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Group's strategy: opportunities and risks

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1. Trends and opportunities

Megatrends driving our growth

Schneider Electric believes in an acceleration of digital adoption with an increasing sense of urgency to transition to cleaner, more electric and decarbonized energy, and industrial systems. For us, Electricity and Digital are the recipe for a more sustainable and resilient world. At Schneider we call this Electricity 4.0, powering the New Electric World, which combined with Industry 4.0, creates a strong catalyst for growth in energy efficiency and process efficiency.

- **Electricity makes energy green:** Electricity is the most efficient energy and the best vector of decarbonization.
- **Digital builds a smart future:** Digital and software enables supply/demand efficiency and end-to-end life cycle management.
- **Regional differences in electrical and digital regulations are more prevalent:** Solutions for a more sustainable and resilient world must be adapted to regional specificities.
- **Innovation that promotes more cost-effective electrification and power decentralization:**
 - Energy batteries are expected to provide up to five times more energy density by 2030⁽²⁾.
 - More renewables, with a variable capacity mix anticipated to reach up to 50% by 2040⁽³⁾.

The Group's positioning focuses on three megatrends: a world that is **all electric, all digital, and more multi-local**.

1. All electric



Electrification will intensify in line with the energy transition, due to several factors:

- **More electric loads**, namely:
 - The electrification of transportation as the yearly electricity consumption from electric vehicles is anticipated to grow by 18% p.a. from 2019 to 2040⁽¹⁾.
 - Further electrification of industrial processes currently powered by gas.
 - The acceleration of electricity demand, due to growth in internet traffic, data center infrastructure, and increased connectivity.
 - Increased electrification in buildings, driven by the electrification of heating, cooking, and cooling, and new regulations to accelerate decarbonization.

2. All digital



Today's digital economy is driving disruption across every sector. Digital remote interactions have become more prevalent, further revolutionizing how we work and live together.

- **Growing need to aggregate exponential amounts of data.** 11 billion smart appliances in 1 billion homes are expected to participate in interconnected electricity systems by 2040⁽⁴⁾.
- **Large data volumes generated by IoT in industrial applications:** an offshore oil rig is expected to produce 1–2 terabytes of data daily and a smart factory 5 petabytes per week⁽⁵⁾.
- **New business models with artificial intelligence, algorithms, and platforms** that turn vast amounts of data into insights and value. It is estimated that 70% of new value created in the economy over the next decade will be based on digitally-enabled platform business models⁽⁶⁾.

(1) Bloomberg New Energy Finance.

(2) Rocky Mountain Institute.

(3) Includes Onshore Wind, Offshore Wind, Utility-scale PV, Small-scale PV, Solar thermal, Source: Bloomberg New Energy Finance.

(4) International Energy Agency.

(5) Quicksilver Capital, industrial digital transformation, Spring 2020.

(6) World Economic Forum: Shaping the Future of Digital Economy and New Value Creation, 2019.

3. More multi-local

Energy, power, and electrical norms and standards have been devised regionally since their inception. But, as power and electrical systems become smarter, more digital and more data-centered, they also need to align with digital regulations and standards. We believe in a multi-local world, where locally tailored solutions will be more prevalent, namely due to:

- Local data regulations on connectivity and data privacy, such as General Data Protection Regulation (GDPR).
- Regulations for higher cybersecurity adoption in North America, Europe, the Middle East and Asia.
- Diverging local or regional standards for electricity (for example, different approaches to Arc Fault detection).

Why these trends matter for Schneider Electric?

For Schneider Electric, **electrification** represents growth opportunities in buildings, industries, infrastructure and grids, data centers, and homes. **Digital transformation** is a key driving force in all our markets, enabling more data analytics and insights into operations for improved energy management and process efficiency, enabling more agility. We see many of our customers stepping up their efforts and investments in sustainability. Our solutions from connected devices, to software, digital services, and energy and sustainability services help our customers.

- **Buildings of the future** that are sustainable, resilient, hyper-efficient, and people-centric.
- **Infrastructure and grids of the future** that are sustainable, resilient, flexible, and distributed.
- **Homes of the future** are sustainable, smart homes of the future connecting the lifeline of the home – electricity – with digital, to help achieve carbon-neutral goals.
- **Data centers of the future** that are sustainable, resilient, hyper-efficient, and adaptive.
- **Industries of the future** that are sustainable, efficient and resilient, human-centric, and fully digital.

Schneider Electric is the most **local of global companies** with a balanced footprint. Equally, the diverse mix of teams across the globe ensures the highest level of local expertise and support for our customers' specific needs and global R&D expertise strengthens the Group's innovation strategy. We believe this local set-up empowers our country leaders to best react to local market changes with agility.



2. Customer focus

Meeting customer expectations

We focus on strategic segments with our unique combination of energy management, automation and process efficiency, delivered through products, control systems, software, and services.

Residential: We help create sustainable and smart homes of the future by connecting electricity with digital in individual homes, apartments, and public housing. We support our customers to achieve a net-zero future, create safe and adaptive homes with reliable power, use actionable insights to efficiently manage energy usage and costs, and enjoy personalized living experiences.

Buildings: We offer intelligent building technologies for Real Estate, Healthcare, Hotels and Retail customers. Our solutions help them maximize operational efficiency and energy savings, while lowering OpEx costs, ensuring cybersecurity and decarbonization of assets. Building on our software portfolio that includes IGE+XAO and Alpi, we now also support the digitization of construction, with RIB Software to unlock the full potential of building efficiencies and sustainability.

Cloud and service providers: We provide data center, network solutions, and edge computing to internet giants, co-location providers, and industrial customers. We help them increase reliability and power usage effectiveness, accelerate decarbonization of their operations, and increase efficiency and optimize value chains with Unified Operations Centers from AVEVA.

Power and grid: We serve companies producing, delivering, and/or selling electricity to help them reduce their carbon footprint, digitize networks, and connect customers to smart grids. We help our customers overcome challenges, such as increased intermittent renewables or decentralized generation with our Advanced Distribution Management systems to better manage system interruption duration and frequency.

Water and wastewater: We support customers across the entire water cycle, from water resources to water distribution, sewage management and treatment. Through our innovative smart water technologies and services, we help make water safe, reliable, sustainable, and efficient across the entire water cycle. We partner with our customers in their digital transformation to reach resilience and sustainability goals.

Mobility: We serve automotive manufacturers and electric car battery manufacturers to enable productivity and sustainability through digitization. We also provide solutions for critical transportation infrastructure, such as electric car charging, airports, railways, subways, and ports. Our solutions include microgrids and Energy-as-a-Service, to help customers run safe, reliable, efficient, and carbon-free operations.

Oil and gas: We provide integrated digital solutions and high-performance systems, software, and services to oil and petrochemical companies, and Engineering Procurement and Construction (EPC) companies. We help customers manage the entire life cycle of capital projects, achieve sustainability targets, and improve safety and operations with digital twins, from production to processing and supply chain operations, namely thanks to AVEVA offers and EcoStruxure™ Power and Process, which enables the convergence of power and control.

Consumer packaged goods: We enable digital transformation at every step of the value chain for Food and Beverage and Life Sciences companies. Our solutions provide improved sustainability, efficiency, and traceability, such as Manufacturing Operations Management and Manufacturing Execution software from AVEVA. With ProLeiT, we help Food and Beverage customers advance their digital transformation and optimize their production processes, driving increased productivity and efficiency.

Mining, minerals, and metals: We help mining, cement, glass, and metals customers to achieve greater energy and production efficiency and sustainability targets, thanks to EcoStruxure™ and IoT-enabled solutions. Unified Operation Centers from AVEVA provide a comprehensive view at company level to drive efficiencies at scale by connecting all assets and sites into one repository.

Leveraging a global network of over 650,000 service providers and partners

We strive to be the most partner-friendly company in our industry. A significant share of Group revenues is managed through intermediary partners, with their own added value. This network enables us to extend our segment coverage and have a strong connection to local markets. We are increasingly focusing on digital interaction with our partner ecosystem, thanks to the Partner Portals and Schneider Electric Exchange.

Distributors and retailers: Our main distribution partners are electrical distributors, specialists in IT, telecom and data center applications, DIY retailers, online marketplaces, e-tailers, and specialist technical distributors for automation and industrial software solutions, access control, and security products. Distribution now represents approximately 45% of total Group turnover. 2020 was an inflection point for eCommerce. We continued to digitally equip our customers and channel partners with more web-based trainings, web shops, and digital tools for design, selection, configuration, and customer support, while lockdowns limited access to physical stores. In 2020, eCommerce grew 22% year on year and it now represents 25% of the Group's overall distribution business.

Panel builders: Collaboration with panel builders, who build and sell electrical distribution or control/monitoring switchboards, helps bring to market our innovative solutions and provide end-users the solutions for a more digital and more electric world. Panel builders buy low and medium-voltage devices and act as specialists, or connected power system experts, who manage and maintain electrical assets after installation and throughout their entire operational lifetime.

Contractors: To design solutions tailored to end-users' specific needs, we work closely with contractors, small specialists or generalist electricians, and large companies that specialize in installation equipment and systems. We provide training and support and leverage our multichannel partner model, which is increasingly digital, via the Partner Portal and Exchange platforms.

System integrators: System integrators design, integrate, and support automation to meet their customers' needs for the performance, reliability, precision, and efficiency of their operations. We give system integrators access to all areas of automation from field control to Manufacturing Execution Systems and Building Automation Systems.

Specifiers/consulting engineers: To meet their customers' specific demands, specialist engineers, architects, and design firms are prescribing more efficient and integrated energy management solutions, specifically for critical power, security, and building automation. As our essential partners, we collaborate and provide application-focused design information and tools, with IGE+XAO, Alpi, and EcoStruxure™ Power Design software.

Electricians: We have one of the most comprehensive networks of electricians worldwide. We enable electricians to operate more efficiently through training, technical support, and digital tools, such as My Schneider Electric app, where over 400,000 electricians are registered. Our relationship with electricians is strengthened by increasing their visibility to end-users through different tools, including online "installer locators".

Original equipment manufacturers (OEMs): We work with more than 15,000 OEMs to improve machine performance and reduce time-to-market for packaging, conveyor, material handling, hoisting, and Heating, Ventilation, and Air Conditioning (HVAC) applications, providing tools and software such as EcoStruxure™ Automation Expert. We nurture strong OEM partnerships through programs to enhance their capacity to deliver internationally.

3. Company purpose

Our purpose is to empower all to make the most of our energy and resources, bridging progress and sustainability for all. At Schneider, we call this

Life Is On



Buildings of the future

Capture the power of an all-digital, all-electric infrastructure for more sustainable, resilient, efficient, and people-oriented buildings.



Industries of the future

Truly open automation, agnostic software, and unique solutions that protect our planet are bringing tomorrow's industries to life today.



Data centers of the future

Leverage the power of connected infrastructure for more sustainable, efficient, adaptive, and resilient data centers.



Homes of the future

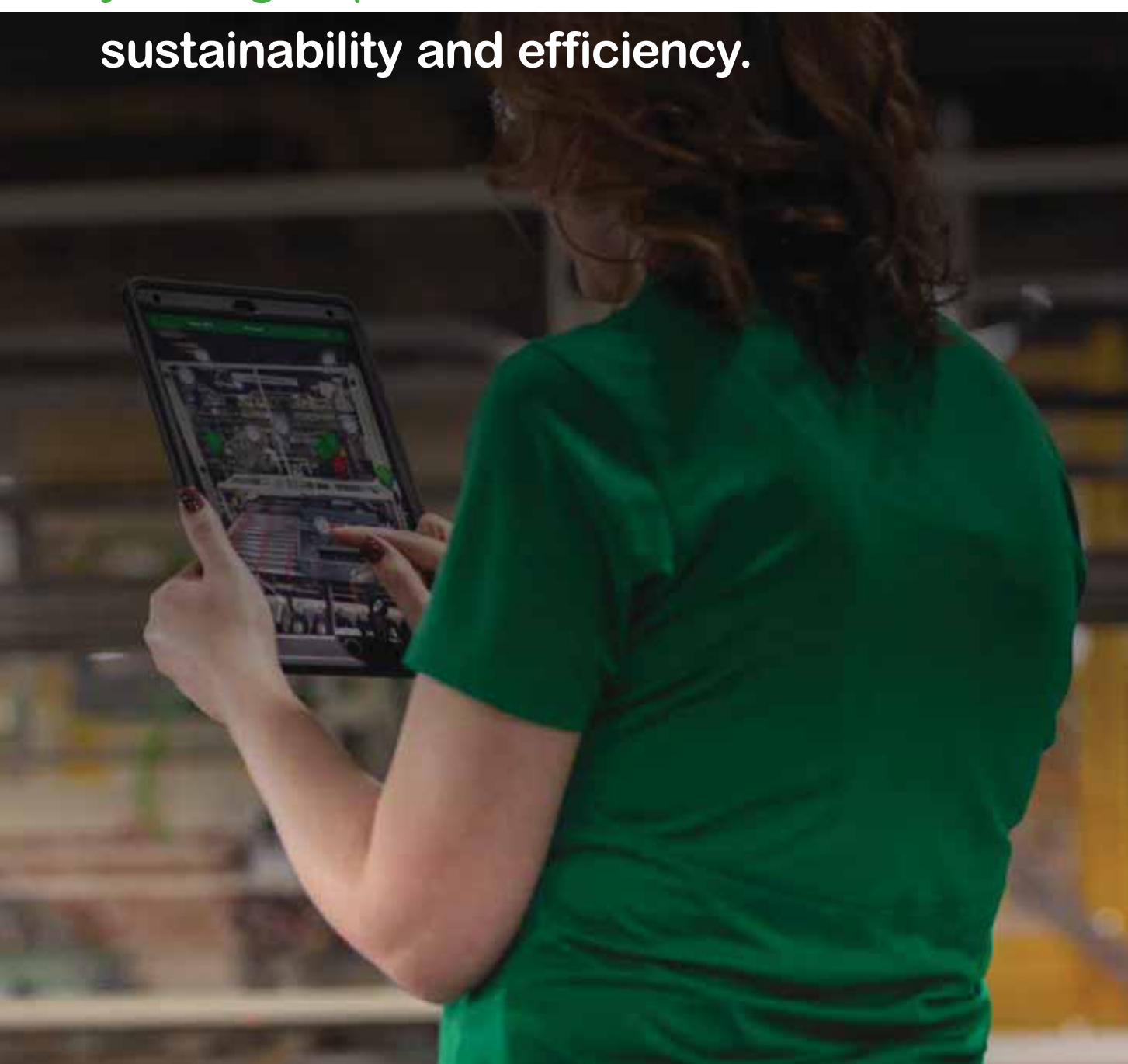
Create sustainable, smart homes by connecting the lifeline of your home – electricity – with digital, to help achieve your carbon-neutral goals.



Infrastructure and grids of the future

Increase sustainability and efficiency with smart grids.

Our mission is to be
your digital partner for
sustainability and efficiency.



4. Energy Management

Powering the new electric world

The Energy Management business helps customers make the most of their energy and accelerate their journey to net-zero carbon emissions. A more electric and digital world is key to addressing the climate crisis. Electricity is the most efficient energy and the best vector of decarbonization, and with digital innovation the invisible becomes visible, unleashing huge potential to eliminate energy waste.

Our market-leading, innovative solutions connect the dots between flexible energy supply and demand, delivering **homes, buildings, data centers, industries, infrastructure, and grids of the future** that allow us to collectively share better the energy and resources that our planet can provide, delivering a future that is more sustainable, more resilient, and more efficient.

The Energy Management products, systems, software, and services include:

- Medium and low-voltage equipment
- Building and grid automation
- Critical power
- End-to-end life cycle software, from design and build, to operate and maintain
- Energy and Sustainability Services

- **SM AirSeT for medium voltage switchgear:** A unique combination of pure air and vacuum to eliminate the need for SF₆, a potent greenhouse gas commonly found in medium and high-voltage electrical equipment.
- **Acti9 Active compact connected multi-function breaker:** Proactive monitoring and alerting of electrical faults.
- **Monitoring & Dispatch Services:** 24/7 remote monitoring for proactive on-site remediation of IT infrastructure issues.
- **Wiser Energy Center:** The connected AI electrical panel of the future for grid-to-plug home energy management.
- **Wiser home automation:** Room-by-room temperature control, lighting, security, and energy management.

Innovations introduced in 2020 include:

- **EcoStruxure™ Workplace Advisor and Engage Enterprise App:** Optimized space usage, improved employee experience, and reduced service costs.
- **EcoStruxure™ Building Operation:** Actionable insights to optimize building performance and improve engineering efficiency.
- **EcoStruxure™ Connected Room Solutions:** Personalized occupant experience and room control.
- **EcoStruxure™ Power Monitoring Expert, Power SCADA Operation, and Power Advisor:** Reduced energy costs and unplanned downtime, with optimized operations.
- **Low-voltage PrismaSeT™ Active switchboards:** Cloud-connectivity to monitor hazardous power losses.
- **ComPacT breakers and accessories:** Ergonomic, modular plug-and-play accessories that are connectivity-ready.



At a glance

Revenues

€19.3B

Adjusted EBITA

€3.6B

Percentage of Group sales

76.9%

Transforming through software with bolt-on strategic investments for life cycle efficiency and sustainability

In 2020, Schneider Electric announced several major investments to enhance its Energy Management software portfolio, building on IGE+XAO and Alpi, all of which are aligned with the Group's strategic vision to grow its suite of best-in-class, end-to-end software solutions to unlock efficiency and sustainability across the life cycle, from CapEx to OpEx.

In July 2020, Schneider Electric completed the voluntary public takeover of RIB Software SE, a leading software platform provider for planning, costing, and real-time construction monitoring. With its 5D BIM cloud-based construction software – iTWO 4.0, RIB has developed the world's first enterprise cloud technology with AI integration to bring efficiency in the construction phase. RIB helps contractors, project owners, and real estate developers to gain

full life cycle efficiency from design and build, to operate and maintain, enhancing Schneider Electric's EcoStruxure™ suite.

In November, Schneider Electric took a minority investment in Planon Beheer B.V. to digitize the entire building life cycle through the integration of both EcoStruxure™ and Planon's enterprise scale solutions. This combination will help scale both platforms, connecting millions of assets worldwide, whilst transforming built environments from passive, costly assets, into safe, sustainable, and resilient buildings.

Schneider Electric also proposed taking a controlling stake investment in Operation Technology Inc. (ETAP) in November. This completes Schneider's existing software portfolio for mission-critical power systems as a platform-independent supplier for large network design, modeling, simulation, and operation solutions.



Innovating climate positive IT operations

EcoDataCenter has built a climate positive data center in Falun, Sweden, providing energy efficient and sustainable co-location services and high-performance computing solutions for clients, communities, and the environment. EcoStruxure™ from Schneider Electric delivers insights into their operations, as well as efficient and reliable power and cooling solutions – including Galaxy VX UPSs which are 99% efficient in EConversion Mode – and leverages Green Premium™ technologies, designed with environmental transparency and end-of-life instructions.

Raising the level of safety and quality for national electricity distribution networks

Schneider Electric worked with the Egyptian Government to supply one of the largest, advanced distribution management systems in Egypt. Bringing electricity to 20 million more people, the smart grid is sustainable, digitized, resilient, and connected to more than 12,000 products and 1,000 distribution points, with the ability to continue expanding in the future.



5. Industrial Automation

Building the next generation industrial world

Industrial Automation technologies are enabling the industries of the future. Securing safe, resilient, energy efficient, and sustainable processes across the complete life cycle helps optimize supply chains and transform existing facilities into smart factories. The Industrial Automation business offers customers innovation through products, systems, and software for the automation and control of machines, plants, and processes, including world-leading brands such as Modicon, Foxboro, Triconex, TeSys, Altivar, Eurotherm, and Télémécanique Sensors.

Innovations introduced in 2020 include:

- **EcoStruxure™ Automation Expert**, the first software-centric industrial automation system creating step-change improvements throughout the complete operational life cycle.
- **EcoStruxure™ Augmented Operator Advisor** which leverages virtual reality with real-time operating data to safely enable fast diagnostics, maintenance, and operation of machines and plants.
- By combining the fully digitalized **TeSys island** load management system with the **Modicon M262** logic and motion controller, machine builders and OEMs get full Industrial Internet of Things (IIoT) machine integration with unprecedented efficiency.
- **EcoStruxure™ Secure Connect Advisor**, a cybersecure solution, allowing operators and experts to remotely program, diagnose, and troubleshoot machines from almost anywhere.

Industries of the future are open

EcoStruxure™ Automation Expert was unveiled during the Innovation Summit 2020 World Tour to deliver the benefits of open automation and interoperability with portable application software to the fourth industrial revolution. It's plug-and-produce approach boosts efficiency, resilience, productivity, agility, and sustainability across operations, and saves engineering time, eliminates vendor lock-in, and delivers business impact.



Doubling down on domain expertise in consumer packaged goods

Integrating ProLeiT's Process Control and Manufacturing Execution Systems into Schneider Electric's Digital Plant business is enhancing our business value for food and beverage manufacturers, such as breweries and dairies, among others. EcoStruxure™ for Smart Manufacturing now delivers native connectivity to Modicon PLCs (Programmable Logic Controllers) and AVEVA software, alongside ProLeiT's expertise in automation, information, and control technology to improve processing plant monitoring.

At a glance

Revenues

€5.8B

Adjusted EBITA

€992M

Percentage of Group sales

23.1%

Next generation data-driven insights to drive performance intelligence

As AVEVA's majority shareholder, Schneider Electric is poised to accelerate success with the OSIsoft acquisition. Combining AVEVA's market-leading software with OSIsoft's data management platform will harness the power of information and artificial intelligence, enabling broader, deeper optimization that drives sustainable innovation throughout the engineering and operations life cycle. Many new applications are envisioned for process and hybrid industries.



Connecting power and process solutions for sustainability

Developed with AVEVA for energy-intensive industries, the EcoStruxure™ Power and Process solution combines process and power management to reduce CapEx and operational energy costs and drive profitability and sustainability. Digital twin technologies converge to unite asset engineering and process optimization, that is managed by a Unified Operation Center built on edge control software. This enables real-time visibility and smart analysis of energy-intensive industrial assets and processes to improve operational profitability and resiliency.



Building an automated future

The Sanwa Group, a plastics manufacturer operating nine factories in Singapore to supply car manufacturers in South-East Asia, embarked on its Industry 4.0 transformation with Schneider Electric and doubled its production output. Sanwa uses an EcoStruxure™ Machine and Power solution for data collection to improve its decision-making and operational visibility via digital interfaces. Thanks to IoT-enabled, remote power management and wireless sensors, Sanwa tracks each machine's energy consumption at a central command station. Factory floor inspections are also empowered with EcoStruxure™ Machine Advisor and EcoStruxure™ Augmented Operator Advisor for real-time insights into machine performance using augmented reality. This enables Sanwa to analyze the data collected, improve efficiency, enhance competitiveness, and grow their business.



6. Digital transformation

Digitalization for a smarter, greener future

Schneider Electric's digital transformation is fundamentally changing how we do business, at every level of the Group. Our ambition is to further strengthen our leading position as a cross-industry, IoT player with our EcoStruxure™ portfolio. We design an open platform, scale digital offers, and foster digital collaboration across our ecosystem of customers and partners.

In parallel, we aim to digitally transform the Group's Product Life cycle Management and Customer Relationship Management, as well as our Finance and Procurement, Global Supply Chain, and Human Resources functions. Our continued efforts in these areas will enable end-to-end process efficiency and greater productivity.

Built on solid foundations and lessons learned in 2020, and in response to the ongoing impact of COVID-19, we will continue to modernize both our digital infrastructure and tools for connectivity

and business continuity, accelerate the journey to cloud, reduce technical debt, and deliver on the tenets of the Group's cybersecurity and data management strategy for digital trust.

Our digital transformation is also closely aligned with the Group's sustainability strategy. The use of EcoStruxure™ IT solutions will help bring Schneider Electric closer to fulfilling its carbon pledge, while our continued innovation and efficiency-enabling digital offers will support our customers in achieving their sustainability goals.



Connectivity and smart factories

Schneider Electric operates 115 smart factories and distribution centers worldwide, where the Group showcases its digital technologies and services virtually or in person. Since 2018, five of Schneider's Smart Factories have been selected by the World Economic Forum as Fourth Industrial Revolution Lighthouses – the world's most advanced factories, which are leading the way in the adoption of Fourth Industrial Revolution technologies. In 2020, Schneider's facility in Lexington, USA was honored as an Advanced End-to-End Lighthouse. Other Advanced Lighthouses have been announced in 2019 and 2018, namely facilities in Batam, Indonesia and in Le Vaudreuil, France, alongside two developing Lighthouse facilities in Monterrey, Mexico and Wuhan, China.

Ensuring digital trust with suppliers

With approximately 40 billion devices online, almost everyone and everything is connected in the world today. Schneider Electric sources goods and services from more than 50,000 unique suppliers across five continents. As goods and services are increasingly delivered through digital channels, the effectiveness of our supplier community relies on trust and collaboration to protect our digital ecosystem. In 2020, we continued to enhance and safeguard supply chain management, procurement, and Enterprise Resource Planning (ERP) systems with third-party risk management to ensure compliance across the supply chain.



At a glance

Distribution sales via e-commerce

€2.8B

+22% YoY

Assets under Management

€4.2M

+46.6% YoY

Employees able to work from home in response to COVID-19

+120,000

Customer voice and digital experience

Providing customers with the information they need, when and where they need it, is key to improving their digital experience. The Digital Net Satisfaction Score (NSS) used throughout Schneider Electric's digital platforms captures our customers' overall satisfaction and their specific feedback. In 2020, the overall NSS increased by 13 points, reinforcing the positive impact of prioritizing customer feedback. In 2020, Schneider Electric launched and scaled the personalized experience to enable 500,000 partners, 30,000 distributors, and 100 key accounts to embark on a more personalized digital journey, covering relevant offer information and tools. Together with improvements in digitizing our pricing and quotation tools as well as providing more interactive customer support, we are making great progress in how we digitally engage with customers and efficiently support how they do business with Schneider.



Agile digital citizens

Digital knowledge is a priority skill and the Group aims to upskill over 90% of employees with the launch of its Boost Your Digital Knowledge smart learning solution, which is part of the Digital Citizenship program helping employees build their digital skills. The program's knowledge library covers the most essential future skills required by Schneider Electric, including data science, digital economy, digital technologies, as well as cybersecurity, which is considered a critical area of knowledge and awareness. In 2020, 99% of targeted Schneider Electric employees completed dedicated, mandatory cybersecurity online training, strengthening the Group's cybersecurity posture.

Open ecosystem engagement

The Group continuously prioritizes the value of partnerships and ecosystems, simplifying and improving digital points of engagement to better serve its customers. In 2020, we digitally engaged with 421,000 average monthly active users (MAUs) across all platforms. Launched in 2019, Schneider Electric Exchange is the world's first cross-industry, open ecosystem that unleashes the power of collaboration in an open environment. We continue orchestrating this innovative community of customers and partners while fostering an entrepreneurship mindset to globally scale and monetize new digital offers. In 2020, Schneider Electric Exchange reached 75,000 registered users (+30%) and featured 480 digital offers. The Group's ambition is to further increase the adoption of Schneider Electric Exchange, enabling more transactions and co-innovation based on the open EcoStruxure™ platform.

Monthly (on average) active users engaged across digital touchpoints

421,000



7. People Vision

Great people make a great company

As the changes to our world accelerate and transform our industry, we consider the Group's culture as a key business differentiator to achieve profitable growth through innovation and to outpace the market.

The energy transition requires Schneider Electric to work closely in its different markets and to develop a shared vision with customers, supported by faster innovation, technology, and deep insights. As such, we need to empower our people and shape our organizational culture to meet this challenge. Digitization is also changing the way we work, and creating new opportunities for customers, suppliers, and our teams. We believe this change is a great catalyst for employee engagement and to articulate a meaningful purpose that motivates us all. We are passionate about our meaningful purpose, to empower all to make the most of our energy and resources, bridging progress and sustainability for all.

As part of our Schneider Sustainability Impact (SSI) and under our Human Rights Policy, for some years we have committed to mandatory global standards covering fundamental employee benefits for everyone, everywhere. Throughout the COVID-19 pandemic in 2020, the Group acted and remained focused on the health and safety of its people. To this end, the Group enhanced its existing global benefit standards (Life, Health and Family Care) for all its employees worldwide during the COVID-19 crisis. Everyone's mental and physical well-being, both at work and beyond, was a priority, upheld by the Group's Learning and Well-Being teams who ran weekly virtual learning sessions to help manage stress and share tools and best practices. Customized support was also available for leaders, including a *Diversity & Inclusion toolkit*, *A Manager's Guide to the New Normal*, and a number of *LiveTalks* to discuss effective approaches. The pandemic situation reinforced the importance of living our core values and leadership expectations every day and particularly highlighted how crucial *Acting Like Owners* is, for both the health of our people and the Group at large.

The most local of global companies

Globalization allows Schneider Electric to welcome more diverse teams and to ensure our local presence best supports our customers' specific needs. We prioritize how we develop and retain our employees to create an inclusive workplace that offers long-term career and development prospects and learning pathways. We are the most local of global companies, built across four hubs (Paris, France; Hong Kong, China; Boston, USA; and Bangalore, India) providing opportunities to grow within our organization, and we are continually championing diversity, equity, and inclusion to make a bigger impact on society.

The very nature of the workforce and the job market is evolving. There are up to five generations working side by side, and each generation has a varied set of expectations from their employer. This in turn is leading to a shift towards a highly personalized, digitized employee experience. We accelerated the global rollout of the *Open Talent Market* to drive upskilling, career development, and mentoring. This smart platform, powered by AI, helps employees take ownership of their careers and develop real and new experiences.

With 83% ⁽¹⁾ of our employees preferring more flexibility in when and where to work, we are empowering employees to manage their unique life and work by leveraging agile, flexible, and smart ways of working to help our people effectively manage hybrid working.

Our People Vision

All this change influences how we work together and ultimately how we create value for our customers. We updated our *People Vision* to accelerate our business performance and transform our culture and leadership. At Schneider Electric, we are building for the future, in sync with the changes happening in our markets and with our customers.

Our People Vision consists of the following:

Our Employee Value Proposition (EVP) is our commitment to engage existing and future talent. It's the reason why people join, stay, and remain engaged and shows how we differentiate ourselves as an employer.

Our Core Values determine who we are, what we do and define the way we work together and deliver on our EVP promise. Our values guide our choices and illustrate the behaviors we expect our employees to demonstrate.

Our Leadership Expectations show how we expect leaders to drive the Group for the future. They emphasize how our leaders will transform the Group by stepping up both individually and collectively.

(1) From internal survey, July 2020

Since launching our *People Vision* in the fourth quarter of 2018, our efforts have focused on executing our vision through our day-to-day interaction. We regularly survey our teams to measure employee awareness and to gather and address their feedback. Our behaviors have been incorporated progressively in all our people rituals such as recruitment (behavioral interviewing), performance evaluation, recognition, and promotion of leaders (based on our defined behaviors). We have also implemented policies to foster better work-life integration and developed frameworks to help our employees manage their own situation. The initiatives we have launched, and the ones we're continuing to build on, reflect our goal to be the best place to work, so the best people choose us and stay with us.

Engaging with early career talent is an ongoing priority. Launched in 2011, Schneider Go Green is an annual competition for Business and Science, Technology, Engineering, and Mathematics (STEM) students around the world to find innovative solutions for energy management and automation – exposing them to our employer brand and core values. It is now an established global initiative to attract graduates for early career opportunities and ongoing talent fulfillment objectives. Over the years, the competition has become a great opportunity for students to not only share bold ideas, but also to start a career at Schneider Electric.

In ten years, Schneider Go Green has had more than 117,400 registrants, with more than 21,700 students from 172 countries submitting ideas. In 2020 alone, more than 24,400 students registered and nearly 3,000 students submitted ideas. Schneider Go Green continues to develop strong and increasing interest from students, especially in emerging economies. 2020's global winning students, Angie Redondo and Jorge Polo, from *Universidad Nacional de Colombia*, presented a Sustainable Fishing project to benefit the Bojayá community, living on the Atrato River near Colombia's Pacific coast.

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Schneider Go Green makes you understand that technology is nothing but the bridge between people's problems and the solution they need. Go Green lets you dream that a **better world** is possible if we work together for it. I loved it and it **enriched me** as a person, and also as a professional!”

Toni, an Industrial Engineering degree student at *Escuela Superior de Ingenierías Industrial, Aeroespacial y Audiovisual de Terrassa*, was a top Schneider Go Green 2020 European finalist and is now a trainee in Spain.

INCLUSIVE

MEANINGFUL

EMPOWERED

8. How we manage risks

8. How we manage risks

8.1 Definition and objectives of internal control and risk management

Definition and objectives

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

- compliance with laws and regulations;
- application of instructions and guidelines issued by Group Senior Management;
- the proper functioning of the Company's internal processes;
- the reliability of financial reporting; and
- more generally, internal control helps the Group manage its businesses, run efficient operations and use its resources efficiently.

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

Scope of this report

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

Jointly controlled subsidiaries are subject to all of the controls described below, with the exception of self-assessments of the implementation of Key Internal Controls (see "Operating Units" within "Control procedures", session 8.5, page 46).

Internal control reference documents

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

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

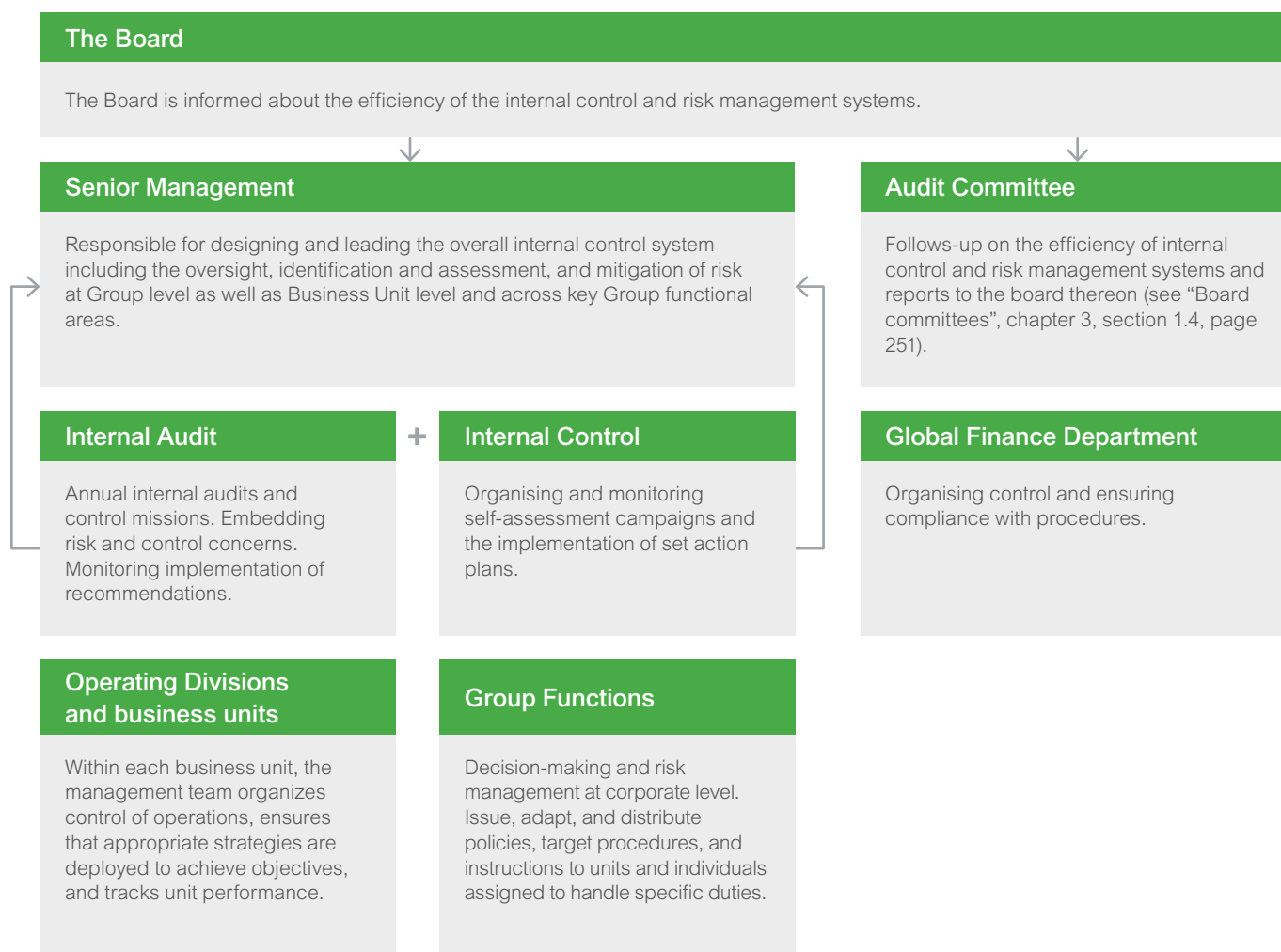
Information used to prepare this Document

This Document was prepared using contributions from the Group's Internal Audit and Internal Control Departments, as well as the various participants in internal control.

8.2 Organization and management: internal control key participants

The Group's corporate governance bodies supervise the development of internal control and risk management systems. The Audit Committee has particular responsibility for following up on the efficiency of internal control and risk management systems and reports to the Board of Directors thereon (see "Board committees", chapter 3, section 1.4, page 251).

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



8. How we manage risks

Senior Management

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

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

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

Internal Audit Department

The Internal Audit Department reports to Senior Management. It had an average headcount of 19 auditors and 23 regional internal controllers in 2020. The internal auditors are responsible for ensuring that, at the level of each unit:

- the identification and control of risks is performed;
- significant financial, management, and operating information is accurate and reliable;
- compliance with laws and regulations and with the Group's policies, standards, and procedures is ensured;
- compliance with the instructions of the Head of the Group is ensured;
- acquisition of resources is carried out at a competitive cost, and their protection is ensured;
- expenses are properly engaged and monitored;
- correct integration and control of acquisitions are ensured.

Annual internal audit and internal control plans are drawn up based on a combination of a risk-based and audit universe coverage-based approach. The risk-based dimension is embedding risk and control concerns identified by Senior Management, taking into account the results of past audits, the results of Key Internal Control self-assessments returned by the units, and other indicators such as the evolution of a set of financial metrics, the Corruption Perception Index, or the Employees Disengagement Index. When necessary, the audit plan is adjusted during the year to include special requests from Senior Management. The internal audit process is described in "Control procedures", section 8.5, page 46.

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

Audit reports and the implementation of their recommendations are distributed to Senior Management. An executive summary is sent to the President of the Audit Committee as well as to the top management. A synthesis of the main takeaways and conclusions from a selected number of audit missions is presented to the Audit Committee for each committee session (five times per year).

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

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

Internal Control Department

The Internal Control Department, which reports to the Reporting and Consolidation Department, is particularly responsible for:

- defining and updating the list of Key Internal Controls in close cooperation with the Global Functions and other subject matter experts in line with the recommendations of the AMF reference framework;
- maintaining and leading a network of around 14 local internal controllers who are responsible for supporting local management on internal control topics and acting as process owners for certain key areas such as the chart of authority and segregation of duties; and
- organising and monitoring the roll-out of self-assessment campaigns and implementation of set action plans following self-assessments.

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

Global Finance Department

The Global Finance Department is actively involved in organising control and ensuring compliance with procedures.

Within the department, the Reporting and Consolidation unit plays a key role in the internal control system by:

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

The Reporting and Consolidation unit is responsible for:

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

The unit drafts and updates:

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

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

Within the Global Finance Department, the Tax team oversee tax and affairs to provide comprehensive management of these risks.

The Financing and Treasury Department is responsible for:

- centralized management of cash and long-term Group financing;
- centralized management of currency risk and non-ferrous metals risk;
- monitoring of Group trade accounts receivable risk and the definition of the credit policy to be implemented;
- the distribution of rules for financial risk management and the security of payments:
 - define guidelines and contribute to the definition of Key Internal Control indicators relating to treasury and credit management,
 - review the related risks of complex projects as a subject matter expert,
 - select Group tools for credit, trade, and cash management; and
- the annual financial review meetings with the Group companies to assess the financial structures, financial risk management as well as capital allocation.

Procedures for managing financial risk are described in "Risk factors" (chapter 1, section 9.1, page 49).

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

In addition to specific processes or bodies such as the Group Acquisitions Committee (see "Risk factors", chapter 1, section 9.1, page 49) for making and implementing strategic decisions and centralization of certain functions within the Global Finance Department (see above), Schneider Electric centralizes certain matters through dedicated Global Functions, thus combining decision-making and risk management at the corporate level.

A Technology Community, namely the Chief Technology Officers (CTO) community, grouping all Divisional and Business Chief Technology Officers as well as key Corporate Technology Functions involved in Offer Creation & Research, meets on a regular basis to ensure cross-divisional coordination in setting the strategic direction for innovation and driving end to end architectures, defining next generation platforms and systems. Additionally, this community partners closely with the senior business leaders. This has been done to ensure a simple structure so that technology can be close to business and to maintain consistency across all divisions of Schneider Electric.

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

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

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

Operating Divisions and business units

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

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

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

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

8. How we manage risks

8.3 Distributing information: benchmarks and guidelines

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

In some cases, dedicated emails are sent out or messages are posted on the employee portal or Schneider Electric collaboration tools to inform users about publications or updates.

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

Principles of Responsibility

See "Ethics & Compliance program" (chapter 2, section 2.4, page 103).

Compliance code governing stock market ethics

The compliance code sets out the rules to be followed by management and employees to prevent insider trading. All employees who have access to sensitive information are bound by a strict duty of confidentiality. It also sets restrictions on purchases and sales of Schneider Electric SE securities by persons who have regular or occasional access to sensitive information in the course of their duties (see "Organizational and operating procedures of the Board of Directors", chapter 3, section 1.2, page 234). Such persons are prohibited from trading in the Company's securities at any time if they are in possession of price-sensitive information which has not been made public and during specified periods prior to (and until the day of) release of the Group's financial statements and quarterly information on sales.

International Internal Auditing Standards

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

International Financial Reporting Standards (IFRS)

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), in compliance with European Union regulation no.1606/2002.

The Group applies IFRS standards as adopted by the European Union as of December 31, 2020.

The Group's accounting principles reflect the underlying assumptions and qualitative characteristics identified in the IFRS accounting framework: accrual accounting, business continuity, true and fair view, rule of substance over form, neutrality, completeness, comparability, relevance, and intelligibility. The Group statutory and management accounting standards manual explains how IFRS principles are applied within the Group, taking into account the specific characteristics of the Group's activities.

The application of Group accounting principles and methods is mandatory for all Group units, for management reporting and statutory consolidation. The Group statutory and management accounting standards manual and the IFRS principles are available via the employee portal (Finance Repository).

Approval limits

Under current management practice, the Group has set approval limits for Senior Management for certain decisions. Local management will define the local approval matrix for relevant decisions within the approval limits set by the Group. Within this framework, business segment executives and functional, operational, and local management are able to approve certain decisions depending on the nature and threshold.

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

Statutory and management reporting principles

An integrated reporting and consolidation system applicable to all Group companies and their management units is in place. Statutory and management reporting principles and support tools are available on the Group employee portal.

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

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

Key Internal Controls

A list of Key Internal Controls is reviewed annually. They cover:

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

The Key Internal Controls are available to all units on the Group employee portal and in the shared depository, along with appendices with more detailed information, links to policy descriptions, an explanation of the risks covered by each Key Internal Control, and a self-assessment guide. For each cycle, the Key Internal Controls cover compliance, reliability, risk prevention and management, and process performance. Operating units fill out self-assessment questionnaires concerning the Key Internal Controls using a digitized tool.

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

8. How we manage risks

8.4 Risk identification and management

General risks at the Group level

The Internal Audit Department conducts interviews to update the list of general risks at Group level each year. In 2020, around 100 of the Group's top managers were interviewed in addition to external financial analysts, board members, and a sample of strategic customers. Since 2016, individualized risk matrices by Operation or by Business have been created.

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

Risk factors related to the Company's business, as well as procedures for managing and reducing those risks, are described in "Risk factors", chapter 1, section 9.1, page 49. These procedures are an integral part of the internal control system.

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

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

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

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

Risks related to Solutions Business

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

The network of Solution Risk Managers assesses the risks and mitigations related to major projects in conjunction with the Subject Matter Experts and Tender Managers during the preparation of offers. Solution Risk Managers then provides a comprehensive, 360 degree view on project risk and mitigations to support the opportunity approval process.

Risk management by the Legal Department

The Legal Department oversee the legal affairs and manage the risks relating to legal.

The Financial Risk Insurance team contributes to the internal control system by defining and deploying a Group-wide insurance strategy, as defined in "Insurance strategy", chapter 1, section 9.2, page 69. The insurance strategy includes the identification and quantification of the main insurable risks, the determination of levels of retention, and the cost benefit analysis of the transfer options. The Risk and Insurance Department also defines, proposes, and implements action plans to prevent these risks and protect assets.

Risk management by the Global Security Department

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

The Global Security Group Committee was created in 2017, uniting the Zone Security Leaders. Some of these leaders report directly to the Global Security Department and some to local management with functional reporting to Global Security. In close cooperation with the Compliance Department and the Risk and Insurance Department, Global Security is involved in assessing the nature of risk to our people, as well as defining adequate prevention and protection measures.

Global Security provides support to local teams for any security issues (site audit, expatriates or local employee security, security on assignments, etc.). The team also:

- publishes internally, a table of "Country Risks" for use in security procedures that are mandatory for people traveling, expatriates, and local employees;
- provides daily coordination with the Group's worldwide partner in the field of medical and security assistance (International SOS & Controls Risks – start of contract in January 2011);
- organize, as needed, psychological support in some crisis context (Eutelmed – start of contract in April 2015).

It brings its methodology to develop emergency plans (evacuation plans, crisis management plans, etc.) and coordinates the corporate crisis team (SEEC – Schneider Electric Emergency Coordination Center, created in 2009) each time that it is activated. Global Security also participates in crisis management, in managing the corporate crisis cell, and in supporting local entities (to limit the consequences of the occurrence of certain risks such as civil war, weather events, pandemics, attacks on people, terrorism, etc.). In addition, it regularly organizes Security Audits (R&D centers, head offices, sensitive plants, etc.).

Global Security sits on the Group Operations Compliance Committee (previously named Fraud Committee) alongside Compliance, Internal Audit, and the Legal Department. Security supports internal investigators as well as contributing to the Group's methodology and procedures to conduct investigations properly; in accordance with the law.

Management of cyber and product security and associated risks across Schneider Electric

The Cybersecurity and Product Security Functions inside the Governance organization define the Company's cyber and product security strategies and approaches. The departments are accountable for protecting Schneider Electric's business operations; securing the digital assets and offers for Schneider Electric and subsidiaries; managing the Cyber Risk Register; driving cybersecurity awareness across the Company; owning the creation, maintenance, and enforcement mechanisms of cyber and product security policies; ensuring the execution of cyber and product security initiatives across Schneider Digital functions and entities; and managing the Cybersecurity Incident Prevention, Detection and Response process.

8. How we manage risks

8.5 Control procedures

In addition to the general missions already described, this section describes specific measures taken in 2020 to improve the Group's control system.

Operating units

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

Training in Key Internal Controls continued in 2020 for those involved for the first time in the annual self-assessment process: newly promoted managers and units recently integrated. Operational units undertook self-assessment of compliance with the Key Internal Controls governing their scope of operations.

The self-assessments conducted during the 2020 campaign covered more than 90% of consolidated sales and made it possible to define improvement plans in operating units, when necessary. The ultimate goal is that these evaluations should cover at least 90% of consolidated sales each year.

The self-assessments are conducted in the units by each process owner and reviewed by the respective function. Practices corresponding to the Key Internal Controls are described and the entity is either compliant or not compliant with a particular control.

If a particular unit is non-compliant with any of the controls, an action plan is defined and implemented to achieve compliance. These action plans are listed in the self-assessment report.

The unit's financial manager and entity manager certifies the overall results of the self-assessments.

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

Global Functions

In 2020, the Global Functions continued to set guidelines, issue instructions, and provide support.

For example:

- the Global Security Department activated and led the Schneider Electric Emergency Coordination Center in response to COVID-19;
- the Global Security Department has worked in close collaboration with Global Compliance on organizational resilience topics to include better alignment of Crisis Management with Business Continuity Management;
- Global Security transferred the Travel Policy and general program management to Global Effectiveness to enable Global Security focus on improving Travel Security;
- the Solutions Risks Management team prepared the Solution Business Policies (approve and in force) to clarify the rules to be applied when contracting for a solution project;
- the Cybersecurity and Product Security Functions performed a full refresh of security policies, executed several cyber drills, completed cyber risk register assessments with an external partner, and executed cybersecurity initiatives from strategic investments such as supply chain security, insider trust, recovery, resilience capabilities, product vulnerability assessments and many others; and
- the Treasury Department continued the deployment of the Treasury management system across the Group. During the crisis, Treasury organized a close follow-up of cash generations and cash forecast throughout the Group which was largely simplified by the use of common tools for Treasury and credit throughout the Group. The achievement in first half of 2020 and the large liquidity available for the Group eased additional follow-up at year end.

Internal Control Department

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

In 2020, certain Key Internal Controls that have been identified since 2015 as critical remained a focus and actions were taken to increase their level of awareness and compliance.

The list of Key Internal Controls continues to evolve.

A new software package for the management of self-assessment questionnaires and follow-up action plans of internal audit and internal control was introduced in 2020.

The local Internal Control team which consists of around 14 members located in various geographies dedicated their efforts to improving internal controls in the local entities.

Internal Audit Department

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

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

Audit assignments go beyond Key Internal Controls and include an in-depth review of processes and their effectiveness.

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

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

In 2020, Internal Audit performed 34 audits, including:

- audits of units;
- audits of a number of risks and operating processes;
- analyses of internal control self-assessments by audited units;
- follow-up audits to ensure recommendations are applied;
- assistance assignments.

The number of audits performed in 2020 has been lower compared to the plan presented to the Audit Committee in December 2019 due to the circumstances stemming from the COVID-19 outbreak (lockdown in various countries, travel bans, etc.). A certain number of audit missions had to be cancelled or postponed and some were replaced by assignments aiming to support the Group's crisis response efforts such as a systematic review of the Group's Business Continuity Plans, an assessment of the compliance with the instructions set out in the directives related to the post lockdown "return to office/plant" process, or a review of the customers' credit risk mitigation measures implemented across the sales organizations.

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

The Regional Internal Controls team completed more than 103 on-site inspection missions in 2020 to assess the level of internal control and issued the necessary recommendations when needed.

Group Operational Compliance Committee

The Group Operational Compliance Committee defines the process to detect and manages non-compliance of ethical cases with appropriate investigation process. The governance on Ethics & Compliance is reflected in "Ethics & Compliance program", chapter 2, section 2.4, page 103.

8. How we manage risks

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

In addition to:

- its regulatory tasks;
- its responsibility for overseeing the close of accounts across the Group;
- its audits of the Group's results with respect to set targets (see "Global Finance Department" within "Organization and management: internal control key participants", section 8.2, page 40);

The Reporting and Consolidation unit is tasked with overseeing:

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

In addition, the Reporting and Consolidation unit ensures that:

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

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

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

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


















9. Risk factors

9. Risk factors

9.1 Principal risks

The Group risk inventory is organized in four categories and includes 17 key risk factors identified.

The key risks selected and presented below are the risks considered by the Group as specific to its business and identified as having the potential to affect its activity, its image, its financial situation, its results, or the achievement of its objectives. Other risks, not identified or not significant according to the Group, could eventually affect its performance. In each category, risks are ranked on a descending order impacting the Group (the first one being the most likely to affect the Group). This ranking is the result of the process performed as part of the overall risk management described in "Risk identification and management", section 8.4, page 44. It is established on the potential net impact corresponding to the potential impact (financial/human/legal/reputation), considering the current mitigation and reduction measures, as well as the probability of occurrence of this risk.

	Categories and Risks	Potential net impact	Page
1	Risks related to the environment in which the Group operates		
1.1	World deglobalization and fragmentation		50
1.2	Export controls		51
1.3	New players such as digital giants, software players, and energy majors entering the energy efficiency and renewable energy space		52
1.4	Corruption linked to B2B and project business		53
1.5	Strengthening of chemical and resource-related regulations in the Electrical and Electronic Equipment space		54
1.6	Human rights, environmental, and safety issues through the value chain		55
2	Risks related to Operations		
2.1	Risk of cybersecurity on the Schneider Electric infrastructure and its digital ecosystem		57
2.2	Connected products at Schneider Electric or customer sites used as a gateway to attack Group's customers and partners		58
2.3	Product quality		59
2.4	Supply chain resilience		60
2.5	Digital evolution and software offers		61
2.6	Pricing strategy		62
2.7	Competition laws		63
3	Risks related to Internal Organization		
3.1	Talent attractiveness, workforce engagement, sales force upskilling, and recruitment of digital competencies		64
3.2	IT systems management		66
4	Financial risks		
4.1	Counterparty risk		67
4.2	Currency exchange risk		68

Key to symbols

 High impact  Medium impact  Low impact

9. Risk factors

Preamble – COVID-19

COVID-19 has significantly affected all regions in the World, with various impacts among countries. Therefore, the impacts of the COVID-19 pandemic are significantly different from one zone to another one. As a result of regularly evolving measures taken by governments and local authorities to contain the pandemic, impacting local and global economies, the business risks associated with COVID-19 are extremely difficult to predict.

The COVID-19 crisis has emphasized the impact and probability of occurrence of certain existing risks such as i) People Safety, ii) Supply Chain flexibility, iii) Talent attractiveness, workforce engagement, sales force upskilling, and recruitment of digital competencies, iv) IT systems management, and v) Counterparty risks. For that reason, Schneider Electric has decided to address the COVID-19 pandemic risk within already existing or emerging risks.

A specific COVID-19 taskforce and crisis teams have been set-up throughout the organization to monitor and mitigate the impact of COVID-19. Overarching principles have been set by senior management, while empowering businesses and countries to take the appropriate decisions and actions in their own environment context. Particularly, Schneider Electric is absolutely committed to provide a safe workplace for all its employees as well as for its customers and partners when interacting with them. Particular efforts have been made to formalize Business Continuity Plans and to share them with Customers as needed.

1. Risks related to the environment in which the Group operates

1.1 World deglobalization and fragmentation

Risk description

Stable trade is beneficial for economic growth. Trends of increased mercantilism is lending towards regionalization of trade around the United States, China, Russia, Europe, and Indian poles. Regionalized, rather than globally balanced government regulations and policies on, but not limited to, digitization, circularity, carbon, supply chain management, and others could handicap offer development efficiency through redundant efforts. These offer development duplication efforts can potentially impact Schneider Electric's profitability. In addition to the trade regionalization trend, technology decoupling, specifically between the US and Chinese poles, have been observed through increased regulations.

Furthermore, this acceleration of regional versus global trade and technology policies is increasing the pressure on the supply chains of global companies in the forms of both tariff and non-tariff barriers. As such, trade wars could disrupt Schneider Electric's operations and global supply chain. The above- mentioned combination of both nationally orientated tariff and non-tariff burden could increase the cost to market and potentially adversely impact the Group profitability.

2020 Specific events – COVID-19

In 2020, the COVID-19 pandemic has accentuated this regionalization trend. The multiple waves of the pandemic have impacted, and are still successively impacting, the different global regions; disrupting supply chains and therefore requiring strong resilience.

Risk mitigation

In order to mitigate the risk on supply chain efficiencies and tariffs impacts, Schneider Electric has implemented a multi-hub organization. The Group has R&D and supply chain activities, suppliers, and commercial networks in the main international hubs, which are North America, EMEA, and Asia. In this multi-local context, Schneider Electric can rebalance its activities across geographies.

This setup has proved pertinent as the Group has demonstrated a solid resilience in 2020.

Schneider Electric uses prospective scenarios planning, focusing on geopolitics and trade. While the pace of external changes continues at a historically unprecedented scale regionally, global teams are working across stakeholders from business units, R&D, Regional Operations, and Transversal functions (i.e. Finance, Supply Chain, Legal, Marketing).

Key to symbols

 High impact
  Medium impact
  Low impact

1. Risks related to the environment in which the Group operates

1.2 Export Controls

Risk description

International, Foreign, and National Export Control Laws and Regulations govern the transfer of goods, services, and technologies within a country or between countries and/or their nationals. Elements that may trigger restrictions and licensing requirements may include, but are not limited to, countries, parties, product, and end-uses.

Schneider Electric being a Multi-National Corporation (MNC) with international operations spanning across more than 100 different countries worldwide, must constantly ensure full compliance to such laws and regulations by implementing a robust corporate export control compliance program. As any implications may result in a significant impact on the Group's businesses, results, reputation, and financial position.

Albeit that Schneider Electric's product portfolio only has a limited product range that may have dual-use goods features as well as non-dual use goods (e.g. breakers) that may be used in sensitive applications; restriction or licensing requirements may apply to these products, especially if associated with political sensitive countries and destinations.

Risk mitigation

Schneider Electric has comprehensive policies and processes to ensure compliance with applicable export control laws and regulations ("Schneider Electric Export Control Program") and to mitigate the above described risks. The Global Export Control Center of Excellence, as part of the Schneider Electric Global Legal and Risk Management Function, oversees the monitoring and enforcement of the Schneider Electric Export Control Program.

The Schneider Electric Export Control Program may include, but are not limited to, embargo and restricted country, denied party, dual-use goods and sensitive end-use screenings; incorporation of Export Control provision in the main sales and procurement contractual template; and conducting of regular awareness and online and classroom training sessions for all relevant Schneider Electric employees.

The Schneider Electric Export Control Program will continue its enhancement and updates to ensure compliance with applicable export control laws and regulations.

Key to symbols

 High impact
  Medium impact
  Low impact

9. Risk factors

1. Risks related to the environment in which the Group operates

1.3 New players such as digital giants, software players, and energy majors entering the energy efficiency and renewable energy space



Risk description

Schneider Electric operates in the energy market which attracts new players and creates a new competitive landscape. Indeed, the energy industry is undergoing major transformations and disruptions driven by the following main trends:

- A net-zero world: pressure on climate change and sustainability call for a change in business practices;
- An all-electrical world: oil majors urged to reduce their impacts on carbon emissions;
- An all-digital world: increasing influence of digital giants and software players.

In this context, Schneider Electric's competition landscape is evolving, and the Group can now see some digital giants, software players, or large companies such as energy majors positioning themselves – directly or indirectly – as providers of energy efficiency, which may compete with the digital services Value Propositions currently developed by the Group.

Risk mitigation

The Group is driving competition performance analysis and follow-up of organizational changes and M&A news, and reviewing its competitors peer group and all key players in its environment.

To anticipate these changes in the competitive landscape, the Group is communicating more widely its values and positioning on climate change and sustainability.

Schneider Electric also reinforces its offer portfolio with acquisitions or investments in software companies, such as RIB Software, ProLeiT, and Planon in 2020.

Schneider Electric provides a full portfolio of solutions for customers (hardware and software) – as EcoStruxure™ solutions – and energy and automation digital solutions for efficiency and sustainability.

It is also developing the Group's network of partners and reinforcing its Strategic Technology Alliances.

Key to symbols

- High impact
 Medium impact
 Low impact

1. Risks related to the environment in which the Group operates

1.4 Corruption linked to B2B and project business

Risk description

The exposure of the Group to corruption risk has been increasing for several years, due to the expansion of the Group's activities in new economies, especially in Asia and Africa, through organic growth and mergers and acquisitions.

The business model of the Group relies on a large ecosystem of partners, including more than 50,000 suppliers throughout the world representing a procurement volume in excess of EUR12 billion, and also, resellers and distributors. This ecosystem may represent a risk for the Group; being accountable for activities performed on its behalf, and in regards to potential conflicts of interest or unethical solicitations.

In addition, the Group is participating in complex projects involving a large range of partners in sectors at risk, such as oil and gas, and with end-users from the public sector in countries at risk.

Over the past three years, the increase of law enforcement by public authorities, higher press coverage of fines imposed on companies, and new regulations requiring a strong compliance program have significantly changed the potential impact of corruption risks.

Risk mitigation

To mitigate this risk, Schneider Electric has built a dedicated Group Compliance Team, composed of corporate compliance counsels and regional compliance officers. Since August 2020, a new Ethics & Compliance Department has been creating overseeing – among others – the Fraud Examination Team.

A global whistleblowing system available for employees and for external stakeholders is also managed to combat this risk. In 2020, 549 employee and 76 external stakeholder alerts have been received and managed through follow up inquiries.

In addition, the Group Ethical Charter, Principles of Responsibility, was updated in April 2019 with reinforcing guidance regarding anti-corruption commitments. In August 2019, the Business Agents Policy was updated and deployed, and in November 2019, the same process was applied to the Anticorruption Code of Conduct with the new version released at this date.

Furthermore, action plans related to global and regional corruption risk mapping were deployed in 2020, and internal controls and Internal Audit missions were reinforced on compliance risks with several audits performed.

94% of employees exposed to corruption risks have been trained thanks to Anticorruption e-learning. The content of this e-learning is updated each year.

A system built-in segregation of duties control is in place in the Group's main ERPs.

All compliance-related aspects are part of due diligence done by the Group for mergers and acquisitions and a specific M&A Compliance framework was put in place in February 2020. For detailed 2020 actions, please refer to chapter 2, section 2.4, page 105.

Key to symbols

● High impact ● Medium impact ● Low impact

9. Risk factors

1. Risks related to the environment in which the Group operates

1.5 Strengthening of chemical and resource-related regulations in the Electrical and Electronic Equipment space

Risk description

Schneider Electric's plants and products are subject to strict environmental laws and regulations.

Many countries have increased legal requirements for the use of chemicals and resources, both in manufacturing processes and in the bill of materials of products.

Key Product Environmental regulations were strengthened in 2019, especially those specific to Electric and Electronic Equipment (EEE): RoHS (restriction of hazardous substances in electrical and electronic equipment) and WEEE (waste electrical and electronic equipment). RoHS bans ten chemical substances used in many product categories sold by Schneider Electric: this may require substitutions and may represent a considerable risk of non-compliance. WEEE concerns the Group Extended Producer Responsibility and obliges an active role in the framework of products end life, particularly in terms of financing the collection channels.

In addition, as described in Note 21 (see "Notes to the consolidated financial statements", chapter 4, section 5, page 338), provisions of EUR259 million are set aside to cover environmental risks. These provisions are primarily funded to cover clean-up costs (not potential penalties). The estimation of the expected future outflows is based on reports from independent experts.

French "Duty of Care" and country-specific initiatives (e.g. China) have reaffirmed the expectations towards engaging suppliers in environmental de-risking efforts.

In relation with Mergers and Acquisitions (M&A) Schneider Electric needs to critically assess environmental risks of all acquired companies' product portfolios to ensure strict environmental compliance of all their products, in every market where they are traded.

Local regulations could force a percentage of recycled content in some product categories, where neither the relevant recycled resources may be available, nor the product certified or accepted – with recycled content – by IEC, NEMA, or any other electrical standards.

Regulations could phase out specific chemical substances or resources too quickly, with no suitable alternative being found in a scalable manner.

Risk mitigation

The Group's Integrated Management System (IMS), which covers safety, energy, quality, and environment, continues to be deployed across all industrial sites and major commercial offices.

Offer Creation Process (OCP) is strict, and each step and deliverable embed ecoDesign ambitions and principles: selection of resources, identification of critical substances, life cycle assessment, and then production of REACh and RoHS report.

The Group's community of ecoDesign business partners train the R&D teams in all new and upcoming environmental regulations and assist them with precise guidance.

Environmental and Safety compliance audits, conducted by third-party consultants or internal specialists, take place periodically across countries.

Schneider Electric has been part of taskforces on the Circular Economy, playing leadership roles in multi-stakeholder dialogues in Europe, China, and the US, to discuss opportunities and hurdles: regulations, environmental impacts, protection of customers' interests, and job creation. Schneider Electric is active in France's Circular Economy Roadmap and engaged in China with MIIT on circular economy. The Group leads GIMELEC and FIEEC, and engages in discussions on circular economy relating to its sector with IGNES, ORGALIME and other various circles.

Key to symbols

● High impact ● Medium impact ● Low impact

1. Risks related to the environment in which the Group operates

1.6 Human rights, environmental, and safety issues through the value chain

Risk description

The exposure of the Group to human right risks has been increasing for several years, due to the expansion of the Group's activities in countries with lesser regulatory framework regarding human rights.

Specifically, Schneider Electric's procurement volume represents more than EUR12 billion with more than 50,000 suppliers. As part of the Duty of Vigilance program in the supply chain, Schneider Electric has performed a risk analysis through its network of suppliers and identified potential risks in the following areas:

- Human rights
- Environment
- Ethical Business Conduct
- Cybersecurity

The occurrence of these risks with third party may result in the following impacts on Schneider Electric:

Reputation

Schneider Electric's image may be negatively impacted by third party who:

- Do not respect human rights or safety rules for their workers.
- Are responsible for pollution and damage to the environment.
- Are conducting business in a non-compliant or illegal manner.

Disruption of supply chain may occur due to:

- Short-term termination of relations with a supplier.
- Events resulting from a lack of safety or insufficient protective measures (e.g. fire prevention) that may affect the supply of components.
- Damage to data exchanged with suppliers or digital systems (e.g. virus, malware).

Legal

Over the past two years, laws regarding human rights protection, such as modern slavery matters in Australia, or the European Union's new framework on restrictive measures against serious human rights violations and abuses, have increased. Higher coverage of fines imposed on companies, and new regulations requiring a strong compliance program have significantly changed the impact of human rights violations risks.

Schneider Electric expects that the exposure will continue to grow, in reference with the current drafting of a Duty of Vigilance regulation at European level, as well as the European Action Plan on Human Rights and Democracy 2020-2024, which sets out ambitions and priorities for the next five years in this field. In addition, the current discussions on human rights due diligence framework at United Nations level, supported by the Global Compact that Schneider Electric is part of, will certainly increase the pressure on the private sector to tackle human rights challenges in the supply chain.

2020 Specific events

In France, in 2019, disputes began between NGOs and French companies (excluding Schneider Electric) concerning non-compliance with the duty of vigilance. A French judge made a ruling on December 10, 2020, recognizing the sole competence of the commercial court in the case of potential violation of the Duty of Vigilance law by companies, downgrading the risk exposure to a civil one. Nevertheless, NGOs will certainly lodge an appeal with the French Cour de Cassation, so the legal analysis is not yet closed.

Key to symbols

- High impact
- Medium impact
- Low impact

9. Risk factors

1. Risks related to the environment in which the Group operates

Risk mitigation

Human rights are part of the Ethics & Compliance program which is managed by the Ethics & Compliance Committee, and Legal and Sustainability Departments. More specifically, human rights are managed by the Sustainability Department with the support of the Ethics & Compliance Committee in regards to risk identification through risk assessment as well risk detection, with the whistleblowing system available for employees and for external stakeholders.

Regarding training, e-learning on Principles of Responsibility is mandatory for all employees and, in 2020, focused on human rights amongst other ethics & compliance topics. 93% of employees completed it by end of 2020.

Suppliers are selected according to the "Schneider Electric Supplier Quality Management" system, which includes sustainable development criteria weighing 30% of the total evaluation of a supplier.

In 2019, Schneider Electric organized the Global Suppliers Day. During this day, the Principles of Responsibility were introduced to suppliers.

As part of the Group's 3-year sustainability plan for 2018-2020, strategic suppliers are requested to submit (themselves) to an ISO26000 evaluation. Consistent with a continuous improvement effort, these suppliers have achieved on average a +6.3 points increase between 2018 and 2020.

Schneider Electric has built a supplier vigilance plan in which risky suppliers are identified using criteria that take into account the geographical location of the supplier, the technologies, and the processes used. A three-year audit plan is then built to perform at least 350 on-site supplier audits. When non-conformances are identified, corrective actions are deployed. The suppliers are then re-audited to verify that the actions have remediated the non-conformances. As of end 2020, 94% of non-conformances from 2019 have been closed. The supplier vigilance plan also includes an internal training program for Schneider Electric Procurement teams and workshops with suppliers.

Several actions will be launched in 2021 as part of the new SSI and SSE program, especially in regards to decent wages within the Company and our supply chain, as well as "social excellence" programs for our suppliers.

Key to symbols

 High impact
  Medium impact
  Low impact

2. Risks related to Operations

2.1 Risk of cybersecurity on the Schneider Electric infrastructure and its digital ecosystem

Risk description

Schneider Electric, like other organizations with a similar global footprint and presence, is exposed to the risk of cyber attacks and data privacy breaches.

As an industrial and technology company, the Group has IT and Operational Technology activities spread over more than 25 sites, with major R&D activities, and more than 200 production and logistic units.

On those sites, Operational Technology systems are converging more and more with IT systems, especially through the use of Internet of Things expanding the overall attack surface.

Additionally, the move from a product-centered business model to a service-oriented business model with software (e.g. digital offers like "Advisors" software suites or managed digital services) and augmented data naturally increases cybersecurity risks, such as data breaches and intellectual property theft.

Risk mitigation

- The NIST framework (Identify, Protect, Detect, Respond, and Recover) is used with a Cyber Risk Register and High-Value Assets program (more than 25 crown jewels).
- Cyber threats are mitigated by implementing cyber practices and capabilities, policy driven controls, and enforcing mechanisms. For example, through the implementation of a Data Protection program, Source Code Management framework, and System & Solution security program.
- Global Cyber incident response is in place. Events and incidents are monitored through a Security Operations Center, driven jointly with the Group's partners.
- Schneider Electric's posture is continuously revisited and adapted through "reality checks", including emergency and improvement plans across the Company and cyber scoring platforms.
- Around 100% of connected users and nearly 40,000 workers were trained in cybersecurity in 2020.
- Multiple cyber risk assessments were completed in 2020 by the Group's cybersecurity consulting partners. Furthermore, this year, five cyber crisis simulation exercises were performed.
- Independent "reality checks" were performed: three cross-cutting internal audits and external assessments.

Key to symbols

- High impact
- Medium impact
- Low impact

9. Risk factors

2. Risks related to Operations

2.2 Connected products at Schneider Electric or customer sites used as a gateway to attack Group's customers and partners



Risk description

The Energy Management and Industrial Automation sectors, like many others, are becoming more digital with pervasive IoT usage and augmented data being major accelerators for mobility, the cloud, pervasive sensing, big data, and analytics.

The resulting increased digitalization of products, including native connectivity, is increasing the exposure to cybersecurity risk, where connected products and digital offers (e.g. "Advisor" type of offers, remotely managed services) at Schneider Electric or customers sites could be used as a gateway for malicious cyberattacks.

Schneider Electric has launched an ecosystem collaboration platform called Exchange with over 50,000 registered users, approximately 300 apps, more than 150 service providers listed, and around 100 communities onboarded.

These types of digital offers and platforms, if compromised, could negatively affect service quality, profitability, and reputation of Schneider Electric.

Risk mitigation

The Product Security Office is reinforced with a strong mandate and connection across the business units and Schneider Electric Digital.

Schneider Electric is developing products and securing the ecosystem in conformity with cybersecurity standards. Schneider Electric follows a Secure Development Life cycle process to build cybersecurity into its products, even before the design stage.

IoT Cloud Platform (EcoStruxure™ Technology Platform) has implemented controls that are mappable against ISO27001 standard.

The Group enforces digital security and privacy conformance when assessing platforms, applications and digital offers (Digital Certification Process).

In case of cyber incident, a process of response, connecting, and debriefing is organized with partners and customers.

In 2019, security and privacy design were enhanced with a new Secure Development Life cycle and certified against IEC62443-4-1. In 2020, all digital offers (mainly "Advisor" software suites) were assessed in the framework of digital security and privacy conformance.

Key to symbols

High impact
 Medium impact
 Low impact

2. Risks related to Operations

2.3 Product quality

Risk description

Schneider Electric has more than 260,000 references produced in 191 factories, spread across 46 countries around the world.

Operating in essential industries, product quality and safety is a critical topic for the Group as product malfunctions or failures could result in Schneider Electric incurring liabilities for tangible, intangible damages, or personal injuries. The failure of a product, system, or solution may involve costs related to the product recall, result in new development expenditure, and consume technical and economic resources.

Schneider Electric's products are also subject to multiple quality and safety controls and regulations and are governed by both national and supranational standards. New or more stringent standards or regulations could result in capital investment or costs of specific measures for compliance.

The above-mentioned costs could have a significant impact on the profitability and cash equivalent of the Group. The business reputation of Schneider Electric could also be negatively impacted. Indeed, the Group has been impacted by several recalls recently, more or less ranging from EUR10 million to EUR40 million, depending on the case.

Risk mitigation

In 2019, the Group launched a specific program called Phoenix to continue to strengthen manufacturing tools and processes. This is extended to logistic processes and suppliers, and leverages processes digitization at suppliers' sites and in our own entities.

To ensure improvement in the area of design, the Group launched in mid-2020, a dedicated program, ReeD (Reliability End To End by Design), to secure fundamentals and ensure full integration of new customer expectations (from Quality to Reliability).

The Group grows its new design offer through constant learning, insights from the current offer, and leverage methodologies such as "Agile" to embed quality in each and every design step.

Thanks to advanced analytics, the Group is starting to proactively listen for weak signals from internal captures or from customer experiences.

Key to symbols

 High impact
  Medium impact
  Low impact

9. Risk factors

2. Risks related to Operations

2.4 Supply chain resilience

Risk description

The Group is exposed to supply chain dependency and business continuity risk.

For instance, one cluster of plants in South East Asia supplies 80% of a EUR1 billion line of business. Any incident or interruption of production (i.e. natural disasters, social unrest, pandemics) at a plant could lead to shortages, compensation costs, or top line losses. Schneider Electric has identified all critical supplies that can affect its operations and delivery to its customers.

The Group large network of suppliers also create a resiliency risk as they can also be exposed to business continuity risk and impact Schneider Electric operations.

Finally, the increase of circular economy regulation could increase the pressure on product traceability. Failure to comply with those regulations could result in fines, potentially impacting the Group's profitability and reputation.

Risk mitigation

The Group requires each of its sites to have a robust business continuity plan for any large-scale events which can severely impact the business, such as natural disasters, social unrest, and pandemics. Each of Schneider Electric's sites has an assigned business continuity leader whose role is to manage this process if something occurs and initiate a crisis management command center at a local level and, if necessary, at a global level at headquarters, led by the Global Security Officer. This process has a proven track record of success and continues to protect the Group's people and assets.

In addition, the Group launched a EUR150M resiliency plan over the next 3 years to specifically reduce *time to recover* if a business continuity incident shall occur in one of its supply chain critical site. It aims for those critical sites to have at least a backup production site located in a different region of the world. Redundancy is also created on critical supplies through multisourcing to improve the Supply Chain resilience.

Schneider Electric is also investing in specific modelization tools to optimize its strategic inventories volume & location in order to reduce *time to survive* to a business continuity event.

Finally, the Group's supply chain strategy team assesses the supply chain flexibility and resilience on an ongoing basis to ensure the right level of flexibility and capacity from one site to another, if there is a need due to interruption. This is well understood by the supply chain leadership. The Group has a network of more than 190 factories and 90 distribution centers globally and has built a network of 7 control towers (in each region) that monitors major events possibly impacting Schneider Electric Supply chain. Each control tower is equipped with digital capabilities to launch adequate alerts & adapt in real time the Group Supply Chain flows and provide its customers peace of mind that the Group is resilient and able to deliver a world class service.

Key to symbols

 High impact
  Medium impact
  Low impact

2. Risks related to Operations

2.5 Digital evolution and software offers

Risk description

Major transformation in several areas is impacting the markets in which Schneider Electric operates, including the digitization of the Energy industry.

In the age of the IoT, customers expect ever smarter products with open interfaces enabling them to be tightly integrated into more and more complex software-based solutions and benefit from new services leveraging artificial intelligence and advanced algorithms.

The Group is investing in its digital transformation journey and as such is increasing the share of its digital offers. In 2020, software and digital services had a doubled-digit growth, (e-commerce sales & connected customers and Assets under Management (AuM)). As such, Schneider Electric is focusing on offering more digital services, generating more recurring revenues, and increasing customer retention.

Also, in 2020, the Group has acquired 88% of RIB Software SE, a construction software provider, in order to expand capabilities in building life cycle digitalization. This acquisition continues Schneider Electric's journey to build a software portfolio and a leadership position in digital and sustainable smart building solutions.

The transformation risk will be linked to the monetization of this new digital portfolio in order to generate a steady revenue stream from this mass customers and products connectivity.

Risk mitigation

The Group has launched several initiatives including but not limited to:

- creation of a new organization dedicated to the growth of digital services with a clear ambition to leverage a robust strategy and structured offer portfolio;
- monetizing critical connected assets with advanced Advisor offer through installed base, using Artificial Intelligence and algorithms;
- definition of a consistent connectivity path for partners and direct go-to-market.

Key to symbols

-  High impact
  Medium impact
  Low impact

9. Risk factors

2. Risks related to Operations

2.6 Pricing strategy

Risk description

Raw material inflation and foreign exchange rate fluctuation can impact the product cost, with differences across the product lines. Such fluctuations, if not offset by tactical pricing decisions in compliance with national and international laws, can negatively impact the Group's profitability. As an example, in 2018, the delayed adjustments to raw material inflation led to an EUR80 million sales mis-opportunity.

In addition, the current market evolution requires different ways of working as e-commerce and the internet are evolving quickly and the factors are becoming more regional and, in many cases, global.

Risk mitigation

To anticipate negative impact on profitability, the Group has reinforced its comprehensive global pricing program with robust compliance, pricing, and quotation tools.

Key to symbols

 High impact  Medium impact  Low impact

2. Risks related to Operations

2.7 Competition laws

Risk description

Schneider Electric's products are sold in markets worldwide and are subject to national and supranational competition laws and antitrust regulations.

Some Group entities worldwide including, but not limited to, entities in Pakistan, Belgium, France, and Spain have been directly or indirectly cited in antitrust proceeding or investigated.

In Pakistan and Belgium, the Group inherited, and subsequently discontinued, local operations from Areva. These operations were investigated and sanctioned by the World Bank and the Belgium Competition Authority respectively.

In France, investigations were performed in September 2018 by the French police and antitrust authorities at Schneider Electric's head office and other premises concerning electrical distribution activities in France. Schneider Electric is cooperating with the French authorities in their investigations.

In Spain, the local subsidiary was indicted for anti-competitive behavior related to a previously owned subsidiary. The investigation was concluded in February 2020 without any significant consequence for the Group.

Risk mitigation

The whistleblowing system of Red line for employees and Green line for external stakeholders such as suppliers is managed to identify any inappropriate practice or behavior with competitors or business partners that may be reported.

Furthermore, internal controls and Internal Audit missions have been reinforced on compliance risks, including in respect of competition and antitrust risks.

A revised compliance due diligence program for mergers and acquisitions was issued to strengthen upfront identification of compliance issues with potential acquisition targets.

The Group updated and deployed the revised Group Principles of Responsibility in April 2019, with reinforced guidance regarding competition and antitrust rules, and issued various other policies and directives related to competition and anti-corruption.

Key to symbols

 High impact
  Medium impact
  Low impact

9. Risk factors

3. Risks related to Internal Organization

3.1 Talent attractiveness, workforce engagement, sales force upskilling and recruitment of digital competencies



Risk description

The digital transformation comes with the need for specific skills, especially in the areas of technologies, services, energy efficiency, sustainability solutions, and consultative selling. To consult on digitization and to support agile ways of working, the Group must prioritize digital-centric positions. For Schneider Electric, the top areas of focus include: software product owners, software developers, scrum masters, agile coaches, data scientists, data engineers, UX/UI designers, integration architects, cybersecurity specialists, and security engineers. Currently, at Group level, there are approximately 8,000 digital technologists with the largest concentration of employees in India, the US, France, and China.

Competition for highly qualified management and technical personnel, particularly business technologists, is intense in the Group's industry and becomes a bigger challenge as the Group continues its trajectory of growth. In 2020, approximately 15% of global professional hires were in digital-centric roles – in line with the digital hiring composition from the prior year.

Future continued success depends in part on the Group's ability to attract, hire, onboard, develop, and retain the best qualified personnel. In addition to critical skills, workforce diversity – especially gender, generation, and nationality/race – is a priority. For example, in 2020, 45% of white collars hired globally were early-career/fresh graduates to ensure a continued supply of early-career talents. Also, at Group and country levels, more programmatic efforts are in progress to support "senior talents" in regards to future skills development, knowledge transfer, and career assignments to leverage their expertise and experience.

Risk mitigation

The Group's people strategy is strongly anchored in its new people vision, which includes the Employee Value Proposition and employer branding, as well as the business and sustainability priorities of the Company.

Schneider Electric's entire people strategy defines the transformation it wants to accomplish regarding business, workforce, and talent impact, including increasing diversity, equity and inclusion, pay equity, family leave, and flexible "new ways of working" policies. The people strategy in 2020 puts additional focus on creating more organizational agility through flexible working, structural efficiencies, and project and agile methods of work, as well as accelerating the diversity, equity, and inclusion agenda.

For employees, underpinned by a strong focus on career and skills development, regular career development conversations are supported and anchored by annual performance appraisals and development and career reviews. Training opportunities are defined by specific roles and include technical, behavioral, and digital learning offers. Global required trainings include: ethics and compliance, cybersecurity, anti-harassment, and digital acumen. In 2019, Schneider Electric launched an Open Talent Market platform to facilitate internal job and project assignments and a new digital employee listening tool to analyze employee engagement. The Open Talent Market platform was expanded to all countries in Q2 2020 and to date, 46% of employees have engaged in the Open Talent Market platform. Schneider Electric's continuous listening strategy ensures the Group listens to the employees throughout their employment life cycle (onboarding, OneVoice internal survey, exit, etc.), and acts on their feedback to drive engagement.

Key to symbols


High impact
 Medium impact
 Low impact

3. Risks related to Internal Organization

In addition, leaders of all entities take part in regular talent reviews and succession planning meetings, culminating with a year-end review with the CEO and CHRO. Focus is on the leadership pipeline and high potentials, technical and digital talents, workforce optimization, and succession. Targeted leadership development programs and training are offered to ensure continued technical and leadership skills development, including a "License to Lead" app for senior management. A new training and upskilling program for all sales representatives and sales leaders was developed in 2019 and deployed in 2020, as well as a new certification training program for key account managers. A financial acumen digital course was also deployed in 2020 with the goal that all senior management complete the course by H1 2021.

To continue to focus on the workforce of the future and Schneider's position as an attractive employer, talent acquisition and employer branding remain top priorities. While the strategy is to continue to build the pipeline and promote from within the Company, we have targeted skills and markets where there is proactive hiring. For example, the Group is focused on continuing the recruitment of interns, apprentices and fresh university graduates to help sustain the digital transformation. The Company continues to hire for critical skills and roles such as digital, software, data and cybersecurity, strategy, sustainability, and supply chain. The diversity ambition is also applied strongly to our external recruitment, especially for women in business and technology.

Key to symbols

 High impact

 Medium impact

 Low impact

9. Risk factors

3. Risks related to Internal Organization

3.2 IT systems management

Risk description

The Group operates either directly or through service providers, a wide range of highly complex information systems, including servers, networks, data repositories, applications and databases, on premise and in the cloud, that are essential for the efficiency of its sales and manufacturing processes, as well as platforms to enable digital offers such as EcoStruxure™. The Group is deploying various applications aimed at enhancing commercial experience, employee experience and supply chain efficiency as well as enabling digital commercial offers.

Significant failure in fulfilment by a service provider or a major network outage, hardware and/or system failure could adversely affect the quality of service offered by Schneider Electric.

In addition, the provision of safe and secure foundational Information Systems is critical to the ongoing expansion of digital offers and customer interactions. As the Group moves towards more digital offers, services and software, the variety of legacy systems makes it harder and more complex to evolve and scale.

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

Risk mitigation

The Group regularly examines alternative solutions to protect against those risks, performs regular compliance checks on service provider service level agreements, and has developed contingency plans and incident response capabilities to mitigate the effects of any information system failure.

The Group undergoes constant evolution and planning pertaining to its information systems, which encompasses but is not limited to:

- ERP transformation and the evolution of the Group's financial systems to prepare for digital offers;
- Elimination of legacy IT applications and associated hardware to simplify the landscape and mitigate risks linked to obsolescence;
- Ensure the sustainability of the IT landscape with ongoing focus on business continuity and disaster recovery planning for hardware and software.

All new applications are subject to certification testing, attempting to remove system vulnerabilities. These systems are housed either in Data Centers (either managed by the Group internally or by service providers) or are cloud-based applications.

In 2020, the Group continued to reduce legacy IT applications through a dedicated "Technical Debt Reduction" program.

Key to symbols

-  High impact
  Medium impact
  Low impact

4. Financial risks

4.1 Counterparty risk

Risk description

The Group has a particularly wide international presence (more than 115 countries), with revenue almost equally spread across the four regions (Asia Pacific, Western Europe, North America, Rest of the World), and 41% of the revenue generated in new economies.

The Group is therefore facing multiple counterparty risks, as any economic downturn could lead to local liquidity issues with consequences in terms of cash collection and delay of payments from the customers, affecting adversely the Group's cash conversion rate.

The Group is also exposed to counterparty risk coming from financial operation with financial institutions including banks, for activity such as deposits and asset management, transactions implying flows in future value dates.

As of December 31, 2020, 12.8% of trade receivables were overdue, of which 1.7% by more than three months (refer to Note 16 in "Notes to the consolidated financial statements", chapter 4, section 5, page 330).

2020 Specific events

In 2020, some customer payment delays were particularly noted from February to May, as a consequence of the COVID-19 outbreak and the numerous lockdowns across the world. Payment delays were sorted out during the following months to reach normal levels by the end of the year.

Risk mitigation

Financial transactions are entered into with carefully selected counterparties and adapted terms and conditions are included in contracts with customers.

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 (letters of credit and bank guarantees) to limit the risk of losses on trade accounts receivable.

As of December 31, 2020, the amount of the provision for receivables impairment is EUR 510 million (as described in Note 16 in "Notes to the consolidated financial statements", chapter 4, section 5, page 330).

Key to symbols

 High impact
  Medium impact
  Low impact

9. Risk factors

4. Financial risks

4.2 Currency exchange risk

Risk description

The Group's international operations and the particularly wide international presence expose it to the risk of fluctuation of exchange rates.

Fluctuations in exchange rates between the reporting currencies of the Group entities and the currencies of transactions can have an impact on the Group's results and distort year-on-year performance comparisons. The same applies to the fluctuations between euro and the reporting currencies, in a more significant proportion.

The main exposure of the Group in terms of currency exchange risks is related to the US dollar, Chinese yuan, and currencies linked to the US dollar.

In 2020, revenue in foreign currencies amounted to EUR 20.1 billion, including around EUR 6.6 billion in US dollars and EUR 3.7 billion in Chinese yuan.

The Group estimates that in the current structure of its operations, a 10% appreciation of the euro compared to the US dollar would have a translation effect of around minus EUR 78 million on adjusted EBITA.

The result of exchange gains and losses of 2020 amounts to EUR -36 million (as described in Note 7 in "Notes to the consolidated financial statements", chapter 4, section 5, page 323).

Risk mitigation

The Group manages its exposure to transactional currency risk to reduce the sensitivity of earnings to changes in exchange rates. Receivables and payables of the Group's subsidiaries denominated in currency other than their functional currency are hedged primarily by means of rebalancing assets and liabilities per currency (natural hedge).

More than 20 currencies are involved, with the US dollar, Chinese yuan, Singapore dollar, Australian dollar, British pound, the Hungarian forint, and Russian rubles representing the most significant sources of those risks.

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.

The financial instruments used to hedge exposure to fluctuations in exchange rates are described in Note 23 in "Notes to the consolidated financial statements", chapter 4, section 5, page 341.

Key to symbols

 High impact
  Medium impact
  Low impact

9.2 Insurance strategy

Why we think this is important

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

How we are mitigating the risks:

- We identify and analyze the impact of our main insurable risks.
- In order to minimize the risks of damage and protect our production capacity, we define protection standards (including for the sites managed by third parties), organize audits of our main sites by an independent loss prevention company, and roll-out of a self-assessment questionnaire for the other Group sites.
- We draw up business continuity plans, in particular for the Group's main sites and critical suppliers.
- We implement crisis management tools in conjunction with the Group's Global Security Department.
- We carry out hazard and vulnerability studies and safety management for our people and our equipment.
- We negotiate global insurance programs at the Group level for all subsidiaries with insurance companies meeting appropriate minimum credit ratings.
- We implement these global programs in countries where the Group operates in compliance with local regulations through a network of international brokers.
- We optimize financing for high-frequency/low-severity risks through retentions managed either directly (deductibles) or through captive insurance companies.

Liability insurance

A new insurance program has been put in place on January 1, 2020 for a period of three years. This program, deployed in more than 70 countries, provides coverage and limits in line with the current size of the Group and its evolving risks and commitments.

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

Property damage and business interruption insurance

The insurance program, implemented as of July 1, 2019 for two years, was continued in 2020. This is an "all risks" policy which covers events that could affect Schneider Electric's property (including fire, explosion, natural disaster, machinery breakdown) as well as business interruption resulting from those risks.

2,150 locations in 67 countries are covered under this program. Assets are insured at replacement value.

Transport insurance

Risks of loss or damage to goods while in transit, including intragroup shipments, are covered by a global insurance program which was renewed in January 1, 2020 and is deployed in 38 countries.

Erection all risk insurance

The erection all risk insurance program, providing cover for damage to work and equipment for projects taking place at our clients' premises, was continued in 2020. This program is deployed in 35 countries.

Other risks

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

Self-insurance

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

- a captive company based in Luxembourg provides mainly Property Damage and Transport reinsurance worldwide as well as Liability reinsurance outside the USA and Canada. The total amount retained for these risks is capped at EUR20.2 million per year;
- for the entities located in the USA and Canada, a captive insurance company based in Vermont (USA) is used to standardize deductibles for general/ products/professional liability, workers' compensation, and automobile liability. These retentions range from USD2 million to USD5 million per claim, depending on the risk. An actuary validates the reserves recorded by the captive company each year.

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

Cost of insurance programs

The cost (including tax) of the Group's main global insurance programs, excluding premiums paid to captives, totaled around EUR21 million in 2020.