HALF YEAR FINANCIAL REPORT
Six-month period ended June 30, 2019

Condensed Consolidated Financial Statements
Half-Year Management Report
CEO Attestation
Statutory Auditors' Review Report

Life Is On | Schneider Electric

1. Consolidated statement of income

(in millions of euros except for earnings per share)	Note	First half 2019	First half 2018
Revenue	**3**	**13,202**	**12,317**
Cost of sales		(8,000)	(7,499)
Gross profit		**5,202**	**4,818**
Research and development	4	(325)	(278)
Selling, general and administrative expenses		(2,917)	(2,771)
EBITA adjusted *		**1,960**	**1,769**
Other operating income and expenses	5	(346)	(64)
Restructuring costs	6	(101)	(87)
EBITA **		**1,513**	**1,618**
Amortization and impairment of purchase accounting intangibles	7	(88)	(79)
Operating income		**1,425**	**1,539**
Interest income		39	27
Interest expense		(97)	(125)
Finance costs, net		**(58)**	**(98)**
Other financial income and expense	8	(82)	(61)
Net financial income/(loss)		**(140)**	**(159)**
Profit from continuing operations before income tax		**1,285**	**1,380**
Income tax expense	9	(286)	(318)
Income of discontinued operations, net of income tax		4	(35)
Share of profit/(loss) of associates	12	41	36
PROFIT FOR THE PERIOD		1,044	1,063
attributable to owners of the parent		*993*	*1,020*
attributable to non controlling interests		*51*	*43*
Basic earnings (attributable to owners of the parent) per share (in euros per share)		1.79	1.83
Diluted earnings (attributable to owners of the parent) per share (in euros per share)		1.78	1.82

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

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

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

Other comprehensive income

(in millions of euros except for earnings per share)	Note	First half 2019	First half 2018
Profit for the year		**1,044**	**1,063**
Other comprehensive income :			
Translation adjustment		25	183
Cashflow hedges		2	(28)
Income tax effect of cashflow hedges		0	6
Net gains (losses) on available-for-sale financial assets		6	0
Income tax effect or net gains (losses) on available-for-sale financial assets		0	0
Actuarial gains (losses) on defined benefit plans		(109)	116
Income tax effect of actuarial gains (losses) on defined benefit plans		26	(20)
Other comprehensive income for the year, net of tax		**(50)**	**257**
of which to be recycled in income statement		*33*	*161*
of which not to be recycled in income statement		*(83)*	*96*
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**994**	**1,320**
attributable to owners of the parent		*957*	*1,274*
attributable to non-controlling interests		*37*	*46*

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

2. Consolidated statement of cash flows

(in millions of euros except for earnings per share)	Note	First half 2019	First half 2018
Profit for the year		**1,044**	**1,063**
Losses/(gain) from discontinued operations		(4)	35
Share of (profit) / losses of associates		(41)	(36)
Income and expenses with no effect on cash flow:			
Depreciation of property, plant and equipment		*333*	*182*
Amortization of intangible assets other than goodwill		*235*	*210*
Impairment losses on non-current assets		*68*	*46*
Increase/(decrease) in provisions		*64*	*(38)*
Losses/(gains) on disposals of fixed assets		*180*	*4*
Difference between tax paid and tax expense		*(148)*	*(4)*
Other non-cash adjustments		*60*	*53*
Net cash provided by operating activities		**1,791**	**1,515**
Decrease/(increase) in account receivable		(67)	(82)
Decrease/(increase) in inventories and work in process		(198)	(552)
(Decrease)/increase in accounts payable		(116)	72
Decrease/(increase) in other current assets and liabilities		(193)	(295)
Change in working capital requirement		**(574)**	**(857)**
TOTAL I - CASH FLOW FROM OPERATING ACTIVITIES		**1,217**	**658**
Purchases of property, plant and equipment		(232)	(210)
Proceeds from disposals of property, plant and equipment		6	31
Purchases of intangible assets		(154)	(129)
Proceeds from disposals of intangible assets		0	0
Net cash used by investment in operating assets		**(380)**	**(308)**
Acquisitions and disposals of businesses, net of cash acquired & disposed	2	(74)	(698)
Other long-term investments		(24)	35
Increase in long-term pension assets		(49)	(139)
Sub-total		**(147)**	**(802)**
TOTAL II - CASH FLOWS FROM / USED IN INVESTING ACTIVITIES		**(527)**	**(1,110)**
Issuance of bonds		760	740
Repayment of bonds		(500)	0
Sale/(purchase) of own shares		(80)	(164)
Increase/(decrease) in other financial debt		546	1,309
Increase/(decrease) of share capital		4	4
Dividends paid to Schneider Electric SE's shareholders		(1,296)	(1,223)
Dividends paid to non-controlling interests		(37)	(21)
TOTAL III - CASH FLOWS FROM / USED IN FINANCING ACTIVITIES		**(603)**	**645**
TOTAL IV - NET FOREIGN EXCHANGE DIFFERENCE		**13**	**62**
TOTAL V - EFFECT OF DISCONTINUED OPERATIONS		**(43)**	**(23)**
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS: I +II +III +IV +V		**57**	**232**
Net cash and cash equivalents at January 1	17	2,231	2,767
Increase/(decrease) in cash and cash equivalents		57	232
NET CASH AND CASH EQUIVALENTS, END OF PERIOD	**17**	**2,288**	**2,999**

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

3. Consolidated balance sheet

Assets

(in millions of euros)	Note	June 30, 2019	Dec. 31, 2018
NON-CURRENT ASSETS:			
Goodwill, net	10	18,522	18,373
Intangible assets, net		4,587	4,874
Property, plant and equipment, net		3,703	2,521
Total tangible and intangible assets	**11**	**8,290**	**7,395**
Investments in associates	12	511	530
Non current financial assets	13	660	665
Deferred tax assets		2,062	2,040
TOTAL NON-CURRENT ASSETS		**30,045**	**29,003**
CURRENT ASSETS:			
Inventories and work in progress		3,240	3,091
Trade and other operating receivables		6,043	5,804
Other receivables and prepaid expenses		1,942	1,910
Current financial assets	13	32	30
Cash and cash equivalents	17	2,502	2,361
TOTAL CURRENT ASSETS		**13,759**	**13,196**
Assets held for sale		**349**	**60**
TOTAL ASSETS		**44,153**	**42,259**

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

Liabilities

(in millions of euros)	Note	June 30, 2019	Dec. 31, 2018
EQUITY:	**14**		
Share capital		2,317	2,317
Additional paid in capital		2,981	2,977
Retained earnings		15,063	15,721
Translation reserve		(193)	(233)
Equity attributable to owners of the parent		**20,168**	**20,782**
Non controlling interests		1,541	1,482
TOTAL EQUITY		**21,709**	**22,264**
NON-CURRENT LIABILITIES:			
Pensions and other post-employment benefit obligations	15	1,606	1,558
Other non-current provisions	16	1,364	1,253
Total non-current provisions		**2,970**	**2,811**
Non current financial liabilities	17	6,689	5,923
Deferred tax liabilities		1,143	1,147
Other non-current liabilities		927	10
TOTAL NON-CURRENT LIABILITIES		**11,729**	**9,891**
CURRENT LIABILITIES:			
Trade and other operating payables		4,104	4,142
Accrued taxes and payroll costs		1,900	2,194
Current provisions	16	875	878
Other current liabilities		1,717	1,232
Current debt	17	1,892	1,574
TOTAL CURRENT LIABILITIES		**10,488**	**10,020**
Liabilities held for sale		**227**	**84**
TOTAL EQUITY AND LIABILITIES		**44,153**	**42,259**

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

4. Consolidated statement of changes in equity

(in millions of euros)	Number of shares (thousands)	Capital	Additional paid-in capital	Treasury Shares	Retained earnings	Translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total
Dec. 31, 2017	**596,916**	**2,388**	**5,147**	**(2,153)**	**14,921**	**(506)**	**19,797**	**145**	**19,942**
Profit for the year					2,334		2,334	97	2,431
Other comprehensive income					186	273	459	34	493
Comprehensive income for the year					**2,520**	**273**	**2,793**	**131**	**2,924**
Capital increase	2,407	10	144				154		154
Exercise of stock option plans	1,846	1	9				10		10
Dividends			(1,107)		(116)		(1,223)	(80)	(1,303)
Change in treasury shares	(22,000)	(88)	(1,126)	(829)	1,214		(829)		(829)
Share-based compensation expense					131		131	4	135
AVEVA Combined acquisition impact							0	1,256	1,256
Other		6	(90)		33		(51)	26	(25)
Dec. 31, 2018	**579,169**	**2,317**	**2,977**	**(2,982)**	**18,703**	**(233)**	**20,782**	**1,482**	**22,264**
IFRIC 23 restatement (Note 1)					(169)		(169)		(169)
Jan. 1, 2019	**579,169**	**2,317**	**2,977**	**(2,982)**	**18,534**	**(233)**	**20,613**	**1,482**	**22,095**
Profit for the year					993		993	51	1,044
Other comprehensive income					(76)	40	(36)	(14)	(50)
Comprehensive income for the year					**917**	**40**	**957**	**37**	**994**
Capital increase							0		0
Exercise of stock option plans	138		4				4		4
Dividends					(1,296)		(1,296)	(51)	(1,347)
Change in treasury shares				(80)			(80)		(80)
Share-based compensation expense					78		78	3	81
Other					(108)		(108)	70	(38)
June 30, 2019	**579,307**	**2,317**	**2,981**	**(3,062)**	**18,125**	**(193)**	**20,168**	**1,541**	**21,709**

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

5. Notes to the consolidated financial statements

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All amounts in millions of euros unless otherwise indicated.

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

The Schneider Electric Group's consolidated financial statements for the financial half year ended June 30, 2019 were drawn up by the boards of directors on July 24, 2019.

NOTE 1 Summary of accounting policies

Accounting standards and basis of preparation

The consolidated financial statements for the six months ended June 30, 2019 have been prepared in accordance with IAS 34 - *Interim Financial Reporting*. As condensed financial statements, they do not include all the disclosures required by International Financial Reporting Standards (IFRS) and should be read in conjunction with the December 31, 2018 annual consolidated financial statements included in the Annual Report filed with the Autorité des Marchés Financiers (AMF) under no. D.19-0155, except for the differences in accounting treatment between the annual and interim financial statements described below.

The interim consolidated financial statements have been prepared in compliance with the international accounting standards adopted by the European Union as of June 30, 2019. The same accounting methods were used as for the consolidated financial statements for the year ended December 31, 2018, except for the application of IFRS 16 - *Leases* and IFRIC 23 - *Uncertainty over Income Tax Treatments* as of January 1, 2019.

The Group did not apply the following standards and interpretations that have not yet been adopted by the European Union as of June 30, 2019 or that were not mandatory for January 1, 2019:

- IFRS 17 - *Insurance Contracts*
- amendments to IFRS 3 - *Business Combinations*
- amendments to IAS 1 and IAS 8 - *Definition of materials*
- amendments to References to the Conceptual Framework in IFRS Standards

First application of IFRS 16 - *Leases*

The standard IFRS 16 - *Leases*, adopted by European Union on October 31, 2017, replaces mainly the standards IAS 17 - *Leases*, and IFRIC 4 - *Determining whether an Arrangement contains a Lease*, and is mandatory starting January 1, 2019.

The standard establishes principles for the recognition, valuation, presentation, and disclosure of leases and requires lessees to account for all leases on the balance sheet using a single model, in the form of a right-of-use asset, with a lease obligation counterpart.

The Group has adopted IFRS 16 on January 1, 2019, according to the modified retrospective approach. Under this method, the standard is applied retrospectively with the cumulative effect of the initial application on the date of application.

Scope of the Group contracts

The lease contracts identified within all the Group entities fall under the following categories:

- real estate: office buildings, factories, and warehouses;
- vehicles: cars and trucks;
- forklifts used mainly in factories or storage warehouses.

The Group has retained the exemption for low-value assets (i.e.new assets with a cost lower than USD 5,000). Thus, the defined scope does not include small office or IT equipment, mobile phones or other small equipment, which all correspond to low-value equipment. Short-term contracts (i.e. less than 12 months without purchase option) are also exempted under the standard. In this case, for example, for occasional vehicle or accommodation rentals.

Effects of the adoption of IFRS 16

Key effects of the application of IFRS 16 on January 1, 2019:

(in millions of euros)	**Jan. 1, 2019**
ASSETS:	
Property, plant and equipment, net	1,293
TOTAL ASSETS	**1,293**
LIABILITIES:	
Other non-current liabilities	1,034
Other current liabilities	259
TOTAL LIABILITIES	**1,293**

The Group has applied a unique accounting and valuation approach for all leases. The standard provides specific transition requirements and practical solutions that have been applied by the Group.

The Group has recognized right-of-use assets and lease liabilities for contracts previously classified as operating leases.

Lease liabilities have been recognized based on the present value of the remaining lease payments, discounted using the country's marginal borrowing rate of the contracting entity at the date of the first application.

Assets related to the right-of-use of operating leases have been recognized based on an amount equal to the lease liability of the contract at transition date, adjusted for any prepaid or oustanding rents.

With respect to contracts formerly recorded under a financing lease, the Group did not change the book values of the assets and liabilities recorded on the original application date. The requirements of IFRS 16 have been applied to these leases since January 1, 2019. These contracts represent a small net book value for the Group (EUR 1 million on January 1, 2019).

The Group has also applied the following simplification measures, available in the standard:

- application of IFRS 16 accounting model only to contracts previously identified as leases according to IAS 17 and IFRIC 4,
- single discount rate by country for a portfolio of leases with relatively similar characteristics,
- exemption for contracts with a residual enforceable term on January 1, 2019, of less than 12 months,
- exclusion of initial direct costs from the valuation of the right-of-use asset at the date of the first application,
- inclusion of the evaluation of contracts carried out immediately before January 1, 2019, by applying IAS 37 to determine whether certain contracts are in deficit (adjustment of the right-of-use asset if applicable) as an alternative to the depreciation review according to IAS 36.

Reconciliation between the rental obligation on January 1, 2019, and operating lease commitments presented under IAS 17 as of December 31, 2018

(in millions of euros)	
Commitments relating to the operating leases as of Dec. 31, 2018	**1,155**
Weighted average marginal loan rate as of Jan. 1, 2019	3.5%
Discounted obligations on simple lease contracts as of Dec.31, 2018	1,023
Minus :	
Obligations linked to short-term contracts and low-value assets	11
Plus :	
Renewal options not taken into account as of Dec. 31, 2018	281
Lease obligations as of Jan. 1, 2019	**1,293**

Accounting principles

The accounting principles below are effective for annual periods beginning on January 1, 2019. IAS 17 still applies for 2018 comparative period.

Rental obligation:

At the inception date of the lease, the Group recognizes the lease liabilities, measured at the present value of the lease payments to be made over the term of the lease. The present value of payments is calculated mainly using the marginal borrowing rate of country of the contracting entity at the contract starting date.

Rental payments include fixed payments (net of rental incentives receivable), variable payments based on an index or rate and amounts that should be paid under residual value guarantees. Besides, the simplification allowing not to split services components has not been elected by the Group. Therefore, only the rents are taken into account in the lease payments.

Lease payments also include, when applicable, the exercise price of a purchase option reasonably certain to be exercised by the Group and the payment of penalties for the termination of a lease, if the term of the lease takes into account the fact that the Group has exercised the termination option.

Variable lease payments that are not dependent on an index or rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

After the start date of the contract, the amount of rental obligations is increased to reflect the increase in interest and reduced for lease payments made.

In addition, the carrying amount of the lease liabilities is revalued in the event of a reassessment or modification in the lease (e.g. change in the term of the lease, change in lease payments, application of annual indexation, etc.).

Right-of-use assets:

The Group accounts for the assets related to the right-of-use on the start date of the lease (i.e. the date on which the underlying asset is available). Assets are measured at cost, less accumulated amortization and impairment losses, and adjusted for the revaluation of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities, initial direct costs incurred and lease payments made on or before the effective date, minus lease inducements received. Unless the Group is reasonably certain that it will become the owner of the leased asset at the end of the lease term, the recorded right-of-use assets are depreciated using the linear method over the shortest period of time between estimated life of the underlying asset and the duration of the lease. The assets related to the right-of-use are subject to depreciation.

Determining the duration of contracts:

The duration of the Group's contracts varies according to geographies.

The real estate contracts have variable durations depending on the countries and local regulations. Vehicles and forklifts are generally contracted between 3 and 6 years.

In certain geographies, the Group's real estate contracts offer unilateral options for termination of contracts (particularly in France with contracts 3-6-9).

Thus, in determining the length of time to be used to calculate the rental obligation, the Group determines the enforceable duration of the contract (maximum term) and takes into account termination options if they are not reasonably certain that they will extend the contract beyond the option date. This estimate is made in collaboration with the Group's Real Estate Department, which determines the real estate strategy. In the majority of cases, the duration chosen is the enforceable duration of the real estate contracts, in particular on the most strategic buildings and factories.

In addition, the Group also holds tacit renewal contracts that are not enforceable (the taker and the lessor may break the contracts by respecting a notice of less than one year). These contracts are exempted under the short-term criteria as they are non-binding beyond the notice period.

Amounts recognized on the balance sheet and 2019 profit and loss statement

The amounts of the assets and liabilities related to the Group's leases, as well as movements during the period are as follows:

(in millions of euros)	Real estate	Vehicules & Forklifts	Total property, plants & equipments, net	Lease Obligations
Jan. 1, 2019	**1,146**	**147**	**1,293**	**1,293**
Increase	28	18	**46**	46
Amortization	(114)	(28)	**(142)**	0
Interests			**0**	20
Payments			**0**	(157)
Translation adjustments	5	0	**5**	6
June 30, 2019	**1,065**	**137**	**1,202**	**1,208**
of which other current liabilities				*288*
of which other non-current liabilities				*920*

First application of IFRIC 23 - *Uncertainty over income tax treatments*

IFRIC 23 - *Uncertainty over income tax treatments*, has been adopted by the European Union on October 23, 2018, and is applicable from January 1, 2019. IFRIC 23 clarifies the application of IAS 12 - *Income Taxes* regarding recognition and measurement of taxes when there is uncertainty over the income tax treatment. IFRIC 23 precise notably that the identification of tax risks must be carried out considering a detection risk at 100%, the approach to be used being the one that provides the best predictions of the resolution of the uncertainty.

The Group applies IFRIC 23 retrospectively with effect from January 1, 2019, with no restatement of comparative period. The analysis carried out in the light of this clarification, led the Group to increase its tax provision by EUR 169 million, against the opening consolidated reserves.

The tax provisions are classified within "provisions" in the balance sheet, and as "Economic risks" in note 16.

Segment reporting

Until December 2018, Schneider Electric presented four distinct operating segments: *Low Voltage*, *Medium Voltage*, *Industrial Automation* and *Secure Power*.

Low Voltage, *Medium Voltage* and *Secure Power* sharing the same objective of managing efficiently and reliably the energy, the Group has decided to gather these three businesses into one single reporting segment, *Energy Management*.

This change has been made in accordance with IFRS 8 - *Operating Segments*, the three operating segments being related to businesses having similar economic characteristics and being similar in the following respects:

- the nature of the products and services,
- the nature of the production processes,
- the type or class of customer for their products and services,
- the methods used to distribute their products and their services.

Discontinued operations

On April 20, 2017, the Group announced the disposal of its "Solar" activity, and started implementing the necessary measures and procedures to formalize this transaction. The initial plan has been reoriented, part of the business being sold or restructured, and part of it still being considered as discontinued operations.

This activity used to be reported within the *Energy Management* business segment of Schneider Electric. Solar activity net income of EUR 4 million has been reclassified to discontinued operations in the Group consolidated financial statements.

Impairment of assets

No indication of impairment on long term assets at June 30, 2019 was identified, thus no impairment tests on these assets were implemented to date.

Seasonal variations

The Group faces seasonal variations on its activities that may impact the level of revenue from one quarter to another. Therefore, the half-year results are not necessarily as significant as the full year figures.

Income tax expense

Current and deferred taxes for interim periods are calculated by applying the estimated average effective tax rate for the current year to pre-tax profit for the period.

NOTE 2 Changes in the scope of consolidation

2.1- Scope variations

Acquisitions & disposals of the period

Acquisitions

No significant acquisition occurred during 2019.

Disposals

On March 25, 2019, the Group announced having entered exclusive negotiations with Transom Capital Group regarding the sale of its Pelco business. On May 24, 2019, the sale of Pelco, which previously reported within *Energy Management* segment, was finalized.

Follow-up on acquisitions and divestments occurred in 2018 with significant effect in 2019

Acquisitions

AVEVA

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

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

As at June 30, 2019, the Group recognizes intangible assets for an amount of EUR 482 million (trademark, patents and customer relationship), and an amount of goodwill of EUR 1,434 million.

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

IGE+XAO

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

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

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

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

As at June 30, 2019, the Group recognizes intangible assets for an amount of EUR 49 million (trademark, technologies and customer relationship) and an amount of goodwill of EUR 100 million.

Disposals

No significant disposals occurred during 2018.

2.2- Impact of changes in the scope of consolidation on the Group cash flow

Changes in the scope of consolidation at June 30, 2019, decreased the Group's cash position by a net EUR 74 million outflow, as described below:

(in millions of euros)	First half 2019	First half 2018
Acquisitions	**(117)**	**(713)**
Cash and cash equivalents paid	(126)	(786)
Cash and cash equivalents acquired	9	73
Disposals	**43**	**15**
FINANCIAL INVESTMENTS NET OF DISPOSALS	**(74)**	**(698)**

NOTE 3 Segment information

The Group is organized into two businesses and organized as follow:

Energy Management leverages a complete end-to-end technology offering enabled by EcoStruxure. The Group's go-to-market is oriented to address customer needs across its four end-markets of Buildings, Data Centers, Industry and Infrastructure, supported by a worldwide partner network.

Industrial Automation includes Industrial Automation and Industrial Control activities, across discrete, process & hybrid industries.

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

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

Share-based payment is presented under "Central functions & digital costs".

The board of directors does not review assets and liabilities by business.

The same accounting principles governing the consolidated financial statements apply to segment data. Details are provided in the Management Report.

3.1- Information by operating segment

First Half 2019

(in millions of euros)	***Energy Management***	***Industrial Automation***	**Central functions & digital costs**	**Total**
Revenue	10,072	3,130		13,202
Adjusted EBITA *	1,776	551	(367)	1,960
Adjusted EBITA (%)	*17.6 %*	*17.6 %*		14.8 %

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

First Half 2018

(in millions of euros)	***Energy Management***	***Industrial Automation***	**Central functions & digital costs**	**Total**
Revenue	9,253	3,064		**12,317**
Adjusted EBITA *	1,584	528	(343)	**1,769**
Adjusted EBITA (%)	*17.1 %*	*17.3 %*		**14.4 %**

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

3.2- Information by region

The geographic regions covered by the Group are:

- Western Europe,
- North America (including Mexico),
- Asia-Pacific,
- Rest of the World (Eastern Europe, Middle East, Africa, South America).

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

First Half 2019

(in millions of euros)	**Western Europe**	**Asia-Pacific**	**North America**	**Rest of the World**	**Total**
Sales by country market	3,494	3,832	3,867	2,009	13,202
Non-current assets	11,646	4,129	9,732	1,305	26,812

First Half 2018

(in millions of euros)	**Western Europe**	**Asia-Pacific**	**North America**	**Rest of the World**	**Total**
Sales by country market	3,385	3,566	3,375	1,991	**12,317**
Non-current assets	11,062	3,844	9,372	1,216	**25,494**

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

(in millions of euros)	First half 2019	First half 2018
Revenue - Mature countries	7,802	7,142
Revenue - New economies	5,400	5,175
TOTAL	**13,202**	**12,317**

NOTE 4 Research and development

Research and development costs are as follows:

(in millions of euros)	First half 2019	First half 2018
Research and development costs in costs of sales	(197)	(200)
Research and development costs in R&D costs *	(325)	(278)
Capitalized development costs	(141)	(129)
TOTAL RESEARCH AND DEVELOPMENT COSTS IN THE YEAR	**(663)**	**(607)**

** Including EUR 20 millions of research and tax credit in first half 2019 and EUR 22 millions in 2018*

Amortization expenses of capitalized development amounted to EUR 120 million in the first half of 2019 and EUR 123 million in the first half of 2018.

NOTE 5 Other operating income and expenses

Other operating income and expenses are as follows:

(in millions of euros)	First half 2019	First half 2018
Gains/Losses on asset disposals	(8)	(2)
Costs of acquisition, integration & disposal	(49)	(30)
Gains/Losses on business disposals & assets impairment	(248)	(19)
Others	(41)	(13)
OTHER OPERATING INCOME AND EXPENSES	**(346)**	**(64)**

In 2019, losses on business disposals and assets impairment mostly include the impact of the disposal of Pelco.

NOTE 6 Restructuring costs

Restructuring costs in six-month period ended June 30, 2019 totaled EUR 101 million and primarily stemmed from the reorganization of manufacturing operations and support functions.

NOTE 7 Amortization and impairment of purchase accounting intangibles

(in millions of euros)	First half 2019	First half 2018
Amortization of purchase accounting intangibles	(88)	(73)
Impairment of purchase accounting intangibles	0	(6)
AMORTIZATION AND IMPAIRMENT OF PURCHASE ACCOUNTING INTANGIBLES	**(88)**	**(79)**

NOTE 8 Other financial income and expenses

(in millions of euros)	First half 2019	First half 2018
Exchange gains and losses, net	(24)	7
Financial component of defined benefit plan costs	(25)	(30)
Net gains/(losses) on revaluation of financial investments	6	0
Other financial expenses, net	(39)	(38)
OTHER FINANCIAL INCOME AND EXPENSES	**(82)**	**(61)**

The other financial expenses include interests on lease debt.

NOTE 9 Income tax expenses

Wherever the regulatory environment allows it, Group entities file consolidated tax returns. Schneider Electric SE files a consolidated tax return with its French subsidiaries held directly or indirectly through Schneider Electric Industries SAS.

9.1- Analysis of income tax expense

(in millions of euros)	First half 2019	First half 2018
Current taxes	(289)	(338)
Deferred taxes	3	20
INCOME TAX (EXPENSE)/BENEFIT	(286)	(318)

9.2- Tax reconciliation

(in millions of euros)	First half 2019	First half 2018
Profit attributable to owners of the parent	**993**	**1,020**
Income tax (expense)/benefit	(286)	(318)
Non-controlling interests	(51)	(43)
Share of profit of associates	41	36
Income of discontinued operations, net of income tax	4	(35)
Profit before tax	**1,285**	**1,380**
Geographical weighted average Group tax rate	22.7%	24.5%
Theoretical income tax expense	**(292)**	**(338)**
Reconciling items :		
Tax credits and other tax reductions	125	89
Impact of tax losses	(23)	(7)
Other permanent differences	(96)	(37)
Income tax (expense)/benefit before impact from tax reforms	**(286)**	**(293)**
EFFECTIVE TAX RATE BEFORE IMPACT FROM TAX REFORMS	22.3%	21.2%
Impact from the USA Tax reform	0	(25)
INCOME TAX (EXPENSE)/BENEFIT	(286)	(318)
EFFECTIVE TAX RATE	22.3%	23%

In accordance with IAS 34 - *Interim Financial Reporting*, the tax impact from non-recurring events, such as the disposasl of businesses, has been fully recognised as of June 2019, and excluded from the computation of the weighted average annual tax rate expected for the full financial year.

NOTE 10 Goodwill

The main changes during the period are summarized in the following table:

(in millions of euros)	June 30, 2019	Dec. 31, 2018
Net goodwill at opening	**18,373**	**16,423**
Acquisitions	75	1,634
Disposals	(3)	0
Reclassifications	(27)	53
Translation adjustment	104	263
NET GOODWILL AT END OF PERIOD	18,522	18,373
including cumulative impairment	*(366)*	*(366)*

The main variations are linked to the variations mentioned in the Note 2.

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

NOTE 11 Intangible assets and property, plant and equipment

Changes in intangible assets and property, plant and equipment over the six-month period from January 1, 2019 are mainly related to the scope changes mentioned in the Note 2 and first application of IFRS 16 - *Leases*.

NOTE 12 Investments in associates

The variations of the period correspond mainly to the share of profit and loss of investment in associates.

Main contributor is Delixi investment with a net result of EUR 34 million for the six-month period ended June 30, 2019 compared to EUR 30 million for the six-month period ended June 30, 2018.

NOTE 13 Financial assets

13.1- Non-current financial assets

Non-current financial assets amount to EUR 660 million as of June 30, 2019.

13.2- Current financial assets

Current financial assets amount EUR 32 million as of June 30, 2019 and mainly comprise non-monetary short-term investments.

NOTE 14 Shareholder's equity

A total of 138 thousand Schneider Electric SE shares were issued during six-month period ended June 30, 2019 upon exercise of stock options and performance shares grant.

Based upon the assumptions described in the notes to the 2018 consolidated financial statements, the expense recorded under "Selling, general and administrative expenses" for stock option or stock grant plans totaled EUR 81 million in six-month period ended June 30, 2019 (EUR 73 million for the six-month period ended June 30, 2018). This expense was booked as an adjustment to "Retained earnings" in Shareholders' Equity.

NOTE 15 Pensions and other post-employment benefit obligations

Changes in provisions for pensions and other post-employment benefit obligations were as follows:

(in millions of euros)	**Pensions and termination benefits**	**Other post-employment and long-term benefits**	**Provisions for pensions and other post-employment benefits**
Dec. 31, 2018	**955**	**242**	**1,197**
Net cost recognized in the statement of income	42	9	51
Service cost	*21*	*5*	*26*
Interest cost	*132*	*4*	*136*
Interest income	*(111)*		*(111)*
Benefits paid	(14)	(14)	(28)
Plan participants contributions	(49)		(49)
Actuarial gains and losses recognized in equity	102	7	109
Translation adjustment	2	2	4
Change in the scope of consolidation	0	0	0
June 30, 2019	**1,038**	**246**	**1,284**
Surplus of plans recognized as assets	**(322)**		**(322)**
Provisions recognized as liabilities	**1,360**	**246**	**1,606**

Following the agreement reached with the Trustee of the Invensys Pension Scheme in the UK on February 7, 2014, Schneider Electric SE guaranteed all obligations of the Invensys subsidiaries which participate in the Scheme, up to a maximum amount of GBP 1.75 billion. At June 30, 2019, plan assets exceed the value of obligations subject to this guarantee and thus this guarantee cannot be called.

The pension net assets are included in other non-current financial assets.

NOTE 16 Provisions for contingencies and charges

(in millions of euros)	Economic risks	Customer risks	Products risks	Environmental risks	Restructuring	Other risks	Provisions
Dec. 31, 2018	**732**	**73**	**467**	**300**	**122**	**437**	**2,131**
of which long-term portion	*500*	*50*	*144*	*265*	*13*	*281*	*1,253*
Additions	26	4	101	4	53	76	264
Utilizations	(75)	(4)	(82)	(7)	(52)	(65)	(285)
Reversals of surplus provisions	(42)	0	(2)	0	(1)	0	(45)
Translation adjustments	7	0	4	2	1	4	18
Changes in the scope of consolidation and other	154	4	(27)	(3)	5	23	156
June 30, 2019	**802**	**77**	**461**	**296**	**128**	**475**	**2,239**
of which long-term portion	*576*	*50*	*127*	*261*	*10*	*340*	*1,364*

Changes in scope of consolidation and others linked to economic risks, include IFRIC 23 impact disclosed in Note 1.

NOTE 17 Net debt

Net debt breaks down as follows:

(in millions of euros)		June 30, 2019	Dec. 31, 2018
Bonds		6,669	6,406
Other long-term borrowings		18	17
Employees profit sharing		2	3
Short-term portion of convertible and non-convertible bonds		0	(500)
Short-term portion of long-term debt		0	(3)
NON-CURRENT FINANCIAL LIABILITIES		**6,689**	**5,923**
Commercial paper		1,395	610
Accrued interest		60	31
Other short-term borrowings		223	300
Bank overdrafts		214	130
Short-term portion of convertible and non-convertible bonds		0	500
Short-term portion of long-term debt		0	3
Short-term debt		**1,892**	**1,574**
TOTAL CURRENT AND NON CURRENT FINANCIAL LIABILITIES	**(a)**	**8,581**	**7,497**
Marketable securities		846	527
Negotiable debt securities and short-term deposits		25	25
Cash at bank and in hand		1,631	1,809
Total cash and cash equivalents	**(b)**	**2,502**	**2,361**
Bank overdrafts	(c)	(214)	(130)
NET CASH AND CASH EQUIVALENTS	**(b)+(c)**	**2,288**	**2,231**
NET DEBT	**(a)-(b)**	**6,079**	**5,136**

Cash and cash equivalents net of short-term bank loans and overdrafts totaled EUR 2,288 million, corresponding to the amount reported in the consolidated cash flow statement.

Non-recourse factoring of trade receivables was realized during the six-month period ended June 30, 2019 for a total amount of EUR 52 million, compared with EUR 50 million during the six-month period ended June 30, 2018.

Marketable securities generally consist of highly liquid instruments traded on regulated markets that are readily convertible into known amounts of cash, such as commercial paper, mutual funds and equivalents.

All the financial instruments are usually evaluated at fair value, except the long-term debt. The non-current financial liabilities contain bonds for which fair value as at June 30, 2019 is EUR 7,050 million.

NOTE 18 Derivative instruments

June 30, 2019

(in millions of euros)	Accounting qualification	Maturity	Nominal sales	Nominal purchases	Fair Value	Carrying amount in assets	Carrying amount in liabilities	Of which carrying amounts in OCI
Forwards Contracts	Trading	< 2 years	1,583	(690)	(2)	11	(13)	0
Forwards Contracts	CFH	< 1 year	92	(16)	0	1	(1)	0
FX derivatives related to operating			**1,675**	**(706)**	**(2)**	**12**	**(14)**	**0**
Forwards Contracts	FVH	< 1 year	1,065	(987)	(14)	6	(20)	1
Forwards Contracts	NIH	< 1 year	1,164	0	18	18	0	18
Forwards Contracts	Trading	< 1 year	728	(2,631)	4	5	(1)	0
Cross currency swaps	CFH	< 2 years	0	(193)	(17)	1	(18)	(6)
FX derivatives related to financing			**2,957**	**(3,811)**	**(9)**	**30**	**(39)**	**13**
TOTAL FX DERIVATIVES			**4,632**	**(4,517)**	**(11)**	**42**	**(53)**	**13**
Forwards Contracts	CFH	< 1 year	0	(230)	(6)	2	(8)	(6)
Commodities derivatives			**0**	**(230)**	**(6)**	**2**	**(8)**	**(6)**
Options	CFH	< 1 year	0	(10)	8	8	0	0
Shares derivatives			**0**	**(10)**	**8**	**8**	**0**	**0**
TOTAL			4,632	(4,757)	(9)	52	(61)	7

Dec. 31, 2018

(in millions of euros)	Accounting qualification	Maturity	Nominal sales	Nominal purchases	Fair Value	Carrying amount in assets	Carrying amount in liabilities	Of which carrying amounts in OCI
Forwards Contracts	Trading	< 2 years	1,850	(1,008)	7	23	(16)	0
Forwards Contracts	CFH	< 1 year	128	(28)	0	1	0	1
FX derivatives related to operating			**1,978**	**(1,036)**	**7**	**24**	**(16)**	**1**
Forwards Contracts	FVH	< 1 year	506	(945)	(2)	3	(5)	1
Forwards Contracts	NIH	< 1 year	1,105		(3)	3	(6)	(2)
Forwards Contracts	Trading	< 1 year	1,417	(2,413)	1	9	(11)	0
Cross currency swaps	CFH	< 2 years		(187)	(2)	0	(2)	(1)
FX derivatives related to financing			**3,028**	**(3,545)**	**(6)**	**15**	**(24)**	**(2)**
TOTAL FX DERIVATIVES			**5,006**	**(4,581)**	**1**	**39**	**(40)**	**(1)**
Forwards Contracts	CFH	< 1 year	0	(229)	(12)	6	(18)	(12)
Commodities derivatives			**0**	**(229)**	**(12)**	**6**	**(18)**	**(12)**
Options	CFH	< 1 year	0	(12)	6	6	0	0
Shares derivatives			**0**	**(12)**	**6**	**6**	**0**	**0**
TOTAL			**5,006**	**(4,822)**	**(5)**	**51**	**(58)**	**(13)**

18.1- Foreign currency

As a significant proportion of Group's transactions are denominated in currencies other than the euro, the Group is exposed to currency risk. The Group uses derivative instruments to hedge its exposure to exchange rates mainly through futures and natural hedge. Furthermore, some long-term loans and borrowings granted to the affiliates are considered as net investment according to IAS 21.

18.2- Interest rate

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

The Group didn't use any derivative instrument to hedge its exposure to interest rates during the six-month period ended June 30, 2019.

18.3- Raw materials

The Group subscribes to futures and options to hedge the price fluctuations of all or part of forecasted purchases of copper, lead, aluminum, zinc, nickel and silver.

18.4- Share-based payment

This hedging covers Schneider Electric shares that are granted to the US employees as part of the Share Appreciation Rights.

NOTE 19 Related parties transactions

19.1- Associates

These are primarily companies over which the Group has significant influence. They are accounted for by the equity method. Transactions with these related parties are carried out on arm's length terms and were not material during the period.

19.2- Related parties with significant influence

No transactions were carried out during the period with members of the Supervisory Board or Management Board.

NOTE 20 Commitments and contingent liabilities

20.1- Guarantees given and received

Guarantees given and received amounted to EUR 3,540 million and EUR 95 million, respectively, as of June 30, 2019.

20.2- Contingent liabilities

Management is confident that balance sheet provisions for known disputes in which the Group is involved are sufficient to ensure that these disputes do not have a material impact on its financial position or profit.

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

The loan agreements related to the Group's long-term debt do not include any rating triggers.

NOTE 21 Subsequent events

Issuance of shares to employees

Schneider Electric gives its employees the opportunity to become group shareholders thanks to employee share issues. Employees in countries that meet legal and fiscal requirements have been proposed the classic plan.

Under the classic plan, employees may purchase Schneider Electric shares at a 15% discount to the price quoted for the shares on the stock market. Employees must then hold their shares for five years, except in certain cases provided for by law. The share-based payment expense recorded in accordance with IFRS 2 is measured by reference to the fair value of the discount on the locked-up shares. The lock-up cost is determined on the basis of a two-step strategy that involves first selling the locked-up shares on the forward market and then purchasing the same number of shares on the spot market (i.e., shares that may be sold at any time) using a bullet loan.

This strategy is designed to reflect the cost the employee would incur during the lock-up period to avoid the risk of carrying the shares subscribed under the classic plan. The borrowing cost corresponds to the cost of borrowing for the employees concerned, as they are the sole potential buyers in this market. It is based on the average interest rate charged by banks for an ordinary, non-revolving personal loan with a maximum maturity of five years granted to an individual with an average credit rating.

As regards the first semester 2019, Schneider Electric gave its employees the opportunity to purchase shares at a price of EUR 60.26 per share, depending on the country, as part of its commitment to employee share ownership. This represented a 15% discount to the reference price of EUR 70.90 calculated as the average opening price quoted for the share during the 20 days preceding the Management Board's decision to launch the employee share issue.

Altogether, 2.68 million shares were subscribed, increasing the Company's capital by EUR 161 million as of July 2, 2019. Due to significant changes in valuation assumptions, specifically the interest rate available to market participant, the value of the lock-up period is higher than the discount cost since 2012. Therefore, the Group did not recognize any cost related to the transaction.

MANAGEMENT REPORT FOR THE PERIOD ENDED JUNE 30, 2019

Consolidated financial statements

Business and Statement of Income highlights

Acquisitions & disposals of the period

Acquisitions

No significant acquisition occurred during 2019.

Disposals

On March 25, 2019, the Group announced having entered exclusive negotiations with Transom Capital Group regarding the sale of its Pelco business. On May 24, 2019, the sale of Pelco, which previously reported within *Energy Management* segment, was finalized.

Follow-up on acquisitions and divestments occurred in 2018 with significant effect in 2019

Acquisitions

AVEVA

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

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

As at June 30, 2019, the Group recognizes intangible assets for an amount of EUR 482 million (trademark, patents and customer relationship), and an amount of goodwill of EUR 1,434 million.

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

IGE+XAO

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

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

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

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

As at June 30, 2019, the Group recognizes intangible assets for an amount of EUR 49 million (trademark, technologies and customer relationship) and an amount of goodwill of EUR 100 million.

Disposals

No significant disposals occurred during 2018.

Discontinued operations

On April 20, 2017, the Group announced the disposal of its "Solar" activity, and started implementing the necessary measures and procedures to formalize this transaction. The initial plan has been reoriented, part of the business being sold or restructured, and part of it still being considered as discontinued operations.

This activity used to be reported within the *Energy Management* business segment of Schneider Electric. Solar activity net income of EUR 4 million has been reclassified to discontinued operations in the Group consolidated financial statements.

Exchange rate changes

Fluctuations in the euro exchange rate had a positive impact in six-month period ended June 30, 2019, increasing consolidated revenue by EUR 226 million due mainly to the positive effect of the US Dollar compared to the Euro and a negative impact decreasing adjusted EBITA by EUR 4 million.

Results of Operations

The following table sets forth our results of operations for the six-month period ended June 30, 2019 and 2018:

(in millions of euros except for earnings per share)	First half 2019	First half 2018	% Variance
Revenue	**13,202**	**12,317**	**7.2%**
Cost of sales	(8,000)	(7,499)	6.7%
Gross profit	**5,202**	**4,818**	**8%**
% Gross profit	**39.4%**	**39.1%**	**0.8%**
Research and development	(325)	(278)	16.9%
Selling, general and administrative expenses	(2,917)	(2,771)	5.3%
EBITA adjusted *	**1,960**	**1,769**	**10.8%**
% EBITA adjusted	**14.8%**	**14.4%**	**2.8%**
Other operating income and expenses	(346)	(64)	440.6%
Restructuring costs	(101)	(87)	16.1%
EBITA **	**1,513**	**1,618**	**(6.5)%**
% EBITA	**11.5%**	**13.1%**	**(12.2)%**
Amortization and impairment of purchase accounting intangibles	(88)	(79)	11.4%
Operating income	**1,425**	**1,539**	**(7.4)%**
% Operating income	**10.8%**	**12.5%**	**(13.6)%**
Interest income	39	27	44.4%
Interest expense	(97)	(125)	(22.4)%
Finance costs, net	**(58)**	**(98)**	**(40.8)%**
Other financial income and expense	(82)	(61)	34.4%
Net financial income/(loss)	**(140)**	**(159)**	**(11.9)%**
Profit from continuing operations before income tax	**1,285**	**1,380**	**(6.9)%**
Income tax expense	(286)	(318)	(10.1)%
Income of discontinued operations, net of income tax	4	(35)	(111.4)%
Share of profit/(loss) of associates	41	36	13.9%
PROFIT FOR THE PERIOD	**1,044**	**1,063**	**(1.8)%**
attributable to owners of the parent	*993*	*1,020*	*(2.6)%*
attributable to non controlling interests	*51*	*43*	*18.6%*
Basic earnings (attributable to owners of the parent) per share (in euros per share)	1.79	1.83	(2.2)%
Diluted earnings (attributable to owners of the parent) per share (in euros per share)	1.78	1.82	(2.2)%

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

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

Revenue

Consolidated revenue totaled EUR 13,202 million for the period ended June 30, 2019, up 7.2% on a current structure and currency basis from the year-earlier period.

Organic growth was positive for 5.4%, acquisitions and disposals accounted for (0.1)% and the currency effect for 1.9% due mainly to the positive effect of the US dollar compared to the Euro.

Breakdown by business

The following table sets forth our revenue by business segment for the six-month periods ended June 30, 2019 and 2018:

(in millions of euros)	*Energy Management*	*Industrial Automation*	Total
First Half 2019	10,072	3,130	13,202
First Half 2018	9,253	3,064	**12,317**

Energy Management (76% of half year revenues) was up 7.0% organically for the first half of 2019, growing across regions. Residential and small building offers grew mid-single digit, with good traction from recent launches. Offers for Commercial & Industrial Buildings developed well. Data centers continued to be an area of strong growth across *Energy Management* technologies for the first semester. North America posted strong growth across end-markets, including Residential, Commercial & Industrial Buildings as well as Data Center. Asco Power delivered strong growth as well. Western Europe delivered growth on successful product launches and channel initiatives, with good projects in data centers. The U.K. grew on project execution while markets softened with uncertainty due to Brexit. Asia-Pacific delivered a strong performance across all major economies. China grew strongly, though construction end-markets could moderate in second half of the year. Rest of the World showed a strong growth in South America, Central Europe and Africa while Middle East and CIS were down.

Industrial Automation (24% of half year revenues) was up 0.5% organically for the first half of 2019, c.+1% excluding the phase down of the non-core lower margin panel offer in North America. Core offers for discrete and OEM were down as some discrete end-markets slowed down, as anticipated. The Group benefitted from its balanced portfolio, providing through-cycle resilience and generating good growth in process and hybrid industries, notably Oil & Gas (O&G), Water and Waste Water (WWW) and Food & Beverage (F&B). Offers for Process & Hybrid industries grew in all regions. The Group is well positioned to leverage its unique end-to-end offering for process and hybrid industries together with AVEVA.

Gross margin

Gross margin increased to EUR 5,202 million for the six-month period ended June 30, 2019 (EUR 4,818 million for the six-month period ended June 30, 2018) mainly linked to an increase in revenue. As a percentage of revenues, gross profit is improving to 39.4% in first half of 2019 from 39.1% in first half of 2018, mainly driven by net price and productivity.

Support Function costs: Research and development and selling, general and administrative expenses

Research and development expenses, net of capitalized development costs and excluding research and development costs booked in costs of sales, increased by 16.9% from EUR 278 million for the six-month period ended June 30, 2018 to EUR 325 million for the six-month period ended June 30, 2019. As a percentage of revenues, the net cost of research and development is increasing slightly to 2.5% of revenues for six-month period ended June 30, 2019 (2.3% for the six-month period ended June 30, 2018).

Total research and development expense, including capitalized development costs and development costs reported as cost of sales (see Note 4 to the Consolidated Financial Statements) increased by 9.2% from EUR 607 million for the six-month period ended June 30, 2018 to EUR 663 million for the six-month period ended June 30, 2019. As a percentage of revenues, total research and development expenses increased slightly to 5.0% for the six-month period ended June 30, 2019 (4.9% for the six-month period ended June 30, 2018).

On the first semester 2019, the net effect of capitalized development costs and amortization of capitalized development costs amounts to EUR 21 million on operating income (EUR 6 million on the first semester 2018).

Selling, general and administrative expenses increased by 5.3% to EUR 2,917 million for the six-month period ended June 30, 2019 (EUR 2,771 million for the six-month period ended June 30, 2018). As a percentage of revenues, selling, general and administrative expenses decreased slightly to 22.1% for the six-month period ended June 30, 2019 (22.5% for the six-month period ended June 30, 2018).

Combined, total support function costs, that is, research and development expenses together with selling, general and administrative costs, totaled EUR 3,242 million six-month period ended June 30, 2019 compared to EUR 3,049 million six-month period ended June 30, 2018, an increase of 6.3%. As a result, support functions costs to sales ratio decreased from 24.8% for the six-month period ended June 30, 2018 to 24.6% for the six-month period ended June 30, 2019.

Other operating income and expenses

For the six-month period ended June 30, 2019, other operating income and expenses amounted to a net expense of EUR 346 million, mainly due to losses on disposal and impairment of assets for EUR 248 million (mostly due to the disposal of Pelco) and costs of acquisition and disposal of EUR 49 million.

Restructuring costs

For the six-month period ended June 30, 2019, restructuring costs amounted to EUR 101 million compared to EUR 87 million for the six-month period ended June 30, 2018, attributed mainly to Support Function Costs improvement initiatives.

EBITA and Adjusted EBITA

We define adjusted EBITA as EBITA before restructuring costs and before other operating income and expenses, which includes acquisition, integration and separation costs. We define EBITA as earnings before interest, taxes and amortization of purchase accounting intangibles. EBITA comprises operating profit before amortization and impairment of purchase accounting intangible assets and before goodwill impairment.

Adjusted EBITA amounted to EUR 1,960 million for the six-month period ended June 30, 2019, compared to EUR 1,769 million for the six-month period ended June 30, 2018, an increase of 10.8%. As a percentage of revenues, adjusted EBITA improved from 14.4% for the six-month period ended June 30, 2018 to 14.8% for the six-month period ended June 30, 2019 (+0.4 points versus last year).

EBITA decreased by 6.5% from EUR 1,618 million for the six-month period ended June 30, 2018 to EUR 1,513 million for the six-month period ended June 30, 2019, due to the deterioration in other operating income and expenses. As a percentage of revenues, EBITA decreased to 11.5% for the six-month period ended June 30, 2019 (13.1% for the six-month period ended June 30, 2018).

Adjusted EBITA by business segment

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

First Half 2019

(in millions of euros)	***Energy Management***	***Industrial Automation***	**Central functions & digital costs**	**Total**
Revenue	10,072	3,130		**13,202**
Adjusted EBITA *	1,776	551	(367)	**1,960**
Adjusted EBITA (%)	*17.6 %*	*17.6 %*		**14.8 %**

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

First Half 2018

(in millions of euros)	***Energy Management***	***Industrial Automation***	**Central functions & digital costs**	**Total**
Revenue	9,253	3,064		**12,317**
Adjusted EBITA *	1,584	528	(343)	**1,769**
Adjusted EBITA (%)	*17.1 %*	*17.3 %*		**14.4 %**

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

Energy Management adjusted EBITA for the six-month period ended June 30, 2019 reached EUR 1,776 million, or 17.6% of revenues up circa +80 bps organic (up +50 bps reported) year on year thanks to strong growth in volume, improved pricing, and continued productivity gains.

Industrial Automation generated an adjusted EBITA of EUR 551 million, or 17.6% of revenues, up circa +30 bps organic, (and +30 bps reported), thanks to positive pricing and a continued focus on costs at a time where positive topline growth is moderated by the high base of comparison from half year 2018, and with a softening market environment for discrete automation.

Central functions & Digital costs amounted to EUR 367 million for the six-month period ended June 30, 2019, remaining stable at 2.8% of revenue. These costs include investments in the Group's shared digital platform and I.T. infrastructure, transversal investments supporting the development of the two businesses, and the cost of global functions.

Operating income (EBIT)

Operating income, after amortization and depreciation of purchased intangibles, decreased from EUR 1,539 million for the six-month period ended June 30, 2018 to 1,425 million for the six-month period ended June 30, 2019, a decrease of 7.4% linked to a decrease of EBITA and an increase of amortization and impairment of purchase accounting intangibles of EUR 9 million (EUR 88 million on the six-month period ended June 30, 2019 compared to EUR 79 million six-month period ended June 30, 2018).

Net financial income/loss

Net financial loss amounted to EUR 140 million for the six-month period ended June 30, 2019, compared to EUR 159 million for the six-month period ended June 30, 2018.

This decrease is explained both by the decrease of cost of net financial debt to EUR 58 million for the six-month period ended June 30, 2019, compared to EUR 98 million for the six-month period ended June 30, 2018, compensated by an unfavorable exchange rate effect generating a foreign exchange loss of EUR 24 million on the six-month period ended June 30, 2019, compared to a EUR 7 million gain for the six-month period ended June 30, 2018.

Tax

The effective tax rate was 22.3% for the six-month period ended June 30, 2019, and 23.0% for the six-month period ended June 30, 2018. The corresponding income tax expense decreased from EUR 318 million for the six-month period ended June 30, 2018 to EUR 286 million for the six-month period ended June 30, 2019.

Share of profit/ (losses) of associates

The share of associates was a EUR 41 million profit for the six-month period ended June 30, 2019, compared to EUR 36 million profit for the six-month period ended June 30, 2018.

Discontinued operations

On April 20, 2017, the Group announced the disposal of its “Solar” activity, and started implementing the necessary measures and procedures to formalize this transaction. The initial plan has been reoriented, part of the business being sold or restructured, and part of it still being considered as discontinued operations.

This activity used to be reported within the *Energy Management* business segment of Schneider Electric. Solar activity net income of EUR 4 million has been reclassified to discontinued operations in the Group consolidated financial statements.

Non-controlling interests

Minority interests in net income for the six-month period ended June 30, 2019 totaled EUR 51 million, compared to EUR 43 million for the six-month period ended June 30, 2018. This represents the share in net income attributable, in large part, to the minority interests of certain Chinese companies and AVEVA.

Profit for the period (to owners of the parent)

Profit for the period attributable to the equity holders of our parent company amounted to EUR 993 million for the six-month period ended June 30, 2019, compared to EUR 1,020 million profit for the six-month period ended June 30, 2018.

Earnings per share

Earnings per share amounted to EUR 1.79 per share for the six-month period ended June 30, 2019 and EUR 1.83 per share for the six-month period ended June 30, 2018.

Comments to the consolidated Cash-flow

The following table sets forth our cash-flow statement for the six-month period ended June 30, 2019 and 2018:

(in millions of euros except for earnings per share)	Note	First half 2019	First half 2018
Profit for the year		**1,044**	**1,063**
Losses/(gain) from discontinued operations		(4)	35
Share of (profit) / losses of associates		(41)	(36)
Income and expenses with no effect on cash flow:			
Depreciation of property, plant and equipment		*333*	*182*
Amortization of intangible assets other than goodwill		*235*	*210*
Impairment losses on non-current assets		*68*	*46*
Increase/(decrease) in provisions		*64*	*(38)*
Losses/(gains) on disposals of fixed assets		*180*	*4*
Difference between tax paid and tax expense		*(148)*	*(4)*
Other non-cash adjustments		*60*	*53*
Net cash provided by operating activities		**1,791**	**1,515**
Decrease/(increase) in account receivable		(67)	(82)
Decrease/(increase) in inventories and work in process		(198)	(552)
(Decrease)/increase in accounts payable		(116)	72
Decrease/(increase) in other current assets and liabilities		(193)	(295)
Change in working capital requirement		**(574)**	**(857)**
TOTAL I - CASH FLOW FROM OPERATING ACTIVITIES		**1,217**	**658**
Purchases of property, plant and equipment		(232)	(210)
Proceeds from disposals of property, plant and equipment		6	31
Purchases of intangible assets		(154)	(129)
Proceeds from disposals of intangible assets		0	0
Net cash used by investment in operating assets		**(380)**	**(308)**
Acquisitions and disposals of businesses, net of cash acquired & disposed	2	(74)	(698)
Other long-term investments		(24)	35
Increase in long-term pension assets		(49)	(139)
Sub-total		**(147)**	**(802)**
TOTAL II - CASH FLOWS FROM / USED IN INVESTING ACTIVITIES		**(527)**	**(1,110)**
Issuance of bonds		760	740
Repayment of bonds		(500)	0
Sale/(purchase) of own shares		(80)	(164)
Increase/(decrease) in other financial debt		546	1,309
Increase/(decrease) of share capital		4	4
Dividends paid to Schneider Electric SE's shareholders		(1,296)	(1,223)
Dividends paid to non-controlling interests		(37)	(21)
TOTAL III - CASH FLOWS FROM / USED IN FINANCING ACTIVITIES		**(603)**	**645**
TOTAL IV - NET FOREIGN EXCHANGE DIFFERENCE		**13**	**62**
TOTAL V - EFFECT OF DISCONTINUED OPERATIONS		**(43)**	**(23)**
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS: I +II +III +IV +V		**57**	**232**
Net cash and cash equivalents at January 1	17	2,231	2,767
Increase/(decrease) in cash and cash equivalents		57	232
NET CASH AND CASH EQUIVALENTS, END OF PERIOD	**17**	**2,288**	**2,999**

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

Operating Activities

Net cash provided by operating activities before changes in operating assets and liabilities reached EUR 1,791 million for the six-month period ended June 30, 2019, increasing compared to EUR 1,515 million for the six-month period ended June 30, 2018. It represents 13.6% of revenues for first half 2019 (12.3% of revenues from first half 2018).

Change in working capital requirement consumed EUR 574 million in cash in the six-month period ended June 30, 2019, compared to EUR 857 million in consumption in the six-month period ended June 30, 2018, reflecting normal cash-flow seasonality.

In all, net cash provided by operating activities increased from EUR 658 million in the six-month period ended June 30, 2018 to EUR 1,217 million in the six-month period ended June 30, 2019.

Investing Activities

Net capital expenditure, which included capitalized development projects, increased, at EUR 380 million for the six-month period ended June 30, 2019, compared to EUR 308 million for the six-month period ended June 30, 2018, and representing 2.9% of sales on first half 2019 compared to 2.5% of sales on first half 2018.

The acquisitions net of disposals represented a cash out of EUR 74 million (net of acquired cash) for the six-month period ended June 30, 2019, compared with EUR 698 million for the six-month period ended June 30, 2018.

Financing Activities

Net cash flow from financing activities amounted to EUR (603) million during the six-month period ended June 30, 2019, compared to EUR 645 million during the six-month period ended June 30, 2018, mainly to to changes in net debt. The dividend paid by Schneider Electric was EUR 1,296 million the six-month period ended June 30, 2019, compared with EUR 1,223 million the six-month period ended June 30, 2018.

Significant events of the period

In addition to the events described above, there were no major events.

Main risks and areas of uncertainty for the second half of 2019

The main risks and areas of uncertainty for the second half of the year are the same as those outlined in Chapter 1, paragraph 7 (Risk Factors) of the 2018 Registration Document filed with AMF on March 15, 2019.

Claims, litigations and other risks

(update to the Registration Document – page 77)

No significant event occurred since Registration Document date.

Transactions with related parties

These transactions are described in Note 19 to the interim consolidated financial statements.

2019 Targets

In its main markets, the Group currently expects the following trends in the second half year of 2019:

- In North America, the Group anticipates a continuing favorable environment overall, noting a high base of comparison in Energy Management for the second semester. In Automation, process remains positively oriented while softening in discrete automation markets remains.
- China continues to face a softening OEM demand but remains a growth market in aggregate with dynamism in many end markets including construction, infrastructure and parts of industry; though construction end markets could moderate in coming quarters.
- The Group expects Western Europe to grow at a moderate pace.
- The Group expects several new economies to perform well, including in South East Asia and India, whereas some regions including Russia and the Gulf remain challenged.

Following the strong first half year and considering developing macro-economic trends, the Group upgrades its 2019 target as it deploys its strategic priorities in key markets and its focus on the circa +200 basis points (at constant FX) margin ambition for 2019-2021.

The Group upgrades its target for 2019. The Group targets 2019 Adj. EBITA growth between +6% and +8% organic (vs +4% to +7% initially).

This would be achieved through a combination of organic revenue growth and margin improvement, expected to be:

- Organic sales growth for 2019 to reach +4% to +5% (vs +3% to +5% initially) reflecting the strong performance in the first half year;
- Adjusted EBITA margin to improve organically in the upper half of the +20bps to +50bps range.

Attestation

I hereby declare that, to the best of my knowledge, the half-year financial statements as at June 30, 2019 have been prepared in accordance with applicable accounting standards, that they present fairly, in all material respects, the assets, financial position and results of the company and the consolidated group. To the best of my knowledge, the Management Report presents fairly the information mentioned in Article 222-6 of AMF's general regulations.

Rueil-Malmaison, July 24, 2019

On behalf of the Board of Directors,

Jean-Pascal TRICOIRE

Chairman of the Board of Directors and CEO

Statutory Auditors’ Review Report on the first half-yearly information

This is a free translation into English of the statutory auditors’ review report on the half-yearly financial information issued in French and it is provided solely for the convenience of English-speaking users.

This report also includes information relating to the specific verification of information given in the Group’s half-year management report.

This report should be read in conjunction with and construed in accordance with French law and professional standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code (“Code monétaire et financier”), we hereby report to you on:

- the review of the accompanying condensed half-yearly consolidated financial statements of Schneider Electric S.E., for the period from January 1 to June 30, 2019,
- the verification of the information presented in the half-yearly management report.

These condensed half-yearly consolidated financial statements are your Board of Directors’ responsibility. Our role is to express a conclusion on these financial statements based on our review.

1. Conclusion on the financial statements
   We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.
   Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 standard of the IFRSs as adopted by the European Union applicable to interim financial information.
   Without qualifying our conclusion, we draw your attention to the matters set out in Paragraphs “First application of IFRS 16 - *Leases*" and “First application of IFRIC 23 - *Uncertainty over Income Tax Treatments*" of Note 1 “Summary of significant accounting policies” to the condensed half-yearly consolidated financial statements.
2. Specific verification
   We have also verified the information presented in the half-yearly management report on the condensed half-yearly consolidated financial statements subject to our review.
   We have no matters to report as to its fair presentation and its consistency with the condensed half-yearly consolidated financial statements.

Courbevoie and Paris-La Défense, July 24, 2019

The statutory auditors

French original signed by

MAZARS		ERNST & YOUNG et Autres	
Loïc Wallaert	Mathieu Mougard	Jean-Yves Jégourel	Alexandre Resten