,197)	(1,601)
Balance Sheet impact:		
<i>Surplus of plans recognized as assets</i>	361	182
<i>Provisions recognized as liabilities</i>	(1,558)	(1,783)

Changes in gross items recognized in equity were as follows:

	Full year 2018	Full year 2017
Actuarial (gains)/losses on Defined Benefit Obligations arising from demographic assumptions	(182)	7
Actuarial (gains)/losses on Defined Benefit Obligations arising from financial assumptions	(523)	97
Actuarial (gains)/losses on Defined Benefit Obligations from experience effects	94	(100)
Actuarial (gains)/losses on plan assets	237	(19)
Effect of the asset ceiling	89	(34)
TOTAL RECOGNIZED IN EQUITY DURING THE PERIOD	(285)	(49)
<i>of which UK</i>	172	36
<i>of which US</i>	92	(53)

Plans asset allocation:

	Dec. 31, 2018	Dec. 31, 2017
Equity	11%	13%
Bonds	80%	80%
Others	9%	7%
TOTAL	100%	100%

20.2 – Sensitivity analysis

The effect of a $\pm 0.5\%$ change in the discount rate on the 2018 Defined Benefit Obligations is as follows:

	Total		United Kingdom		United States		Rest of the world	
	+0.5%	-0.5%	+0.5%	-0.5%	+0.5%	-0.5%	+0.5%	-0.5%
DBO impact	(532)	595	(353)	395	(103)	113	(76)	87

Note 21: Provisions for contingencies and charges

	Economic risks	Customer risks	Products risks	Environmental risks	Restructuring	Other risks	Provisions
DEC. 31, 2016	907	103	452	340	164	541	2,507
<i>Long-term portion</i>	710	87	164	330	18	341	1,650
Additions	82	19	145	10	125	126	507
Discounting effect	–	–	–	–	–	–	–
Utilizations	(79)	(11)	(98)	(18)	(121)	(151)	(478)
Reversals of unused provisions	(24)	(12)	(15)	(7)	(3)	(19)	(80)
Translation adjustments	(64)	(11)	(29)	(34)	(7)	(53)	(198)
Changes in the scope of consolidation and other	(1)	6	(10)	(1)	(4)	25	15
DEC. 31, 2017	821	94	445	290	154	469	2,273
<i>Long-term portion</i>	615	64	153	276	8	315	1,431
Additions	93	13	146	12	87	98	449
Discounting effect	–	–	–	–	–	–	–
Utilizations	(204)	(23)	(112)	(26)	(104)	(119)	(588)
Reversals of unused provisions	(10)	(14)	(11)	(4)	(13)	(10)	(62)
Translation adjustments	4	2	(3)	11	(1)	11	24
Changes in the scope of consolidation and other	28	1	2	17	(1)	(12)	35
DEC. 31, 2018	732	73	467	300	122	437	2,131
<i>Long-term portion</i>	499	50	144	265	13	281	1,253

- **Economic risks:** these provisions cover tax risks and financial risks arising primarily from litigation;
- **Customer risks:** provisions for customer risks mainly integrate the provisions for losses at completion for some of long term contracts.
- **Product risks:** these provisions are primarily established to cover risks arising from products sold to third parties. This risk consists of claims based on alleged product defects and product liability. 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.
- **Environmental risks:** these provisions are primarily funded to cover clean-up costs;
- **Other risks:** these provisions cover, in particular, insurance risks associated with the Group's captive insurance companies, certain historical legal risks, and certain provisions relating to employees, along with miscellaneous other risks.

Reconciliation with cash flow statement: the increase and decrease in provisions retreated at statutory cash flow were as follows:

	Full year 2018	Full year 2017
Increase of provision	449	507
Utilization of provision	(589)	(478)
Reversal of surplus provision	(61)	(80)
Provision variance including tax provisions but excluding employee benefit obligation	(201)	(51)
(Tax provisions net variance)	92	28
Provision variance excluding tax provisions and pension benefit obligation	(109)	(23)
Employee benefit obligation net variance excluding contribution to plan assets	26	(46)
INCREASE/(DECREASE) IN PROVISIONS IN CASH-FLOW STATEMENT	(83)	(69)

5. Notes to the consolidated financial statements

Note 22: Total current and non-current financial liabilities

The breakdown of net debt is as follows:

	Dec. 31, 2018	Dec. 31, 2017
Bonds	6,406	6,375
Bank and other borrowings	17	23
Employee profit sharing	3	4
Short-term portion of convertible and non-convertible bonds	(500)	(749)
Short-term portion of long-term debt	(3)	(3)
NON-CURRENT FINANCIAL LIABILITIES	5,923	5,650
Commercial paper	610	330
Accrued interest	31	58
Other short-term borrowings	300	273
Drawdown of funds from lines of credit	–	–
Bank overdrafts	130	278
Short-term portion of convertible and non-convertible bonds	500	749
Short-term portion of long-term debt	3	3
SHORT-TERM DEBT	1,574	1,691
TOTAL CURRENT AND NON-CURRENT FINANCIAL LIABILITIES	7,497	7,341
CASH AND CASH EQUIVALENTS (SEE NOTE 18)	(2,361)	(3,045)
NET DEBT	5,136	4,296

22.1 – Breakdown by maturity

	Dec. 31, 2018			Dec. 31, 2017
	Nominal	Interests	Swaps	Nominal
2018	–	–	–	1,691
2019	1,591	98	–	523
2020	499	89	–	498
2021	599	74	–	598
2022	696	58	–	664
2023	795	39	–	795
2024	792	30	–	790
2025	1,043	22	–	1,042
2026 and beyond	1,482	21	–	740
TOTAL	7,497	431	0	7,341

22.2 – Breakdown by currency

	Dec. 31, 2018	Dec. 31, 2017
Euro	6,563	6,253
US Dollar	746	696
Russian Ruble	38	75
Indian Rupee	48	51
Brazilian Real	36	69
Argentinian Peso	–	27
Algerian Dinar	28	27
Chilean Peso	26	24
Other	12	119
TOTAL	7,497	7,341

22.3 – Bonds

	Dec. 31, 2018	Dec. 31, 2017	Effective interest rate	Maturity
Schneider Electric SE 2018	–	749	3.750% fixed	July 2018
Schneider Electric SE 2019	500	499	3.500% fixed	January 2019
Schneider Electric SE 2020	499	498	3.625% fixed	July 2020
Schneider Electric SE 2021	599	598	2.500% fixed	September 2021
Schneider Electric SE 2022	696	664	2.950% fixed	September 2022
Schneider Electric SE 2023	795	795	1.500% fixed	September 2023
Schneider Electric SE 2024	792	790	0.250% fixed	September 2024
Schneider Electric SE 2025	743	742	0.875% fixed	March 2025
Schneider Electric SE 2025	300	300	1.841% fixed	October 2025
Schneider Electric SE 2026	741	740	0.875% fixed	December 2026
Schneider Electric SE 2027	741	–	1.375% fixed	June 2027
TOTAL	6,406	6,375		

Schneider Electric SE has issued bonds on different markets:

- in the United States, through a private placement offering following SEC 144A rule, for USD 800 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) program, bonds traded on the Luxembourg stock exchange. Issues that had not yet matured as of December 31, 2018 are as follow:
 - EUR 500 million worth of bonds issued in September 2011, at a rate of 3.5%, maturing in January 2019,
 - EUR 500 million worth of bonds issued in July 2010, at a rate of 3.625%, maturing in July 2020,
 - EUR 600 million worth of bonds issued in September 2013, at a rate of 2.5%, maturing in September 2021,
 - EUR 800 million worth of bonds issued in September 2015 at a rate of 1.50%, maturing in September 2023,
 - EUR 800 million worth of bonds issued in September 2016, at a rate of 0.25%, maturing in September 2024,
 - EUR 200 million and EUR 100 million worth of Climate bonds issued successively in October and December 2015, at a rate of 1.841%, maturing in October 2025,
 - EUR 750 million worth of bonds issued in March 2015, at a rate of 0.875%, maturing in March 2025,
 - EUR 750 million worth of bonds issued in December 2017, at a rate of 0.875%, maturing in December 2026,
 - EUR 750 million worth of bonds issued in June 2018, at a rate of 1.375%, maturing in June 2027,

For all those transactions, issue premium and issue costs are amortized per the effective interest rate method.

22.4 – Reconciliation with cash flow statement

	Dec. 31, 2017	Cash variation	Non-Cash variations			Dec. 31, 2018
			Scope impacts	Forex impacts	Other	
Bonds	6,375	(9)	–	40	–	6,406
Bank overdrafts and other Short-Term borrowings	966	220	–	(95)	–	1,091
TOTAL CURRENT AND NON-CURRENT FINANCIAL LIABILITIES	7,341	211	–	(55)	–	7,497

22.5 – Other information

At December 31, 2018 Schneider Electric had confirmed credit lines of EUR 2,675 million, all unused.

Loan agreements and committed credit lines do not include any financial covenants or credit rating triggers in case of downgrading in the company's long-term debt.

5. Notes to the consolidated financial statements

Note 23: Classification of financial instruments

The Group uses financial instruments to manage its exposure to fluctuations in interest rates, exchange rates and metal prices.

Financial assets and liabilities can be classified at the fair value following the hierarchy levels below:

1. **Level 1:** market value (non-adjusted) on active markets, for similar assets and liabilities, which the company can obtain on a given valuation date;
2. **Level 2:** data other than the market rate available for level 1, which are directly or indirectly observable on the market;
3. **Level 3:** data on the asset or liability that are not observable on the market.

23.1 – Balance sheet exposure and fair value hierarchy

	Dec. 31, 2018					
	Carrying Amount	Fair value through P&L	Fair value through equity	Financial assets/liabilities measured at amortized cost	Fair value	Fair value hierarchy
ASSETS						
Listed financial assets	25	–	25	–	25	Level 1
Venture capital (FCPR)/Mutual funds (SICAV)	97	97	–	–	97	Level 3
Other Unlisted financial assets	81	–	81	–	81	Level 3
Other non-current financial assets	462	–	–	462	462	Level 3
TOTAL NON-CURRENT ASSETS	665	97	106	462	665	
Trade accounts receivable	5,804	–	–	5,804	5,804	Level 3
Current financial assets	43	43	–	–	43	Level 3
Marketable securities	527	527	–	–	527	Level 1
Derivative instruments – foreign currencies	39	25	14	–	39	Level 2
Derivative instruments – interest rates	–	–	–	–	–	Level 2
Derivative instruments – commodities	–	–	–	–	–	Level 2
Derivative instruments – shares	6	6	–	–	6	Level 2
TOTAL CURRENT ASSETS	6,419	601	14	5,804	6,419	
LIABILITIES						
Long-term portion of bonds*	(5,906)	–	–	(5,906)	(6,045)	Level 1
Other long-term debt	(17)	–	–	(17)	(17)	Level 3
TOTAL NON-CURRENT LIABILITIES	(5,923)	–	–	(5,923)	(6,062)	
Short-term portion of bonds*	(500)	–	–	(500)	(500)	Level 1
Short-term debt	(503)	–	–	(503)	(503)	Level 3
Trade accounts payable	(4,142)	–	–	(4,142)	(4,142)	Level 3
Other	(40)	–	–	(40)	(40)	Level 3
Derivative instruments – foreign currencies	(40)	(27)	(13)	–	(40)	Level 2
Derivative instruments – interest rates	–	–	–	–	–	Level 2
Derivative instruments – commodities	(12)	–	(12)	–	(12)	Level 2
Derivative instruments – shares	–	–	–	–	–	Level 2
TOTAL CURRENT LIABILITIES	(5,237)	(27)	(25)	(5,186)	(5,237)	

* The majority of financial instruments listed in the balance sheet are accounted at fair value, except for bonds, for which the amortized cost in the balance sheet represents EUR 6,406 million compared to EUR 6,545 million at fair value.

Dec. 31, 2017						
	Carrying Amount	Fair value through P&L	Fair value through equity	Financial assets/ liabilities measured at amortized cost	Fair value	Fair value hierarchy
ASSETS						
Listed financial assets	26	–	26	–	26	Level 1
Venture capital (FCPR)/Mutual funds (SICAV)	94	94	–	–	94	Level 3
Other Unlisted financial assets	35	–	35	–	35	Level 3
Other non-current financial assets	281	–	–	462	281	Level 3
TOTAL NON-CURRENT ASSETS	436	94	61	281	436	
Trade accounts receivable	5,763	–	–	5,763	5,763	Level 3
Current financial assets	32	32	–	–	32	Level 3
Marketable securities	1,393	1,393	–	–	1,393	Level 1
Derivative instruments – foreign currencies	111	95	16	–	111	Level 2
Derivative instruments – interest rates	–	–	–	–	–	Level 2
Derivative instruments – commodities	12	–	12	–	12	Level 2
Derivative instruments – shares	12	6	–	–	12	Level 2
TOTAL CURRENT ASSETS	7,323	1,532	28	5,763	7,323	
LIABILITIES						
Long-term portion of bonds	(5,626)	–	–	(5,626)	(5,953)	Level 1
Other long-term debt	(24)	–	–	(24)	(24)	Level 3
TOTAL NON-CURRENT LIABILITIES	(5,650)	–	–	(5,650)	(5,677)	
Short-term portion of bonds	(749)	–	–	(749)	(749)	Level 1
Short-term debt	(942)	–	–	(942)	(942)	Level 3
Trade accounts payable	(4,206)	–	–	(4,206)	(4,206)	Level 3
Other	(37)	–	–	(37)	(37)	Level 3
Derivative instruments – foreign currencies	(77)	(77)	–	–	(77)	Level 2
Derivative instruments – interest rates	–	–	–	–	–	Level 2
Derivative instruments – commodities	–	–	–	–	–	Level 2
Derivative instruments – shares	–	–	–	–	–	Level 2
TOTAL CURRENT LIABILITIES	(5,237)	(77)	–	(5,934)	(5,237)	

23.2 – Derivative instruments

Dec.31, 2018								
	Accounting Qualification	Maturity	Nominal Sales	Nominal Purchases	Fair Value	Carrying Amounts in Assets	Carrying Amounts in Liabilities	Carrying Amounts in OCI
Forward contracts	Trading	< 2 years	1,850	(1,008)	7	23	(16)	–
Forward contracts	CFH	< 1 year	128	(28)	–	1	–	1
FX derivatives related to operating			1,978	(1,036)	7	24	(16)	1
Forward contracts	FVH	< 1 year	506	(945)	(2)	3	(5)	1
Forward contracts	NIH	< 1 year	1,105	–	(3)	3	(6)	(2)
Forward contracts	Trading	< 1 year	1,417	(2,413)	1	9	(11)	–
Cross currency swaps	CFH	< 2 years	–	(187)	(2)	–	(2)	(1)
FX derivatives related to financing			3,028	(3,545)	(6)	15	(24)	(2)
TOTAL FX DERIVATIVES			5,006	(4,581)	1	39	(40)	(1)
Forward contracts	CFH	< 1 year	–	(229)	(12)	6	(18)	(12)
Commodities derivatives			–	(229)	(12)	6	(18)	(12)
Options	Trading	< 1 year	–	–	6	6	–	–
Shares derivatives			–	(12)	6	6	–	–
TOTAL			5,006	(4,822)	(5)	51	(58)	(13)

5. Notes to the consolidated financial statements

Foreign currency hedges

Since a significant proportion of affiliates' transactions are denominated in currencies other than their functional currencies, the Group is exposed to currency risks. If the Group is not able to hedge these risks, fluctuations in exchange rates between the functional currencies and other currencies can have a significant impact on its results and distort year-on-year performance comparisons. As a result, the Group uses derivative instruments to hedge its exposure to exchange rates mainly through futures and natural hedges. Furthermore, some long-term loans and borrowings granted to the affiliates are considered as net investment according to IAS 21.

The Group manages its 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 its subsidiaries against risks on all transactions denominated in a currency other than their functional currency.

The breakdown of the nominal of FX derivatives related to operating and financing activities is as follows:

	Dec. 31, 2018		
	Sales	Purchases	Net
USD	2,927	(1,514)	1,413
GBP	318	(665)	(347)
SGD	371	(415)	(44)
CNY	249	(706)	(457)
HKD	137	(19)	118
AED	64	(27)	37
HUF	99	(99)	–
IDR	24	(62)	(38)
SEK	49	(278)	(229)
CAD	177	(71)	106
NOK	85	(11)	74
DKK	14	(115)	(101)
AUD	90	(89)	1
RUB	69	(8)	61
CHF	23	(124)	(101)
SAR	49	(5)	44
ZAR	46	(8)	37
Others	215	(365)	(150)
TOTAL	5,006	(4,581)	425

These forward currency hedging positions include EUR 517 million in hedges of loans and borrowings of a financial nature (net purchases) and EUR 942 million in hedges of operating cash flows.

Interest rate hedges

Interest rate risk on borrowings is managed at the Group level, based on consolidated debt and taking into consideration market conditions to optimize overall borrowing costs. The Group uses derivative instruments to hedge its exposure to interest rates through swaps.

The Group didn't use any derivative instrument to hedge its exposure to interest rates during the fiscal year 2018.

	Dec. 31, 2018			Dec. 31, 2017		
	Fixed rates	Floating rates	Total	Fixed rates	Floating rates	Total
Total current and non-current financial liabilities	6,406	1,091	7,497	6,375	966	7,341
Cash and cash equivalent	–	(2,361)	(2,361)	–	(3,045)	(3,045)
NET DEBT BEFORE HEDGING	6,406	(1,270)	5,136	6,375	(2,079)	4,296
Impact of hedges	–	–	–	–	–	–
NET DEBT AFTER HEDGING	6,406	(1,270)	5,136	6,375	(2,079)	4,296

Commodity hedges

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

All commodities instruments are futures and options designated as cash flow hedge under IFRS standards, of which:

	Dec. 31, 2018	Dec. 31, 2017
Carrying amount	(12)	12
Nominal amount	(230)	(153)

Share-based payment

Schneider Electric shares are hedged (cash flow hedges) in relation to the Stock Appreciation Rights granted to US employees. Details are as follows:

(in million euros except for the number of shares)	Dec. 31, 2018	Dec. 31, 2017
Outstanding shares	275,570	400,146
Carrying amount	6	12
Nominal amount	(13)	(17)

23.3 – Financial assets and liabilities subject to netting

In accordance with IFRS 7 standards, this section discloses financial instruments that are subject to netting agreements.

	Dec. 31, 2018				
	Gross amounts (a)	Gross amounts offset in the statement of financial position (b)	Net amounts presented in the statement of financial position (c)=(a)-(b)	Related amount not offset in the statement of financial position (d)	Net amount, as per IFRS 7 (e)=(c)-(d)
Financial assets	45	–	45	24	21
Financial liabilities	63	–	63	24	39

	Dec. 31, 2017				
	Gross amounts (a)	Gross amounts offset in the statement of financial position (b)	Net amounts presented in the statement of financial position (c)=(a)-(b)	Related amount not offset in the statement of financial position (d)	Net amount, as per IFRS 7 (e)=(c)-(d)
Financial assets	354	225	129	47	82
Financial liabilities	(305)	(225)	(80)	(47)	(33)

The Group trades over-the-counter derivatives with tier-one banks under agreements which provide for the offsetting of amounts payable and receivable in the event of default by one of the contracting parties. These conditional offsetting agreements do not meet the eligibility criteria within the meaning of IAS 32 for offsetting derivative instruments recorded under assets and liabilities. However, they do fall within the scope of disclosures under IFRS 7 on offsetting.

23.4 – Counterparty risk

Financial transactions are entered 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.

5. Notes to the consolidated financial statements

Note 24: Employees

24.1 – Employees

The Group average number of permanent and temporary employees is as follows:

<i>(number of employees)</i>	Full year 2018	Full year 2017
Production	80,703	80,895
Administration	71,355	72,229
TOTAL AVERAGE WORKFORCE EXCLUDING AVEVA AND IGE + XAO	152,058	153,124
AVEVA AND IGE+XAO	3,228	–
TOTAL AVERAGE WORKFORCE	155,286	153,124
<i>of which EMEAS*</i>	70,418	69,726
<i>of which North America</i>	32,300	30,766
<i>of which Asia-Pacific</i>	52,568	52,632

* Europe, Middle-East, Africa, South America.

The full-time equivalent number of employees, excluding supplementary personnel changed from 141,503 at 2017 year end, to 141,446 at 2018 year end. Including 4,822 people from AVEVA and IGE+XAO.

24.2 – Employee benefits expense

	Full year 2018	Full year 2017
Payroll costs	(6,082)	(6,045)
Profit-sharing	(64)	(65)
Stock options and performance shares	(135)	(102)
EMPLOYEE BENEFITS EXPENSE	(6,281)	(6,212)

24.3 – Benefits granted to senior executives

In 2018, the Group paid EUR 1.8 million in attendance fees to the members of its Board of directors. The total amount of gross remuneration, including benefits in kind, paid in 2018 by the Group to the members of Senior Management, excluding executive directors, totaled EUR 17.3 million, of which EUR 5.5 million corresponded to the variable portion.

During the last three periods, 599,500 performance shares have been allocated to members of Senior Management, excluding Corporate Officers. No stock options have been granted to members of Senior Management during the last three financial years. Performance shares were allocated under the 2018 long-term incentive plan. Since December 16, 2011, 100% of performance shares 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 EUR 5 million at December 31, 2018 versus EUR 8 million at December 31, 2017.

Please refer to Chapter 4 Section 5 of the registration document for more information regarding the members of Senior Management.

Note 25: Related party transactions

25.1 – Associates

Companies over which the Group has significant influence are accounted through the equity method. Transactions with these related parties are carried out on arm's length terms.

Related party transactions were not significant in 2018.

25.2 – 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 24.3.

Note 26: Commitments and contingent liabilities

26.1 – Guarantees and similar undertakings

The following table discloses the maximum exposure on guaranties given and received:

	Dec. 31, 2018	Dec. 31, 2017
Market counter guarantees*	3,105	2,854
Pledges, mortgages and sureties**	7	11
Other commitments given	432	435
GUARANTEES GIVEN	3,544	3,300
Endorsements and guarantees received	48	68
GUARANTEES RECEIVED	48	68

* On certain contracts, customers require some commitments to guarantee that the contract will be fully executed by the subsidiaries of the Group. 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. Market counter guarantees also include the guaranteed obligations towards pensions Scheme.

** Certain loans are secured by property, plant and equipment and securities lodged as collateral.

Lease commitments are disclosed in Note 11.3.

26.2 – Contingent liabilities

As part of its normal operations, the Group is exposed to a number of potential claims and litigations. Except for those for which it is probable that the Group will occur a liability and a provision established for such outcome (see Note 21 – Provisions for contingencies and charges), the Group is not aware of other potentially material claims and litigations.

Specifically, the Group has not been advised to date of any claim/allegations related to the investigation conducted in France by French public agencies or the antitrust investigation currently conducted by public agencies in Spain. The Group is fully cooperating with the French and Spanish authorities on these matters.

Note 27: Subsequent events

27.1 – Bond issuance

In January 9, 2019 the Group launched a EUR 500 million EMTN (Euro Medium Term Note) issue maturing in 9 years with a fixed coupon rate of 1.50%.

27.2 – Delixi Electric Ltd., China

In January 4, 2019, the Group announced that Delixi Electric Ltd., China (50% owned at by the Group) was expanding its business through two complementary acquisitions. It has acquired Zhejiang Delixi International Electric Industry Co., Ltd., a manufacturer of wiring devices, and Delixi Instrument & Meter Co., Ltd., a provider of tariff, power and gas meters. The acquired businesses will expand Delixi Electric's product offering and offer opportunities for cost and revenue synergies. Pro-forma for the two acquisitions, Delixi Electric's annual revenues would be close to RMB 8 billion (c. EUR 1 billion). The acquisitions have been funded by Delixi Electric through cash on balance sheet and bank debt. The Group accounts for its investment in Delixi Electric using the equity method.

5. Notes to the consolidated financial statements

Note 28: Statutory Auditors' fees

Fees paid by the Group to the statutory auditors and their networks:

<i>(in thousands of euros)</i>	Full year 2018				
	EY	%	Mazars	%	TOTAL
Audit					
Statutory auditing	9,884	94%	7,948	91%	17,832
<i>o/w Schneider Electric SE</i>	104		104		
<i>o/w subsidiaries</i>	9,780		7,844		
Related audit services ("SACC")	424	4%	688	8%	1,112
<i>o/w Schneider Electric SE</i>	232		13		
<i>o/w subsidiaries</i>	192		675		
Audit sub-total	10,309	98%	8,636	99%	18,945
Non-audit services	233	2%	96	1%	329
TOTAL FEES	10,541	100%	8,732	100%	19,273

<i>(in thousands of euros)</i>	Full year 2017				
	EY	%	Mazars	%	TOTAL
Audit					
Statutory auditing	11,152	85%	7,776	89%	18,928
<i>o/w Schneider Electric SE</i>	102		102		
<i>o/w subsidiaries</i>	11,050		7,674		
Related audit services ("SACC")	1,152	9%	908	11%	2,060
<i>o/w Schneider Electric SE</i>	752		37		
<i>o/w subsidiaries</i>	400		871		
Audit sub-total	12,304	94%	8,684	100%	20,988
Non-audit services	742	6%	10	–	752
TOTAL FEES	13,046	100%	8,694	100%	21,740

Note 29: Consolidated companies

The main companies included in the Schneider Electric Group scope of consolidation are listed below.

		% Interest Dec. 31, 2018	% Interest Dec. 31, 2017
Europe			
<i>Fully consolidated</i>			
Invensys Systems GmbH	Austria	100.0	100.0
NXT Control GmbH	Austria	100.0	100.0
Schneider Electric Austria GmbH	Austria	100.0	100.0
Schneider Electric Power Drives GmbH	Austria	100.0	100.0
Schneider Electric Bel	Belarus	100.0	100.0
Invensys Systems NV/SA	Belgium	100.0	100.0
Schneider Electric Energy Belgium SA	Belgium	100.0	100.0
Schneider Electric ESS BVBA	Belgium	100.0	100.0
Schneider Electric NV/SA	Belgium	100.0	100.0
Schneider Electric Services International SPRL	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 AS	Czech Republic	98.3	98.3
Schneider Electric CZ sro	Czech Republic	100.0	100.0
Schneider Electric Systems Czech Republic sro	Czech Republic	100.0	100.0
Ørbaekvej 280 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 AS	Estonia	100.0	100.0
Schneider Electric Finland Oy	Finland	100.0	100.0
Schneider Electric Fire & Security OY	Finland	100.0	100.0
Vamp OY	Finland	100.0	100.0
Behar sécurité	France	100.0	100.0
Boissière Finance SNC	France	100.0	100.0
Construction Electrique du Vivarais SAS	France	100.0	100.0
Dinel SAS	France	100.0	100.0
Eckardt	France	100.0	100.0
Eurotherm Automation SASU	France	100.0	100.0
France Transfo SAS	France	100.0	100.0
IGE+XAO SA	France	67.9	–
Invensys Systems France SASU	France	100.0	100.0
Merlin Gerin Alès SAS	France	100.0	100.0
Merlin Gerin Loire SAS	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 Electric Energy France SAS	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 Industries SAS	France	100.0	100.0
Schneider Electric International SAS	France	100.0	100.0
Schneider Electric IT France	France	100.0	100.0
Schneider Electric Manufacturing Bourguebus SAS	France	100.0	100.0
Schneider Electric SE (Société mère)	France	100.0	100.0
Schneider Electric Solar France	France	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

5. Notes to the consolidated financial statements

		% Interest Dec. 31, 2018	% Interest Dec. 31, 2017
Transformateurs SAS	France	100.0	100.0
ABN Braun GmbH	Germany	100.0	100.0
Eberle Controls GmbH	Germany	100.0	100.0
Foxboro-Eckardt GmbH	Germany	100.0	100.0
Merten GmbH	Germany	100.0	100.0
Schneider Electric Automation GmbH	Germany	100.0	100.0
Schneider Electric Deutschland GmbH	Germany	100.0	100.0
Schneider Electric GmbH	Germany	100.0	100.0
Schneider Electric Real Estate GmbH	Germany	100.0	100.0
Schneider Electric Sachsenwerk GmbH	Germany	100.0	100.0
Schneider Electric Systems Germany GmbH	Germany	100.0	100.0
Schneider Electric AEBE	Greece	100.0	100.0
Schneider Electric Energy Hungary LTD	Hungary	100.0	100.0
Schneider Electric Hungaria Villamossagi ZRT	Hungary	100.0	100.0
SE – CEE Schneider Electric Közép-Kelet Europai KFT	Hungary	100.0	100.0
Schneider Electric Ireland	Ireland	100.0	100.0
Schneider Electric IT Logistics Europe Ltd	Ireland	100.0	100.0
Validation technologies (Europe) Ltd	Ireland	100.0	100.0
Eliwell Controls S.r.l.	Italy	100.0	100.0
Eurotherm S.r.l.	Italy	100.0	100.0
Schneider Electric Industrie Italia Spa	Italy	100.0	100.0
Schneider Electric Spa	Italy	100.0	100.0
Schneider Electric Systems Italia 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
Industrielle de Réassurance SA	Luxembourg	100.0	100.0
American Power Conversion Corp (A.P.C.) BV	Netherlands	100.0	100.0
APC International Corporation BV	Netherlands	100.0	100.0
APC International Holdings BV	Netherlands	100.0	100.0
Pelco Europe BV	Netherlands	100.0	100.0
Pro-Face HMI BV (sub-group)	Netherlands	100.0	100.0
Schneider Electric BV	Netherlands	100.0	100.0
Schneider Electric Logistic Centre BV	Netherlands	100.0	100.0
Schneider Electric Manufacturing The Netherlands BV	Netherlands	100.0	100.0
Schneider Electric The Netherlands BV	Netherlands	100.0	100.0
ELKO AS	Norway	100.0	100.0
Eurotherm AS	Norway	100.0	100.0
Lexel Holding Norge AS	Norway	100.0	100.0
Schneider Electric Norge AS	Norway	100.0	100.0
Elda Eltra Elektrotehnika S.A. (ex Eltra SA)	Poland	100.0	100.0
Invensys Eurotherm Sp. Z.o.o.	Poland	100.0	100.0
Invensys Systems Sp. Z.o.o.	Poland	100.0	100.0
Schneider Electric Industries Polska Sp. Z.o.o.	Poland	100.0	100.0
Schneider Electric Polska Sp. Z.o.o.	Poland	100.0	100.0
Schneider Electric Transformers Poland	Poland	100.0	–
Schneider Electric Portugal LDA	Portugal	100.0	100.0
Schneider Electric Romania SRL	Romania	100.0	100.0
DIN Elektro Kraft OOO	Russia	100.0	100.0
OOO Potential	Russia	100.0	100.0
OOO Schneider Electric Zavod Electromonoblock	Russia	100.0	100.0
Schneider Electric Innovation center	Russia	100.0	–
Schneider Electric Systems LLC	Russia	100.0	100.0
Schneider Electric URAL LLC	Russia	100.0	100.0
ZAO Gruppa Kompaniy Electroshield	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 Systems Slovakia SRO	Slovakia	100.0	100.0
Schneider Electric d.o.o.	Slovenia	100.0	100.0
Invensys Operations Management Espana S.L.U.	Spain	100.0	100.0
Manufacturas Electricas SA	Spain	100.0	100.0

		% Interest Dec. 31, 2018	% Interest Dec. 31, 2017
Schneider Electric Espana SA	Spain	100.0	100.0
Schneider Electric IT, Spain SL	Spain	100.0	100.0
AB Crahftere 1	Sweden	100.0	100.0
AB Wibe	Sweden	100.0	100.0
Elektriska AB Delta	Sweden	100.0	100.0
Elko AB	Sweden	100.0	100.0
Eurotherm AB	Sweden	100.0	100.0
Lexel AB	Sweden	100.0	100.0
Schneider Electric Buildings AB	Sweden	100.0	100.0
Schneider Electric Distribution Centre AB	Sweden	100.0	100.0
Schneider Electric Sverige AB	Sweden	100.0	100.0
Telvent Sweden AB	Sweden	100.0	100.0
Eurotherm-Produkte (Schweiz) AG	Switzerland	100.0	100.0
Feller AG	Switzerland	83.7	83.7
Gutor Electronic GmbH	Switzerland	100.0	100.0
Schneider Electric (Schweiz) AG	Switzerland	100.0	100.0
Schneider Electric Ukraine	Ukraine	100.0	100.0
Andromeda Telematics Ltd	United Kingdom	100.0	100.0
AVEVA GROUP PLC	United Kingdom	60.0	–
Avtron Loadbank Worldwide Co. LTD.	United Kingdom	100.0	100.0
BTR Property Holdings Ltd	United Kingdom	100.0	100.0
CBS Group Ltd	United Kingdom	100.0	100.0
Eurotherm Ltd (UK)	United Kingdom	100.0	100.0
Imserv Europe Ltd	United Kingdom	100.0	100.0
Invensys Holdings Ltd	United Kingdom	100.0	100.0
M&C Energy Group Ltd	United Kingdom	100.0	100.0
N.J. Froment & Co. Limited	United Kingdom	100.0	100.0
Samos Acquisition Company 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 Controls 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
Schneider Electric Systems UK Ltd	United Kingdom	100.0	100.0
Serck Control and Safety Ltd	United Kingdom	100.0	100.0
<i>Accounted for by equity method</i>			
Aveltys	France	51.0	51.0
Delta Dore Finance SA (sub-group)	France	20.0	20.0
Energy Pool Development	France	25.0	25.0
Epsys SAS	France	–	20.0
Schneider Lucibel Managed Services SAS	France	47.0	47.0
Møre Electric Group A/S	Norway	34.0	34.0
Schneider Electric DMS NS	Serbia	57.0	57.0
Custom Sensors & Technologies Topco Limited	United Kingdom	30.0	30.0
North America			
<i>Fully consolidated</i>			
Power Measurement Ltd.	Canada	100.0	100.0
Schneider Electric Canada Inc.	Canada	100.0	100.0
Schneider Electric Solar Inc.	Canada	100.0	–
Schneider Electric Systems Canada Inc.	Canada	100.0	100.0
Viconics Technologies Inc.	Canada	100.0	100.0
Electronica Reynosa S. de R.L. de C.V.	Mexico	100.0	100.0
Industrias Electronicas Pacifico, SA de CV	Mexico	100.0	100.0
Invensys Group Services Mexico	Mexico	100.0	100.0
Schneider Electric IT Mexico SA de CV	Mexico	100.0	100.0
Schneider Electric Mexico, SA de CV	Mexico	100.0	100.0
Schneider Electric Systems Mexico SA	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
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.	United States	100.0	100.0
American Power Conversion Holdings Inc.	United States	100.0	100.0

5. Notes to the consolidated financial statements

		% Interest Dec. 31, 2018	% Interest Dec. 31, 2017
Applied Instrument Technologies, Inc.	United States	100.0	100.0
Asco Power GP, LLC	United States	100.0	100.0
Asco Power Services, Inc.	United States	100.0	100.0
Asco Power Technologies, L.P.	United States	100.0	100.0
Foxboro Controles S.A.	United States	100.0	100.0
Invensys LLC	United States	100.0	100.0
Lee Technologies Puerto Rico, LLC	United States	100.0	100.0
Pelco, Inc	United States	100.0	100.0
Power Measurement, Inc.	United States	100.0	100.0
Pro-face America, LLC	United States	100.0	100.0
Renewable Choice Energy Inc.	United States	100.0	100.0
Schneider Electric Buildings Americas, Inc.	United States	100.0	100.0
Schneider Electric Buildings Critical Systems, Inc.	United States	100.0	100.0
Schneider Electric Buildings, LLC	United States	100.0	100.0
Schneider Electric Engineering Services, LLC	United States	100.0	100.0
Schneider Electric Grid Automation Inc.	United States	100.0	100.0
Schneider Electric Holdings, Inc.	United States	100.0	100.0
Schneider Electric IT America Corp.	United States	100.0	100.0
Schneider Electric IT Corporation	United States	100.0	100.0
Schneider Electric IT Mission Critical Services, Inc.	United States	100.0	100.0
Schneider Electric IT USA, Inc.	United States	100.0	100.0
Schneider Electric IT (Xiamen) Co., Ltd.	United States	100.0	100.0
Schneider Electric Motion USA, Inc.	United States	100.0	100.0
Schneider Electric Solar Inverters USA, Inc.	United States	100.0	100.0
Schneider Electric Systems USA, Inc.	United States	100.0	100.0
Schneider Electric USA, Inc.	United States	100.0	100.0
Schneider Electric Vermont Ltd	United States	100.0	100.0
Siebe Inc.	United States	100.0	100.0
SNA Holdings Inc.	United States	100.0	100.0
Square D Investment Company	United States	100.0	100.0
Stewart Warner Corporation	United States	100.0	100.0
Summit Energy Services, Inc.	United States	100.0	100.0
Veris Industries LLC	United States	100.0	100.0
Asia-Pacific			
<i>Fully consolidated</i>			
Clipsal Australia Pty Ltd	Australia	100.0	100.0
Clipsal Technologies Australia Pty Limited	Australia	100.0	100.0
Nu-lec Industries Pty. Ltd	Australia	100.0	100.0
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 Ltd	Australia	100.0	100.0
Schneider Electric Buildings Australia Pty Ltd	Australia	100.0	100.0
Schneider Electric IT Australia Pty Ltd	Australia	100.0	100.0
Schneider Electric Solar Australia Pty Ltd	Australia	100.0	-
Schneider Electric Systems Australia Pty Ltd	Australia	100.0	100.0
Serck Controls Pty Limited	Australia	100.0	100.0
Beijing Leader & Harvest Electric Technologies Co. Ltd	China	100.0	100.0
CITIC Schneider Electric Smart Building Technology (Beijing) Co.,Ltd	China	51.0	-
Clipsal Manufacturing (Huizhou) Ltd	China	100.0	100.0
Delixi Electric Investment (shanghai) Co., LTD	China	74.5	74.5
FSL China	China	54.0	54.0
Invensys Automation & Controls Systems (Shanghai) Co., Ltd	China	100.0	100.0
Pelco (Shanghai) Trading Co. Ltd.	China	100.0	100.0
Proface China International Trading (Shanghai) 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 (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) Co. Ltd	China	100.0	100.0

		% Interest Dec. 31, 2018	% Interest Dec. 31, 2017
Schneider Electric (Xiamen) Switchgear Co. Ltd	China	100.0	100.0
Schneider Electric (Xiamen) Switchgear Equipment Co., Ltd.	China	100.0	100.0
Schneider Electric Equipment an Engineering (X'ian) 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 Electric Manufacturing (Chongqing) Co. Ltd	China	100.0	100.0
Schneider Electric Manufacturing (Wuhan) Co. Ltd	China	100.0	100.0
Schneider Great Wall Engineering (Beijing) Co. Ltd	China	100.0	100.0
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 Switchgear (Suzhou) Co, Ltd	China	58.0	58.0
Schneider Wingoal (Tianjin) Electric Equipment Co. Ltd	China	100.0	100.0
Shanghai Foxboro Co., Ltd	China	100.0	100.0
Shanghai Invensys Process System Co., Ltd	China	100.0	100.0
Shanghai Schneider Electric Power Automation Co. Ltd	China	100.0	100.0
Shanghai Tayee Electric Co., LTD	China	74.5	74.5
Telvent – BBS High & New Tech (Beijing) Co. Ltd	China	80.0	80.0
Tianjin Merlin Gerin Co. Ltd	China	75.0	75.0
Wuxi Proface Co., Ltd	China	100.0	100.0
Clipsal Asia Holdings Limited	Hong Kong	100.0	100.0
Clipsal Asia Limited	Hong Kong	100.0	100.0
Fed-Supremetech Limited	Hong Kong	54.0	54.0
Schneider Electric (Hong Kong) Limited	Hong Kong	100.0	100.0
Schneider Electric Asia Pacific Limited	Hong Kong	100.0	100.0
Schneider Electric IT Hong Kong Limited	Hong Kong	100.0	100.0
Eurotherm India Private Ltd	India	100.0	100.0
Luminous Power Technologies Private Ltd	India	100.0	100.0
Schneider Electric India Private Ltd	India	100.0	100.0
Schneider Electric Infrastructure Limited	India	94.6	94.6
Schneider Electric IT Business India Private Ltd	India	100.0	100.0
Schneider Electric President Systems Ltd	India	79.5	79.5
Schneider Electric Private Limited	India	100.0	–
Schneider Electric Solar India Private Limited	India	100.0	–
Schneider Electric Systems India Private Limited	India	100.0	100.0
PT Clipsal Manufacturing Jakarta	Indonesia	100.0	100.0
PT Schneider Electric Indonesia	Indonesia	100.0	100.0
PT Schneider Electric IT Indonesia	Indonesia	100.0	100.0
PT Schneider Electric Manufacturing Batam	Indonesia	100.0	100.0
PT Schneider Electric Systems Indonesia	Indonesia	95.0	95.0
Schneider Electric Japan, Inc.	Japan	100.0	100.0
Schneider Electric Solar Japan Inc.	Japan	100.0	–
Schneider Electric Systems Japan Inc.	Japan	100.0	100.0
Toshiba Schneider Inverter Corp.	Japan	100.0	100.0
Eurotherm Korea Co., Ltd.	Korea	100.0	100.0
Schneider Electric Korea Ltd.	Korea	100.0	100.0
Schneider Electric Systems Korea Limited	Korea	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 Systems (Malaysia) Sdn. Bhd.	Malaysia	100.0	100.0
Schneider Electric (NZ) Limited	New Zealand	100.0	100.0
Schneider Electric Systems New Zealand Limited	New Zealand	100.0	100.0
American Power Conversion Land Holdings Inc.	Philippines	100.0	100.0
Clipsal Philippines	Philippines	100.0	100.0
Pelco Asia Pacific Pte. Ltd	Philippines	100.0	100.0
Schneider Electric (Philippines) Inc.	Philippines	100.0	100.0
Schneider Electric IT Philippines Inc.	Philippines	100.0	100.0
Schneider Electric Asia Pte. Ltd.	Singapore	100.0	100.0

5. Notes to the consolidated financial statements

		% Interest Dec. 31, 2018	% Interest Dec. 31, 2017
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 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
Schneider Electric Systems Singapore Pte. Ltd.	Singapore	100.0	100.0
Schneider Electric Lanka (Private) Limited	Sri Lanka	100.0	100.0
Schneider Electric Systems Taiwan Corp.	Taiwan	100.0	100.0
Schneider Electric Taiwan Co., Ltd.	Taiwan	100.0	100.0
Pro-Face South-East Asia Pacific Co., Ltd.	Thailand	100.0	100.0
Schneider (Thailand) Limited	Thailand	100.0	100.0
Schneider Electric CPCS (Thailand) Co., Ltd.	Thailand	100.0	100.0
Schneider Electric Systems (Thailand) Co. Ltd.	Thailand	100.0	100.0
Clipsal Vietnam Co. Ltd	Vietnam	100.0	100.0
Invensys Vietnam Ltd	Vietnam	100.0	100.0
Schneider Electric IT Vietnam Ltd	Vietnam	100.0	100.0
Schneider Electric Manufacturing Vietnam Co., Ltd	Vietnam	100.0	100.0
Schneider Electric Vietnam Co. Ltd	Vietnam	100.0	100.0
<i>Accounted for by equity method</i>			
Delixi Electric LTD (sub-group)	China	50.0	50.0
Ennovation System Control Co., LTD	China	40.0	40.0
Sunten Electric Equipment Co., Ltd	China	25.0	25.0
Fuji Electric FA Components & Systems Co., Ltd (sub-group)	Japan	36.8	36.8
Foxboro (Malaysia) Sdn Bhd	Malaysia	49.0	49.0
Rest of the world			
<i>Fully consolidated</i>			
Himel Algeria	Algeria	100.0	100.0
Invensys Systems Algérie EURL	Algeria	100.0	100.0
Schneider Electric Algeria	Algeria	100.0	100.0
Schneider Electric Argentina S.A.	Argentina	100.0	100.0
Schneider Electric Systems Argentina S.A.	Argentina	100.0	100.0
American Power Conversion Brasil Ltda	Brazil	100.0	100.0
CP Eletronica Ltda	Brazil	100.0	100.0
Eurotherm LTDA	Brazil	100.0	100.0
Schneider Electric Brasil Automação de Processos Ltda	Brazil	100.0	100.0
Schneider Electric Brasil Ltda	Brazil	100.0	100.0
Schneider Electric IT Brasil Industria e Comercio de Equipamentos Eletronicos Ltda	Brazil	100.0	100.0
Steck da Amazonia Industria Electrica Ltda	Brazil	100.0	100.0
Steck Industria Electrica Ltda	Brazil	100.0	100.0
Telseb Serviços de Engenharia e Comércio de Equipamentos Eletrônicos e Telecomunicações Ltda	Brazil	100.0	100.0
Inversiones Schneider Electric Uno Limitada	Chile	100.0	100.0
Marisio SA	Chile	100.0	100.0
Schneider Electric Chile S.A.	Chile	100.0	100.0
Schneider Electric Systems Chile Limitada	Chile	100.0	100.0
Dexson Electric S.A.S.	Colombia	100.0	100.0
Schneider Electric de Colombia S.A.	Colombia	100.0	100.0
Schneider Electric Systems Colombia Ltda	Colombia	100.0	100.0
Schneider Electric Centroamerica Ltda	Costa Rica	100.0	100.0
Invensys Engineering & Service S.A.E.	Egypt	51.0	51.0
Invensys Process Systems Egypt Co., Ltd	Egypt	60.0	60.0
Schneider Electric Distribution Company	Egypt	87.4	87.4
Schneider Electric Egypt SAE	Egypt	91.9	91.0
Invensys Middle East FZE	Emirates	100.0	100.0
Schneider Electric DC MEA FZCO	Emirates	100.0	100.0
Schneider Electric FZE	Emirates	100.0	100.0
C-Schneider Electric Kenya	Kenya	85.0	85.0
Schneider Electric Services Kuwait	Kuwait	49.0	49.0
Schneider Electric East Mediterranean SAL	Lebanon	96.0	96.0
Delixi Electric Maroc SARL AU	Morocco	100.0	100.0
Schneider Electric Maroc	Morocco	100.0	100.0
Invensys Systems Nigeria Ltd	Nigeria	100.0	100.0
Schneider Electric Nigeria Ltd	Nigeria	100.0	100.0

		% Interest Dec. 31, 2018	% Interest Dec. 31, 2017
Schneider Electric Oman LLC	Oman	100.0	100.0
Schneider Electric Pakistan (Private) Limited	Pakistan	80.0	80.0
Schneider Electric Peru S.A.	Peru	100.0	100.0
Schneider Electric Systems del Peru S.A.	Peru	100.0	100.0
AMPS	Saudi Arabia	100.0	100.0
EPS Electrical Power Distribution Boards & Switchgear Ltd	Saudi Arabia	100.0	100.0
Invensys Saudi Arabia Co., Ltd	Saudi Arabia	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
Gunsan Elektrik	Turkey	100.0	100.0
Himel Elektrik Malzemeleri Ticaret A.S	Turkey	100.0	100.0
Schneider Elektrik Sanayi Ve Ticaret A.S.	Turkey	100.0	100.0
Schneider Enerji Endustrisi Sanayi Ve Ticaret A.S	Turkey	100.0	100.0
Schneider Electric Uganda Ltd	Uganda	100.0	100.0
Schneider Electric Systems de Venezuela, C.A.	Venezuela	100.0	100.0
Schneider Electric Venezuela, S.A.	Venezuela	93.6	93.6

Statutory Auditors' report on the consolidated financial statements

6. Statutory Auditors' report on the consolidated financial statements

Year ended December 31, 2018

To the Annual General Meeting of Schneider Electric S.E.,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Schneider Electric S.E. for the year ended December 31, 2018.

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, 2018 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.

The audit opinion expressed above is consistent with our report to the audit and risks committee.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2018 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 or in the French Code of Ethics (*Code de déontologie*) for statutory auditors.

Emphasis of Matter

We draw your attention to the matter described in the paragraph "First Application of IFRS 15 – Revenue from contracts with customers" in the Note 1 "Accounting Policies" to the Consolidated financial statements.

Justification of Assessments – Key Audit Matters

In accordance with the requirements of Articles L. 823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

Measurement of goodwill and trademarks with an indefinite useful life

Notes 14, 1.9, 1.11, 5, 9 and 10 to the consolidated financial statements

Key audit matter

As at December 31, 2018, the carrying amount of goodwill and trademarks with an indefinite useful life is M€ 18.373 and M€ 2.256 respectively, totaling 49 % of the group consolidated assets.

As described in Note 1.11 to the consolidated financial statements, the Cash Generating Units (CGUs), which the goodwill and the trademarks with an indefinite useful are allocated to, are tested for impairment at least once a year and whenever there is an indication of impairment risk.

The Group's CGUs are Low Voltage, Medium Voltage, Industrial Automation, and Secure Power, and correspond to the smallest identifiable groups of assets generating cash inflows that are largely independent from the cash inflows from other assets or groups of assets.

The recoverable value of a CGU is defined as the highest value between its value in use and its realizable value net of costs. The value in use of a CGU is determined by discounting future cash flows that will be generated by its underlying assets and which are based on the Group's management's economic assumptions and operating forecasts.

An impairment loss is recognized when the recoverable value of a CGU is lower than its book value, for the excess amount of the book value over the recoverable value. When the tested CGU comprises goodwill, any impairment loss is primarily deducted there from.

We considered the measurement of goodwill and trademarks with an indefinite useful life to be a key audit matter as these assets account for a large part of the group's consolidated balance sheet and because of the level of management's judgment required to:

- define the CGUs, as an improper mapping could lead your Group to not recognize or under-estimate an impairment of goodwill;
- determine the assumptions used for the impairment tests of goodwill and trademarks, particularly the discount rates, perpetuity growth rates and the expected margin rates or royalty rates.

Our response

As regards goodwill, our audit work consisted in:

- assessing the Group's definition of the CGUs in light of the applicable accounting standards;
- assess the procedures implemented by the Group to evaluate the future discounted cash flows underlying the determination of the value in use of each CGU;
- reconciling the carrying amount of assets tested with the accounting data;
- assessing the business forecasts underlying the future cash flows by comparing past estimates to actual results;
- with the assistance of our valuation experts, assessing the assumptions used such as discount rates, perpetuity growth rates and expected margin rates, as well as the sensitivity of tests results to a variation of these assumptions;
- reconciling the sensitivity analyses performed by the Group with our sensitivity calculations;
- verifying the arithmetical accuracy of the computations underlying the impairment tests.

As regards significant trademarks with an indefinite useful life, our work consisted in:

- assessing the method used to evaluate their recoverable amount and the assumptions used, including the discount rate, the perpetuity growth rate and the royalty rate, as well as the sensitivity of the results of these tests to changes in these assumptions, and to verify the arithmetical accuracy of the impairment tests.

Capitalization and measurement of development costs

Notes 1.4, 1.9, 1.11, 4 and 10 to the consolidated financial statements

Key audit matter

As at December 31, 2018, the Group's consolidated balance sheet includes capitalized development costs recognized as intangible assets for M€ 1.211.

As described in notes 1.9 and 1.11 to the consolidated financial statements, the costs the Group incurs as part of its new projects are capitalized when certain criteria are strictly met and, in particular, when it is probable that future economic benefits attributable to the project will flow to the group.

Development-related assets are amortized from the commercial launch and over the lifespan of the underlying technology.

Development-related assets which are not amortized yet are tested for impairment at least on an annual basis and whenever there is an indication of impairment risk. As for development-related assets, which are in the amortization period, they are tested for impairment at year-end in case an impairment risk has been identified. The Group recognizes an impairment loss when the recoverable amount of a development-related asset is lower than the corresponding capitalized costs.

The capitalization and the measurement of development costs are considered to be a key audit matter due to their materiality when compared to the consolidated assets of the Group, and to the management's judgment exercised when initially determining whether such development costs should be accounted for as intangible assets and when subsequently carrying out impairment tests.

Our response

We analyzed the processes the Group implemented for the initial recognition in intangible assets of development costs, for the identification of projects to be potentially impaired and for the determination of estimates used for the purpose of testing the development-related assets for impairment. Based on a selection of projects, our work consisted in:

- ensuring the criteria for recognizing an intangible asset, as set out in IAS 38 and in the Group's internal procedure, were met and consistently applied;
- reconciling, on a sample basis, the costs capitalized as at December 31, 2018 with the underlying supporting documentation;
- assessing, with the assistance of our valuation experts, the data and assumptions used by the Group when testing development-related assets for impairment, mainly sales forecasts, discount rates and long-term growth rates, by inquiring of management and by comparing future cash flows to past performance;
- comparing the sensitivity analyses performed by the Group to our sensitivity calculations;
- verifying the arithmetical accuracy of management's computations.

Recognition and recoverability of deferred tax assets related to tax losses carried forward

Notes 1.4, 1.16 and 14 to the consolidated financial statements

Key audit matter

As at December 31, 2018, the deferred tax assets recognized in the Group's balance sheet, with regards to tax losses carried forward, amount to M€ 721.

As described in note 1.16 to the consolidated financial statements, the Group recognizes future tax benefits, arising from the utilization of tax losses carried forward, to the extent they can reasonably be expected to be achieved, including when such amounts can be indefinitely carried forward.

Management assesses at year-end the recoverability by the Group of its deferred tax assets on tax losses carried forward based on its consumption plan. The appropriate estimation of deferred tax assets relies on the Group's ability to accurately forecast its future taxable incomes.

Statutory Auditors' report on the consolidated financial statements

We considered the initial recognition and the subsequent recoverability of deferred tax assets on tax losses carried forward to be a key audit matter due to the judgment exercised by management.

Our response

In considering the Group's capacity to benefit from its deferred tax assets on tax losses carried forward by offsetting them with future taxable incomes, our audit approach consisted, with the assistance of our tax lawyers when necessary, in:

- inquiring about the consumption plans of tax losses carried forward for the subsidiaries or tax consolidation groups at stake;
- assessing the data and assumptions underlying the consumption plans of tax losses carried forward supporting the recognition and the measurement of deferred tax assets by the Group.

Risk assessment and measurement of provisions and contingent liabilities

Notes 1.4, 1.21, 21 and 26.2 to the consolidated financial statements

Key audit matter

The Group operates in many countries and is thus exposed to different environments in terms of law, regulation and tax. The Group is also subject to the inherent risks of its operations, especially with regard to commercial and industrial aspects.

In this context, the Group may face uncertain, litigious or contentious situations, particularly when analyzing uncertain tax positions.

As described in note 1.21 to the consolidated financial statements, the Group recognizes a provision when it has an obligation towards a third party prior to the balance sheet date, and when 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.

Each subsidiary and relevant departments of the group assess the identified risks on a regular basis, with the assistance of external counsels when necessary.

We considered provisions, which amount to M€ 2.131 as at December 31, 2018, to be a key audit matter given the various risks the Group is exposed to and to the judgment required from management to estimate the risks and the provisions amounts, if any. In case of an incomplete identification of the risks and/or an incorrect evaluation of its exposure, the Group could under- or overestimate its provisions and contingent liabilities.

Our response

Our audit approach consisted mainly in:

- assessing the procedures implemented by the Group to identify and gather the different types of risks it is exposed to;
- obtaining an understanding of the risk analyses performed by the Group, with the relating supporting documentation, and studying written statements from internal and external legal advisors, where applicable;
- assessing, for the main risks identified, the assumptions used by management to measure the provisions accounted for, with the assistance of our experts, if necessary;
- reading the information provided by the group regarding its contingent liabilities.

Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations of the information pertaining to the Group presented in the Board of Directors' management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We certify that the consolidated statement of non-financial performance provided for in Article L. 225- 102-1 of the French Commercial Code (*Code de commerce*) is included in the information pertaining to the Group presented in the management report, it being specified that, in accordance with the provisions of Article L. 823-10 of this code, the information contained in this statement has not been verified by us as to its accuracy or consistency with the consolidated financial statements and must be the subject of a report by an independent third-party body.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed as statutory auditors of Schneider Electric S.E. by the annual general meetings held on May 6, 2004 for MAZARS and on June 25, 1992 for ERNST & YOUNG et Autres.

As at December 31, 2018, MAZARS was in the fifteenth year of its engagement without interruption and ERNST & YOUNG et Autres in the twenty-seventh year.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The audit and risks committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of this audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the audit and risks committee

We submit a report to the audit and risks committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the audit and risks committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the audit and risks committee with the declaration provided for in Article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics (*Code de déontologie*) for statutory auditors. Where appropriate, we discuss with the audit and risks committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Courbevoie and Paris-La Défense, March 8, 2019

The Statutory Auditors
French original signed by

MAZARS
Loïc Wallaert

ERNST & YOUNG et Autres
Jean-Yves Jégourel
Alexandre Resten