Half year financial report

Six-month period ended June 30, 2014

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

Schneider Electric

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Consolidated statement of income

(in millions of euros except for earnings per share)	Note	First half 2014	First half 2013 *(a)*
Revenue	3	**11,700**	**11,335**
Cost of sales		(7,243)	(7,098)
Gross profit		**4,457**	**4,237**
Research and development	4	(281)	(287)
Selling, general and administrative expenses		(2,672)	(2,447)
EBITA adjusted*		**1,504**	**1,503**
Other operating income and expenses	5	(57)	12
Restructuring costs	6	(71)	(60)
EBITA**		**1,376**	**1,455**
Amortization and impairment of purchase accounting intangibles	7	(127)	(108)
Operating income		**1,249**	**1,347**
Interest income		18	9
Interest expense		(163)	(175)
Finance costs, net		**(145)**	**(166)**
Other financial income and expense	8	(56)	(76)
Net financial income/(loss)		**(201)**	**(242)**
Profit from continuing operations before income tax		**1,048**	**1,105**
Income tax expense	9	(241)	(273)
Income of discontinued operations, net of income tax	1	70	30
Share of profit/(loss) of associates		6	12
PROFIT FOR THE PERIOD		**883**	**874**
• attributable to owners of the parent		821	831
• attributable to non-controlling interests		62	43
Basic earnings (attributable to owners of the parent) per share *(in euros per share)*		1.44	1.52
Diluted earnings (attributable to owners of the parent) per share *(in euros per share)*		1.42	1.50

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

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

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

(a) 2013 figures were restated from discontinued operations and change in consolidation method disclosed in note 1

Other comprehensive income

(in millions of euros)	**First half 2014**	**First half 2013** *(a)*
Profit for the year	**883**	**874**
Other comprehensive income:		
Translation adjustment	160	(188)
Cash-flow hedges	(23)	(65)
Income tax effect of Cash-flow hedges	10	16
Net gains (losses) on available-for-sale financial assets	(18)	8
Income tax effect of Net gains (losses) on available-for-sale financial assets	2	1
Actuarial gains (losses) on defined benefits plans	74	6
Income tax effect of Actuarial gains (losses) on defined benefits plans	(10)	(1)
Other comprehensive income for the year, net of tax	**195**	**(223)**
• out of which to be recycled in income statement ultimately	(29)	(40)
• out of which not to be recycled in income statement ultimately	224	(183)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,078**	**651**
Attributable:		
• to owners of the parent	1,015	601
• to non-controlling interests	63	50

The accompanying notes are an integral part of the consolidated financial statements.
(a) 2013 figures were restated from discontinued operations and change in consolidation method disclosed in note 1

Consolidated statement of cash flows

(in millions of euros)	Note	First half 2014	First half 2013 *(a)*
Profit for the year		883	874
Less net result from discontinued operations		(70)	(30)
Share of (profit)/losses of associates, net of dividends received		(6)	(12)
Adjustments with no impact on cash-flow :			
Depreciation of property, plant and equipment		204	204
Amortization of intangible assets other than goodwill		227	202
Impairment losses on non-current assets		(7)	-
Increase/(decrease) in provisions		(4)	(34)
Losses/(gains) on disposals of fixed assets		1	(7)
Difference between tax paid and tax expense		(177)	(171)
Other non-cash adjustments		33	19
Net cash provided by operating activities before changes in operating assets and liabilities		**1,083**	**1,045**
Decrease/(increase) in accounts receivable		(141)	(143)
Decrease/(increase) in inventories and work in process		(155)	(162)
(Decrease)/increase in accounts payable		(89)	(12)
Change in other current assets and liabilities		(133)	(124)
Change in working capital requirement		**(518)**	**(441)**
Total I - Cash flows from operating activities		**565**	**604**
Purchases of property, plant and equipment		(225)	(175)
Proceeds from disposals of property, plant and equipment		28	67
Purchases of intangible assets		(192)	(178)
Proceeds from disposals of intangible assets		3	3
Net cash used by investment in operating assets		**(386)**	**(283)**
Net financial investments	2	(2,257)	(309)
Proceeds from sale of financial assets		6	13
Purchases of other long-term investments		(15)	(10)
Increase in long-term pension assets		(43)	(28)
Sub-total		**(2,309)**	**(334)**
Total II - Cash flows from/(used in) investing activities		**(2,695)**	**(617)**
Issuance of bonds	17	-	-
Repayment of bonds	17	(500)	-
Increase/(reduction) in other financial debt		114	4
Proceeds from issuance of shares		25	61
Sale/(purchase) of own shares		39	19
Dividends paid by Schneider Electric SE		(1,095)	(1,025)
Dividends paid to non-controlling interests		(54)	(48)
Total III - Cash flows from/(used in) financing activities		**(1,471)**	**(989)**
IV - Net foreign exchange difference:		**37**	**8**
V - Effect of discontinued operations	1	**14**	**41**
Increase/(decrease) in cash and cash equivalents: I + II + III + IV + V		**(3,550)**	**(953)**
Cash and cash equivalents at January 1st		5,423	3,637
Increase/(decrease) in cash and cash equivalents		(3,550)	(953)
CASH AND CASH EQUIVALENTS AT JUNE 30	**17**	**1,873**	**2,684**

The accompanying notes are an integral part of the consolidated financial statements.
(a) 2013 figures were restated from discontinued operations and change in consolidation method disclosed in note 1

Consolidated balance sheet

Assets

(in millions of euros)	Note	Jun.30, 2014	Dec.31, 2013 *(a)*
Non-current assets			
Goodwill, net	10	15,709	13,048
Intangible assets, net		4,745	4,280
Property, plant and equipment, net		2,660	2,595
Total tangible and intangible assets	*11*	*7,405*	*6,875*
Investments in associates	12	220	201
Available-for-sale financial assets	13	152	164
Other non-current financial assets		294	127
Non-current financial assets		*446*	*291*
Deferred tax assets		1,964	1,756
Total non-current assets		**25,744**	**22,171**
Current assets			
Inventories and work in progress		3,267	3,072
Trade and other operating receivables		5,778	5,123
Other receivables and prepaid expenses		1,593	1,392
Current financial assets		33	28
Cash and cash equivalents		2,655	5,563
Total current assets		**13,326**	**15,178**
Assets of discontinued operations		**1,414**	
TOTAL ASSETS		**40,484**	**37,349**

The accompanying notes are an integral part of the consolidated financial statements.
(a) 2013 figures were restated from change in consolidation method disclosed in note 1

Liabilities

(in millions of euros)	Note	Jun.30, 2014	Dec.31, 2013 *(a)*
Equity	14		
Share capital		2,319	2,248
Additional paid-in capital		7,701	6,992
Retained earnings		8,836	8,803
Translation reserve		(673)	(832)
Equity attributable to owners of the parent		**18,183**	**17,211**
Non-controlling interests		393	382
Total equity		**18,576**	**17,593**
Non-current provisions			
Pensions and other post-employment benefit obligations	15	1,724	1,485
Other non-current provisions	16	960	827
Total non-current provisions		2,684	2,312
Non-current financial liabilities			
Bonds	17	4,585	5,322
Other non-current debt	17	397	600
Non-current financial liabilities		*4,982*	*5,922*
Deferred tax liabilities		1,132	994
Other non-current liabilities		176	140
Total non-current liabilities		**8,974**	**9,368**
Current liabilities			
Trade and other operating payables		4,024	3,791
Accrued taxes and payroll costs		1,961	1,878
Current provisions	16	940	883
Other current liabilities		961	867
Current debt	17	4,220	2,967
Total current liabilities		**12,106**	**10,388**
Liabilities of discontinued operations		**828**	
TOTAL EQUITY AND LIABILITIES		**40,484**	**37,349**

The accompanying notes are an integral part of the consolidated financial statements.
(a) 2013 figures were restated from change in consolidation method disclosed in note 1

Consolidated statement of changes in equity

(in millions of euros except for number of shares)	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, 2012**(a)*	**555,417**	**2,222**	**6,885**	**(74)**	**7,668**	**(48)**	**16,653**	**408**	**17,061**
Profit for the year *					1,888		1,888	98	1,986
Other comprehensive income					212	(784)	(572)	(18)	(590)
Comprehensive income for the year					*2,100*	*(784)*	*1,316*	*80*	*1,396*
Capital increase	2,752	11	123				134		134
Exercise of stock options	3,789	15	86				101		101
Dividends					(1,058)		(1,058)	(106)	(1,164)
Share-based compensation expense					66		66		66
Other **			(102)		101		(1)		(1)
Dec.31, 2013**(a)*	**561,958**	**2,248**	**6,992**	**(74)**	**8,877**	**(832)**	**17,211**	**382**	**17,593**
Profit for the year					821		821	62	883
Other comprehensive income					35	159	194	1	195
Comprehensive income for the year					856	159	1,015	63	1,078
Capital increase	17,207	69	918				987		987
Exercise of stock options	678	3	22				25		25
Dividends			(244)		(851)		(1,095)	(52)	(1,147)
Share-based compensation expense					39		39		39
Other **			13		(12)		1		1
June 30, 2014	579,844	2,319	7,701	(74)	8,910	(673)	18,183	393	18,576

** The 2012 figures were restated for the application of IAS 19 Revised disclosed in note 15 of the consolidated financial statements, as follows :*
- increase of EUR12 millions on January 1, 2012 reserves
- decrease of EUR29 millions on 2012 net profit
- increase of EUR27 millions on 2012 other comprehensive income.
The accompanying notes are an integral part of the consolidated financial statements.
*** Reclassification from additional paid-in capital to retained earnings*
(a) 2012 and 2013 figures were restated from discontinued operations and change in consolidation method disclosed in note 1

Notes to the Consolidated Financial Statements

All amounts in millions of Euros unless otherwise indicated.
The accompanying notes are an integral part of the consolidated financial statements.

Note 1 - Summary of significant accounting policies

- **Accounting standards and basis of preparation**

The consolidated financial statements for the six months ended June 30, 2014 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, 2013 annual consolidated financial statements included in the Annual Report filed with the French securities regulator (AMF) under no. D.14-0175, except as regards to 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, 2014. The same accounting methods were used as for the consolidated financial statements for the year ended December 31, 2013.

The new following standards and interpretations that were applicable during the period did not have a material impact on the consolidated financial statements for the six months ended June 30, 2014:

- *Amendment to IAS 32 : Offsetting Financial Assets and Financial Liabilities ;*
- *Amendment to IAS 36 : Recoverable Amount Disclosures for Non-financial assets ;*
- *Amendment to IAS 39 : Novation of Derivatives and Continuation of Hedge Accounting ;*
- *IAS 28 revised – Investments in associates and joint-ventures;*
- *IFRS 10 – Consolidated Financial Statements;*
- *IFRS 11 – Joint Arrangements;*
- *IFRS 12 – Disclosure of Interests in Other entities;*
- *Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12).*

Implementation of IFRS 10 and IFRS 11 standards led to some changes in consolidation method with no significant effect on consolidated financial statements.

The Group has not applied the following standards and interpretations that have not yet been adopted by the European Union or which application is not compulsory on January 1, 2014.:

- Standard adopted
  - *IFRIC 21 – Levies.*

- Standards not yet adopted
  - *IFRS 9 – Financial instruments;*
  - *IFRS 14 – Regulatory Deferral Accounts;*
  - *IFRS 15 – Revenue from Contracts with Customers;*
  - *Amendments to IAS16 and IAS 38 : Clarification of Acceptable Methods of Depreciation and Amortization*
  - *Amendments to IFRS 11- Accounting for Acquisitions in Joint Operations;*
  - *Amendments to IAS 19 - Defined Benefit plans : Employees Contributions;*
  - *Annual Improvements to IFRSs 2010-2012 Cycle (December 2013);*
  - *Annual Improvements to IFRSs 2011-2013 Cycle (December 2013).*

There are no differences in practice between the standards applied by Schneider Electric as of June 30, 2014 and the IFRS issued by the International Accounting Standards Board (IASB).

Schneider Electric is currently assessing the potential impact on the Group's consolidated financial statements of the standards not yet applicable. At this stage of analysis, the Group does not expect the impact on its consolidated financial statements to be material, except for IFRS 9 due to uncertainties surrounding the adoption process in Europe.

- **Impairment of assets**

There were no indications of impairment at June 30, 2014. As a result, no impairment tests were performed as of this date.

- **Seasonal variations**

Seasonal variations can affect the level of revenue from one quarter to another. For this reason the interim financial results are not necessarily indicative of the Group's expected full year performance.

- **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.

- **Discontinued operations**

On February 5, 2014, Schneider Electric announced that it has signed an agreement for the sale of the Invensys Appliance division, because this unit is not a core business to Schneider Electric. The consideration for the transaction is GBP150 million and the agreement was completed on June 18, 2014. The Invensys Appliance division is reported as discontinued operations in the Group consolidated financial statements on first half of 2014.

On April 3, 2014, Schneider Electric has entered into exclusive negotiations with private equity groups for the sale of the entire shareholding in Custom Sensors & Technologies ("CST"), based on an enterprise value of USD900m (approximately EUR650m). As part of the proposed transaction, Schneider Electric would reinvest approximately USD100m alongside with the private equity funds and CST management to own a shareholding of circa. 30% of CST. CST was reported in the *Industry* business of Schneider Electric. The proposed offer is undergoing the consultation process of the relevant "instances représentatives" (French works councils) and all parties will enter into the final negotiations on successful completion of this process. The CST activity was reclassified as discontinued operations in Group financial statements on first half 2014 (for EUR36 million net income) and on first half 2013 (for EUR227 million of revenues, EUR43 million of profit before tax and EUR13 million of income tax thus a net income of EUR30 millions).

Note 2 - Changes in the scope of consolidation

2.1 Additions and removals

- **Acquisitions of the period**

On January 17, 2014, the Group completed its acquisition of Invensys, a global automation player with a large installed base and a strong software presence. The transaction has been remunerated through the issuance of 17,207,427 new Schneider Electric shares on January 20, 2014 and the payment of GBP2.5 billion on January 30, 2014.

2.2 Impact of changes in the scope of consolidation

- **Follow-up on 2013 acquisitions**

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

The final allocation of the acquisition of Electroshield – TM Samara (March 28, 2013) led principally to the recognition of revaluations of tangible assets estimated by independent experts in the amount of EUR10 million, provisions and contingent liabilities respectively for a total amount of EUR17 million and EUR102 million. The goodwill is not tax-deductible.

- **Acquisitions of the period**

Schneider Electric completed the acquisition of Invensys on January 17, 2014. On first-half 2014, Invensys is consolidated with full consolidation method mainly in the Industry business, except its Appliance division reported as discontinued operations. On first half 2013, Invensys revenues without Appliance was GBP743 million (EUR874 million at the average rate of the period).

The provisional allocation from the acquisition of Invensys led principally to the recognition of intangibles at their fair value for a total amount of EUR506 million (technology, customer relationships and trademarks) and revaluations of tangibles in the amount of EUR(17) million; these assets were valued by independent experts. Provisions and contingent liabilities were recognized respectively for a total amount of EUR30 million and EUR70 million. The goodwill is not tax-deductible.

On June 30, 2014, the main elements of the provisional computation are:
- contingent liabilities, since the identification of risks is not completed;
- tangible assets, because the estimated fair value of these assets is in progress;
- intangible assets, because the assumptions used to value these assets will be refined in second half of 2014.

➢ **Impact on cash**

Changes in the scope of consolidation at June 30, 2014 reduced the Group's cash position by a net EUR 2,251 million outflow, as described below:

	First Half 2014	**First Half 2013**
Acquisitions	(2,257)	(309)
Cash and cash equivalents paid (*)	*(2,876)*	*(320)*
Cash and cash equivalents acquired	*619*	*11*
Disposals	6	13
NET FINANCIAL INVESTMENTS	**(2,251)**	**(296)**

(*) net of EUR155 million cash in from the disposal of Appliance.

The cash paid for acquisitions is mainly related to the cash-out paid for Invensys acquisition. The cash and cash equivalents acquired includes GBP103 million received from Invensys pension fund as a consideration for the assets previously kept in the *Reservoir Trust*.

Note 3 - Segment information

Until 2013, Schneider Electric operations were organized in five businesses (Partner, Infrastructure, Industry, IT and Buildings), built around key technologies.

In 2014, Schneider Electric decided to regroup its Buildings and Partner businesses into a single business to provide its customers a complete offer to address the buildings market. Hence, the Group is now organized in four businesses: Buildings & Partner, Infrastructure, Industry and IT.

- **Buildings & Partner** provide low voltage power and building automation products and solutions that address the needs of all end markets from buildings to industries and infrastructure to data centers to help customers improve the energy efficiency of the buildings;
- **Infrastructure** specializes in medium-voltage and grid automation products and solutions, especially for utilities and other infrastructure customers;
- **Industry**, which business scope includes both the Discrete and Process Automation. The Business not only offers comprehensive industrial products, systems and software, but also integrate other group technologies to help its customers to increase their manufacturing productivity and efficiency;
- **IT**, which specializes in critical power products and solutions for datacenters and other applications where power continuity and quality is essential.

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

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

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

3.1 Information by operating segment (in EUR millions)

First Half 2014 (in EUR millions)

	Buildings & Partner	Infrastructure	Industry	IT	Corporate costs	Total
Revenue	5,102	2,364	2,704	1,530		**11,700**
Adjusted EBITA *	898	132	493	258	(277)	**1,504**
%	*17.6%*	*5.6%*	*18.2%*	*16.9%*		***12.9%***
Other operating income and expense	(1)	(9)	(37)	(5)	(5)	**(57)**
Restructuring costs	(31)	(28)	(10)	(1)	(1)	**(71)**
EBITA	866	95	446	252	(283)	**1,376**
%	*17.0%*	*4.0%*	*16.5%*	*16.5%*		***11.8%***

**   Adjusted EBITA : EBITA before restructuring costs and other operating income and expense.*

Revenue related to solutions amounts to 41% of total revenue for Half year 2014.

First Half 2013 (in EUR millions) *(a)*

	Buildings & Partner	Infrastructure	Industry	IT	Corporate costs	Total
Revenue	5,085	2,627	1,937	1,686		**11,335**
Adjusted EBITA *	924	193	376	289	(279)	**1,503**
%	*18.2%*	*7.3%*	*19.4%*	*17.1%*		***13.3%***
Other operating income and expense	11	(11)	2	(1)	11	**12**
Restructuring costs	(29)	(8)	(6)	(3)	(14)	**(60)**
EBITA	906	174	372	285	(282)	**1,455**
%	*17.8%*	*6.6%*	*19.2%*	*16.9%*		***12.8%***

**   Adjusted EBITA : EBITA before restructuring costs and other operating income and expense (including acquisition, integration and separation costs).*
(a) 2013 figures were restated from discontinued operations and change in consolidation method disclosed in note 1

Revenue related to solutions amounts to 39% of total revenue for Half year 2013.

3.2 Information by region

The geographic regions covered by the Group are:
- Western Europe,
- North America (including Mexico),
- Asia-Pacific,
- and 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 2014

	Western Europe	Asia-Pacific	North America	Rest of the world	Total
Sales by country market	3,274	3,282	2,908	2,236	**11,700**
Non current assets	9,325	4,252	8,159	1,378	**23,114**

First Half 2013*(a)*

	Western Europe	Asia-Pacific	North America	Rest of the world	Total
Sales by country market	3,164	3,237	2,801	2,133	**11,335**
Non current assets	8,090	4,452	6,624	1,290	**20,456**

(a) 2013 figures were restated from discontinued operations and change in consolidation method disclosed in note 1

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

	June 30, 2014		June 30, 2013	
Revenue - Mature countries	6,627	57%	6,440	57 %
Revenue - New economies	5,073	43%	4,895	43 %
Total	**11,700**	**100%**	**11,335**	**100%**

Note 4 - Research and development

Research and development costs are as follows:

	First half 2014	First half 2013 *(a)*
Research and development costs in costs of sales	141	133
Research and development costs in commercial expenses [(1)]	281	287
Capitalized development costs	176	152
TOTAL RESEARCH AND DEVELOPMENT COSTS FOR THE PERIOD	**598**	**573**

(1) of which EUR21 millions of research and development tax credit in first half 2014 et EUR17 millions in first half 2013.
(a) 2013 figures were restated from discontinued operations and change in consolidation method disclosed in note 1

Amortization of capitalized development costs came to EUR79 million in the first half of 2014 and EUR71 million in the first half of 2013.

Note 5 - Other operating income and expense

Other operating income and expenses are as follows:

	First half 2014	First half 2013
Impairment losses on assets	(2)	-
Gains on asset disposals	7	22
Losses on assets disposal	(7)	(17)
Costs of acquisition	(43)	(18)
Employee benefit plan curtailment	-	34
Others	(12)	(9)
OTHER OPERATING INCOME AND EXPENSES	**(57)**	**12**

The costs of acquisitions are the costs of acquisition, integration and separation related to major acquisitions or sales in 2014 and 2013 for first half 2014 of which EUR37 million for acquisition and integration costs of Invensys.

Note 6 - Restructuring costs

Restructuring costs in six-month period ended June 30, 2014 totaled EUR71 million and primarily stemmed from the reorganization of manufacturing operations and support functions.

Note 7 - Amortization and impairment of purchase accounting intangibles

	First half 2014	First half 2013 *(a)*
Amortization of purchase accounting intangibles	(127)	(108)
Impairment of purchase accounting intangibles	-	-
Goodwill impairment	-	-
AMORTIZATION AND IMPAIRMENT OF PURCHASE ACCOUNTING INTANGIBLES	**(127)**	**(108)**

(a) 2013 figures were restated from discontinued operations and change in consolidation method disclosed in note 1

Note 8 - Other financial income and expenses

	First half 2014	First half 2013
Exchange gains and losses, net	(6)	(31)
Financial component of defined benefit plan cost	(36)	(35)
Dividend income	2	4
Net gains/(losses) on disposal of assets available for sale	-	-
Other financial expenses, net	(16)	(14)
OTHER FINANCIAL INCOME AND EXPENSES	**(56)**	**(76)**

Note 9 - Income tax

Wherever 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 for the year

	First half 2014	First half 2013 *(a)*
Current taxes	(289)	(382)
Deferred taxes	48	109
INCOME TAX (EXPENSE) / BENEFIT	**(241)**	**(273)**

(a) 2013 figures were restated from discontinued operations and change in consolidation method disclosed in note 1

The income tax expense on the six-month period ended June 30, 2014 includes a deferred tax profit from the recognition of deferred tax assets on Invensys U.S. tax losses (previously unrecognized) that was made possible after the agreement on sales of Invensys assets negotiated with Invensys Trustee in February 2014, which allowed the tax integration of Invensys U.S. operations with Schneider Electric U.S. operations.

9.2 Tax proof

	First half 2014	First half 2013 *(a)*
Profit attributable to owners of the parent	**821**	**831**
Income tax (expense)/benefit	(241)	(273)
Non-controlling interests	(62)	(43)
Share of profit of associates	6	12
Discontinued activities	70	30
Profit before tax	**1,048**	**1,105**
Statutory tax rate	34.43%	34.43%
Income tax expense calculated at the statutory rate	**(361)**	**(380)**
Reconciling items:		
Difference between French and foreign tax rates	99	109
Tax credits and other tax reductions	99	122
Impact of tax losses	106	(15)
Other permanent differences	(184)	(109)
Income tax (expense)/benefit	(241)	(273)
EFFECTIVE TAX RATE	**23.0%**	**24.7%**

(a) 2013 figures were restated from discontinued operations and change in consolidation method disclosed in note 1

9.3 Deferred taxes

Deferred tax assets net of deferred tax liabilities amounted to EUR832 million, increasing by EUR69 million from December 31, 2013.

Note 10 - Goodwill

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

	First half 2014	31/12/2013 (a)
Net goodwill at opening	**13,048**	**12,904**
Acquisitions*	2,970	607
Disposals	(2)	(12)
Impairment	-	-
Translation adjustment	114	(587)
Reclassifications	(421)	136
Net goodwill at year end	**15,709**	**13,048**
Included cumulative impairment	**(250)**	**(395)**

* *On the basis of the exchange rate at acquisition date.*
(a) 2013 figures were restated from discontinued operations and change in consolidation method disclosed in note 1

The 2014 acquisitions mainly include Invensys goodwill for EUR2,932 million that is allocated to Industry CGU.

- **Translation adjustment**

Currency translation adjustments concern principally goodwill on U.S. dollars.

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, 2014 are mainly related to Invensys entry in consolidation scope for a total effect of EUR613 million.

Note 12 - Investments in associates

There was no material change in investments in associates from January 1, 2014.
The variation of the period corresponds to the share of profit and loss of investment in associates.

Note 13 - Financial assets

13.1 Available-for-sale financial assets

Available-for-sale financial assets amount to EUR152 million on June 30, 2014. The scope of available-for-sale financial assets has not materially changed since January 1, 2014.

13.2 Other non-current financial assets

The other non-current financial assets amount to EUR294 million as of June 30, 2014.

13.3 Current financial assets

Current financial assets total EUR33 million as of June 30, 2014 and comprise non-monetary short-term investments.

Note 14 - Shareholder's equity

14.1 Share-based payments

A total of 678,285 Schneider Electric SE shares were issued during six-month period ended June 30, 2014 upon exercise of stock options, in an amount of EUR25 million.

Based upon the assumptions described in the notes to the 2013 consolidated financial statements, the expense recorded under "Selling, general and administrative expenses" for stock option or stock grant plans set up after November 7, 2002 totaled EUR39 million in six-month period ended June 30, 2014 (EUR31 million for the six-month period ended June 30, 2013). This expense was booked as an adjustment to "Retained earnings" in Shareholders' Equity.

14.2 Worldwide Employee Stock Purchase Plan

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

Under the classic plan, employees may purchase Schneider Electric shares at a 15% to 20% discount to the price quoted for the shares on the stock market. Employees must then hold their shares for five years, except in certain cases provided for by law. The share-based payment expense recorded in accordance with IFRS 2 is measured by reference to the fair value of the discount on the locked-up shares. The lock-up cost is determined on the basis of a two-step strategy that involves first selling the locked-up shares on the forward market and then purchasing the same number of shares on the spot market (i.e., shares that may be sold at any time) using a bullet loan.

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

Under the leveraged plan, employees may also purchase Schneider Electric shares at a 15% to 20% discount from the price quoted on the stock market. However, the leveraged plan offers a different yield profile as third-party bank tops up the employee's initial investment, essentially multiplying the amount paid by the employee. The total is invested in Schneider Electric shares at a preferential price. The bank converts the discount transferred by the employee into funds with a view to securing the yield for the employee and increasing the indexation on a leveraged number (factor of 9.67 in 2014) of directly subscribed shares.

As with the classic plan, the share-based payment expense is determined by reference to the fair value of the discount on the locked-up shares (see above). In addition, it includes the value of the benefit corresponding to the issuer's involvement in the plan, which means that employees have access to share prices with a volatility profile adapted to institutional investors rather than to the prices and volatility profile they would have been offered if they had purchased the shares through their retail banks. The volatility differential is treated as a discount equivalent that reflects the opportunity gain offered to employees under the leveraged plan.

As regards the first semester 2014, Schneider Electric gave its employees the opportunity to purchase shares at a price of EUR58.33 or EUR54.90 per share, depending on the country, as part of its commitment to employee share ownership, on June 17, 2014. This represented a 15% to 20% discount to the reference price of EUR68.62 calculated as the average opening price quoted for the share during the 20 days preceding the Management Board's decision to launch the employee share issue.

Altogether, 3.7 million shares were subscribed, increasing the Company's capital by EUR205 million as of July 24, 2014. Due to significant changes in valuation assumptions, specifically the interest rate available to market participant, the value of the lock-up period is higher than the discount cost since 2012. Therefore the Group did not recognize any cost related to the transaction.

The tables below summarize the main characteristics of the plans, the amounts subscribed, the valuation assumptions and the plans' cost for 2014 and 2013.

	2014		**2013**	
Non leveraged plans	**%**	**Value**	**%**	**Value**
Plan characteristics				
Maturity *(years)*		5		5
Reference price *(euros)*		68.62		59.87
Subscription price *(euros)*:				
Between		58.33		50.89
And		54.90		47.90
Discount:				
Between	15.0%		15.0%	
And	20.0%		20.0%	
Amount subscribed by employees		122.7		98
Total amount subscribed		122.7		98
Total number of shares subscribed *(millions of shares)*		2.2		2
Valuation assumptions				
Interest rate available to market participant *(bullet loan)* (1)	4.8%		4.8%	
Five year risk-free interest rate (euro zone)	0.8%		0.8%	
Annual interest rate *(repo)*	1.0%		1.0%	
(a) Value of discount:				
Between	15.0%	7.8	15.0%	8.4
And	20.0%	19.6	20.0%	12.7
(b) Value of the lock-up period for market participant	26.4%	39.5	26.3%	31.3
Total expense for the Group (a-b)		**0**		**0**
Sensitivity				
• decrease in interest rate for market participant (2)	(0.5%)	4.3	(0.5%)	3.4

Amounts in millions of euros, unless otherwise stated.

(1) Average interest rate charged on an ordinary, non-revolving personal loan, with a five-year maturity to an individual with an average credit rating.

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

	2014		2013	
Leveraged plans	**%**	**Value**	**%**	**Value**
Plan characteristics				
Maturity *(years)*		5		5
Reference price *(euros)*		68.62		59.87
Subscription price *(euros)*:				
Between		58.33		50.89
And		54.90		47.90
Discount :				
Between	15.0%		15.0%	
And	20.0%		20.0%	
Amount subscribed by employees		8.2		3.5
Total amount subscribed		82.4		35.4
Total number of shares subscribed *(millions of shares)*		1.5		0.7
Valuation assumptions				
Interest rate available to market participant *(bullet loan)* (1)	4.8%		4.8%	
Five year risk-free interest rate (euro zone)	0.8%		0.8%	
Annual dividend rate	3.4%		3.0%	
Annual interest rate *(repo)*	1.0%		1.0%	
Retail/institutional volatility spread	5.0%		5.0%	
(a) Value of discount:				
Between	15.0%	0	15.0%	0
And	20.0%	20.6	20.0%	8.9
(b) Value of the lock-up period for market participant	26.4%	27.1	26.3%	11.7
(c) Value of the opportunity gain (2)	**4.1%**	**4.2**	**3.3%**	**1.5**
Total expense for the Group (a-b+c)		**0**		**0**
Sensitivity				
• decrease in interest rate for market participant (3)	(0.5%)	3.0	(0.5%)	1.3

Amounts in millions of euros, unless otherwise stated.

(1) Average interest rate charged on an ordinary, non-revolving personal loan, with a five-year maturity to an individual with an average credit rating.

(2) Calculated using a binomial model.

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

Note 15 - Pensions and other post-employment benefit obligations

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

	Pensions and termination benefits	Other Post-employment and long-term benefits	Provisions for pensions and other post-employment benefits
Dec. 31, 2013	**1,061**	**424**	**1,485**
Net cost recognized in the statement of income	49	20	69
Benefits paid	(20)	(17)	(37)
Plan participants' contributions	76	-	76
Actuarial gains and losses recognized in equity	(66)	(6)	(72)
Translation adjustment	-	9	9
Changes in the scope of consolidation	10	1	11
Other changes	-	-	-
June 30, 2014	**1,110**	**431**	**1,541**
Of which pensions assets	183	-	183
June 30, 2014	**1,293**	**431**	**1,724**

The net effect of Invensys acquisition on the balance sheet provision is not significant because obligations are totally covered by plan assets.

Following the agreement reached with the Trustee of the Invensys Pension scheme in the UK on February 2, 2014, Schneider Electric SE guaranteed all obligations of the Invensys subsidiaries which participate in the Scheme, up to a maximum amount of GBP1.75 billion. At June 30, 2014, 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

	Economic risks	Customer risks	Products risks	Environmental risks	Restructuring	Other risks	Provisions
Dec. 31, 2013 (a)	**669**	**98**	**430**	**61**	**135**	**317**	**1,710**
Long-term portion	*439*	*43*	*131*	*45*	*9*	*160*	*827*
Additions	19	6	37	7	27	78	174
Discounting effect	-	,-	-	-	-	-	-
Utilizations	(25)	(4)	(49)	(4)	(43)	(94)	(219)
Reversals of surplus provisions	(46)	(4)	(15)	(5)	(2)	(7)	(79)
Translation adjustments	5	1	2	1	-	5	14
Changes in the scope of consolidation and other	16	(15)	44	70	(2)	187	300
June 30, 2014	**638**	**82**	**449**	**130**	**115**	**486**	**1,900**
Of which long-term portion	*377*	*59*	*128*	*111*	*5*	*280*	*960*

(a) 2013 figures were restated from discontinued operations and change in consolidation method disclosed in note 1

Main variances of the period relate to provisions linked to Invensys consolidation from January 2014 that is detailed in note 2.

Note 17 - Net debt

Net debt breaks down as follows:

	Jun.30, 2014	Dec.31, 2013 *(a)*
Bonds	5,557	6,039
Bank and other borrowings	753	942
Lease liabilities	8	10
Employees profit sharing	9	11
Short-term portion of convertible and non-convertible bonds	(972)	(717)
Short-term portion of long-term debt	(373)	(363)
NON-CURRENT FINANCIAL LIABILITIES	**4,982**	**5,922**
Commercial paper	1,484	1,205
Accrued interest	140	147
Other short-term borrowings	469	395
Bank overdrafts	782	140
Short-term portion of convertible and non-convertible bonds	972	717
Short-term portion of long-term debt	373	363
Short-term debt	**4,220**	**2,967**
TOTAL CURRENT AND NON-CURRENT FINANCIAL LIABILITIES	**9,202**	**8,889**
Marketable securities	941	2,193
Negotiable debt securities and short-term deposits	36	342
Cash and cash equivalents	1,678	3,028
Total cash and cash equivalents	**2,655**	**5,563**
Bank overdrafts	(782)	(140)
NET CASH AND CASH EQUIVALENTS	**1,873**	**5,423**
NET DEBT	**6,547**	**3,326**

(a) 2013 figures were restated from discontinued operations and change in consolidation method disclosed in note 1

Cash and cash equivalents net of short-term bank loans and overdrafts totaled EUR1,873 million, corresponding to the amount reported in the consolidated cash flow statement.

Non-recourse factoring of trade receivables were realized during the six-month period ended June 30, 2014 for a total amount of EUR73 million, compared with EUR66 million during the six-month period ended June 30, 2013.

In the first half of 2014, the Group repaid a bond for an amount of EUR500 million.

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 long term debt contains convertible bonds which fair value as at June 30 2014 is EUR5,987 million.

Note 18 - Derivative instruments

18.1 Foreign currency

Due to the fact that a significant proportion of Group's transactions are denominated in currencies other than the euro, the Group is exposed to currency risk. The 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.

June 30, 2014	IFRS designation	Carrying amount	Nominal amount	
			Sale	Purchase
Futures - cash flow hedges	CFH *	32	-	1,018
Futures - net investment hedges	NIH *	(4)	970	-
Futures - hedges of balance sheet items	FVH *	-	-	-
Futures - hedges of balance sheet items	*Trading**	(12)	4,720	1,988
		16	**5,690**	**3,006**

December 31, 2013	IFRS designation	Carrying amount	Nominal amount	
			Sale	Purchase
Futures - cash flow hedges	CFH *	119	-	(3,206)
Futures - net investment hedges	NIH *	2	961	(199)
Futures - hedges of balance sheet items	FVH *	-	-	-
Futures - hedges of balance sheet items	*Trading**	13	2,797	(1,620)
		134	**3,758**	**(5,025)**

* CFH - Cash flow hedges
NIH - Net investment hedges
FVH - Fair value hedges

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 in order to optimize overall borrowing costs. The Group uses derivative instruments to hedge its exposure to interest rates through swaps.

June 30, 2014	IFRS designation	Carrying amount	Nominal amount
Interest rates Swaps	CFH */FVH*	(5)	(349)

December 31, 2013	IFRS designation	Carrying amount	Nominal amount
Interest rates Swaps	CFH */FVH*	(8)	(346)

18.3 Raw materials

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

June 30, 2014	IFRS designation	Carrying amount	Nominal amount
Metal prices			
Futures and options	CFH *	9	(249)

December 31, 2013	IFRS designation	Carrying amount	Nominal amount
Metal prices			
Futures and options	CFH *	(2)	(166)

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.

June 30, 2014	IFRS designation	Carrying amount	Nominal amount	Number of shares
Share-based payment				
Call options	CFH *	45	(70)	1,541,616

December 31, 2013	IFRS designation	Carrying amount	Nominal amount	Number of shares
Share-based payment				
Call options	CFH *	46	(84)	1,843,846

Note 19 - Related party 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 EUR1,480 million and EUR70 million, respectively, as of June 30, 2014.

20.2 Purchase commitments

Commitments to purchase equity investments correspond to put options given to minority shareholders in consolidated companies or relate to earn-out payments. At June 30, 2014, there is one material put related to the 26% interests in Luminous that was valued for an amount of EUR121 million as other non-current liabilities.

20.3 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. This is notably the case for the potential consequences of a current dispute in Belgium involving former senior executives and managers of the Group.

The 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**

On July 24, 2014, the employee share purchase program described in note 14.2, led to a share capital increase of EUR205 million for 3.7 million shares subscribed.

MANAGEMENT REPORT FOR THE PERIOD ENDED JUNE 30, 2014

Consolidated financial statements

Business and Statement of Income highlights

Changes in the scope of consolidation

<u>Acquisitions during the period</u>

On January 17, 2014, the Group completed its acquisition of Invensys plc, a global automation player with a large installed base and a strong software presence. The transaction has been remunerated through the issuance of 17,207,427 new Schneider Electric shares on January 20, 2014 and the payment of GBP2.5 billion on January 30, 2014.

On February 5, 2014, Schneider Electric signed an agreement for the sale of the Invensys Appliance division because the unit is not a core business to Schneider Electric. The consideration for the transaction is GBP150 million and the agreement was completed on June 18, 2014.

Invensys is fully consolidated on first half 2014 mainly in the segment *Industry*, except its Appliance division reported as discontinued operations.

<u>Acquisitions done in 2013 having an impact on the financial statements of six-month period ended June 30, 2014*</u>

Electroshield TM - Samara Group has been acquired in 2013 and consolidated from April 2013. Its consolidation over the full year in 2014 had an impact on the scope of consolidation compared with 2013.

(*) Correspond to the dates on which the Group obtained control of the acquired companies.

Exchange rate changes

Fluctuations in the euro exchange rate had a negative impact in six-month period ended June 30, 2014, decreasing consolidated revenue by EUR605 million and decreasing adjusted EBITA by EUR162 million, due to the appreciation of Euro against most major currencies, in particular the U.S. Dollar, the Australian Dollar, the Chinese Yuan, the Russian Ruble and the Indian Rupee.

Results of Operations

The following table sets forth our results of operations for the six-month period ended June 30, 2014 and 2013.

(in millions of Euros except for earnings per share)	**1st half-year 2014**	**1st half-year 2013** *(a)*	**% variance**
Revenue	**11,700**	**11,335**	**+3.2%**
Cost of sales	(7,243)	(7,098)	
Gross profit	**4,457**	**4,237**	**+5.2%**
% Gross profit	***38.1%***	***37.4%***	
Research and development	(281)	(287)	
Selling, general and administrative expenses	(2,672)	(2,447)	
Adjusted EBITA	**1,504**	**1,503**	**+0.1%**
% Adjusted EBITA	***12.9%***	***13.3%***	
Other operating income and expenses	(57)	12	
Restructuring costs	(71)	(60)	
EBITA	**1,376**	**1,455**	**-5.4%**
% EBITA	***11.8%***	***12.8%***	
Amortization and impairment of purchase accounting intangibles	(127)	(108)	
Operating income	**1,249**	**1,347**	**-7.3%**
% Operating income	***10.7%***	***11.9%***	
Interest income	18	9	
Interest expense	(163)	(175)	
Finance costs, net	**(145)**	**(166)**	
Other financial income and expense	(56)	(76)	
Net financial income/loss	**(201)**	**(242)**	**-16.9%**
Profit from continued operations before income tax	**1,048**	**1,105**	**-5.2%**
Income tax expense	(241)	(273)	
Income from discontinued activities	70	30	
Share of profit/(losses) of associates	6	12	
Profit for the period	**883**	**874**	**+1.0%**
-Attributable to owners of the parent	821	831	-1.2%
-Attributable to non-controlling interests	62	43	
Basic earnings per share –attributable to owners of the parent (in Euros)	1.44	1.52	-5.3%

(a) 2013 figures were restated from discontinued operations and change in consolidation method disclosed in note 1

Revenue

Consolidated revenue totaled EUR11,700 million for the period ended June 30, 2014, up 3.2% on a current structure and currency basis from the year-earlier period.

Organic growth accounted for 0.6%, acquisitions net of disposals for 8.0%, mainly linked to the acquisition of Invensys on January 17, 2014 and the currency effect for -5.4% due to the appreciation of Euro against most major currencies, in particular the U.S. Dollar, the Australian Dollar, the Chinese Yuan, the Russian Ruble and the Indonesian Rupiah.

Breakdown by business

The following table sets forth our revenue by business segment for the six-month periods ended June 30, 2014 and 2013.

(in millions of Euros)	**Buildings & Partner**	**Infrastructure**	**Industry**	**IT**	**Total**
June 30, 2014	5,102	2,364	2,704	1,530	**11,700**
June 30, 2013 *(a)*	5,085	2,627	1,937	1,686	**11,335**

(a) 2013 figures were restated from discontinued operations and change in consolidation method disclosed in note 1

The Buildings & Partner Business generated revenues of EUR5,102 million, or 44% of the consolidated total. This represents an increase of 0.3% on a reported basis and **3.5%** like-for-like. The business grew across all regions. In Western Europe, Germany and Spain drove the growth, while France remained weak on a lackluster construction market. The U.S. benefited from investment in residential construction, datacenters and oil & gas. Asia-Pacific grew thanks to commercial initiatives and mid-market offers in China and some recovery in the residential market in Australia. Growth in the Rest of the World was supported by large projects in the Middle East and a resilient domestic market in Russia.

The Infrastructure business generated revenues of EUR2,364 million, or 20% of the consolidated total. This represents a decrease of 10.0% on a reported basis and **6.7%** like-for-like. The decline was primarily driven by weak utility markets in Germany, Spain and France. Oil & gas projects were a strong support in Australia and the U.S. North America also benefited from continued investments in datacenters, but the region was penalized by high basis of comparison. China grew thanks to focus on non-utility segments, while India was down on weak utility markets. Delayed investments in Russia were a drag on growth.

The Industry business generated revenues of EUR2,704 million, or 23% of the consolidated total. This represents an increase of 39.6% on a reported basis and **5.1%** like-for-like. Broad-based OEM demand and strong services were the main growth drivers, while end-user demand experienced mixed trends. Western Europe was supported by export-oriented OEMs in Spain, Italy and Germany. North America benefited from oil & gas investments and solid OEM demand. China was strong thanks to OEMs and focus on targeted end-user segments, while Australia remained impacted by the weak mining end-market.

The IT business generated revenues of EUR1,530 million, or 13% of the consolidated total. This represents a decrease of 9.3% on a reported basis and **2.0%** like-for-like. The business saw mixed trends by region. Distributor destocking in Russia weighed on first-half performance. Data center project execution supported growth in both Western Europe and China. In the U.S., investments in large and extra-large data centers shifted demand to the Group's low and medium voltage offers.

Gross profit

Gross profit increased to EUR4,457 million for the six-month period ended June 30, 2014 (EUR4,237 million for the six-month period ended June 30, 2013) partly linked to Invensys contribution, consolidated from January 2014. As a percentage of revenues, gross profit is also increasing from 37.4% in first half of 2013 to 38.1%in first half of 2014, thanks to strong improvement in industrial productivity mitigating negative foreign exchange rates effect.

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

Research and development expenses, net of capitalized development costs, decreased slightly by 2.1% from EUR287 million for the six-month period ended June 30, 2013 to EUR281 million for the six-month period ended June 30, 2014. As a percentage of revenues, the net cost of research and development decreased slightly to 2.4% of revenues for six-month period ended June 30, 2014 (2.5% for the six-month period ended June 30, 2013).

Total research and development expense, including capitalized development costs and development costs reported as cost of sales (see Note 4 to the Audited Consolidated Financial Statements) increased 4.4% from EUR573 million for the six-month period ended June 30, 2013 to EUR598 million for the six-month period ended June 30, 2014. As a percentage of revenues, total research and development expenses remained stable at 5.1% for the six-month period ended June 30, 2014 and for the six-month period ended June 30, 2013.

On the first semester 2014, the net effect of capitalized development costs and amortization of capitalized development costs amounts to EUR97 million on operating income (EUR81 million on the first semester 2013).

Selling, general and administrative expenses increased by 9.2% to EUR2,672 million for the six-month period ended June 30, 2014 (EUR2,447 million for the six-month period ended June 30, 2013). As a percentage of revenues, selling, general and administrative expenses increased to 22.8% for the six-month period ended June 30, 2014 (21.6% for the six-month period ended June 30, 2013), mainly due to effect of foreign exchange rates and investment in services and geographical coverage, notably in large emerging countries.

Combined, total support function costs, that is, research and development expenses together with selling, general and administrative costs, totaled EUR2,953 million six-month period ended June 30, 2014 compared to EUR2,734 million six-month period ended June 30, 2013, an increase of 8.0%. As a result, our support functions costs to sales ratio increased from 24.1% for the six-month period ended June 30, 2013 to 25.2% for the six-month period ended June 30, 2014.

Other operating income and expenses

For the six-month period ended June 30, 2014, other operating income and expenses amounted to a net expense of EUR57 million, including costs linked to acquisitions for EUR43 million and other operating expense of EUR14 million. Costs linked to acquisitions are acquisition, integration and separation costs on 2013 and 2014 acquisitions, notably Invensys Group for EUR37 millions. Net other operating expense includes mainly loss on assets scraps.

Restructuring costs

For the six-month period ended June 30, 2014, restructuring costs amounted to EUR71 million compared to EUR60 million for the six-month period ended June 30, 2013. These costs related primarily to industrial and support functions restructurings.

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 EUR1,504 million for the six-month period ended June 30, 2014, compared to EUR1,503 million for the six-month period ended June 30, 2013, an increase of 0.1%. As a percentage of revenues, adjusted EBITA decreased from 13.3% for the six-month period ended June 30, 2013 to 12.9% for the six-month period ended June 30, 2014, a slight of 0.4%, mainly due to the dilutive effect of Invensys consolidation on the six-month period ended June 30, 2014 and to the negative impact of foreign exchange rates, partly mitigated by a strong manufacturing productivity.

EBITA decreased 5.4% from EUR1,455 million for the six-month period ended June 30, 2013 to EUR1,376 million for the six-month period ended June 30, 2014, due to the decrease of Adjusted EBITA, and the increase of restructuring costs. As a percentage of revenues, EBITA slightly decreased to 11.8% for the six-month period ended June 30, 2014 (12.8% for the six-month period ended June 30, 2013),

EBITA and adjusted EBITA by business segment

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

(in millions of Euros)	***Buildings & Partner***	***Infrastructure***	***Industry***	***IT***	***Corporate costs***	***Total***
June 30, 2014						
Revenues	5,102	2,364	2,704	1,530		**11,700**
Adjusted EBITA *	898	132	493	258	(277)	**1 504**
Adjusted EBITA (%)	*17,6%*	*5,6%*	*18,2%*	*16,9%*		***12,9%***
Other operating income and expense	(1)	(9)	(37)	(5)	(5)	**(57)**
Restructuring costs	(31)	(28)	(10)	(1)	(1)	**(71)**
EBITA	866	95	446	252	(283)	**1,376**
EBITA (%)	*17,0%*	*4,0%*	*16,5%*	*16,5%*		***11,8%***

* Adjusted EBITA: EBITA before restructuring costs and before other operating income and expenses

(in millions of Euros)	***Buildings & Partner***	***Infrastructure***	***Industry***	***IT***	***Corporate costs***	***Total***
June 30, 2013 *(a)*						
Revenues	5,085	2,627	1,937	1,686		**11,335**
Adjusted EBITA *	924	193	376	289	(279)	**1,503**
Adjusted EBITA (%)	*18.2%*	*7,3%*	*19,4%*	*17,1%*		***13,3%***
Other operating income and expense	11	(11)	2	(1)	11	**12**
Restructuring costs	(29)	(8)	(6)	(3)	(14)	**(60)**
EBITA	906	174	372	285	(282)	**1,455**
EBITA (%)	*17,8%*	*6,6%*	*19,2%*	*16,9%*		***12,8%***

* Adjusted EBITA: EBITA before restructuring costs and before other operating income and expenses

(a) 2013 figures were restated from discontinued operations and change in consolidation method disclosed in note 1

Buildings & Partner recorded an adjusted EBITA margin of 17.6% for the six-month period ended June 30, 2014, down 0.6% compared to 18.2% for the six-month period ended June 30, 2013, mainly due to currency impact.

Infrastructure recorded an adjusted EBITA margin of 5.6% for the six-month period ended June 30, 2014, down 1.7% compared to 7.3% for the six-month period ended June 30, 2013, impacted by low volume and negative mix.

Industry recorded an adjusted EBITA margin of 18.2% for the six-month period ended June 30, 2014, down 1.2% compared to 19.4% for the six-month period ended June 30, 2013, driven by the dilution from Invensys. The margin excluding Invensys was up thanks to strong productivity and price.

IT recorded an adjusted EBITA margin of 16.9% for the six-month period ended June 30, 2014, down 0.2% compared to 17.1% for the six-month period ended June 30, 2013, reflecting the strategy of investing for growth.

Corporate costs for the compared to the six-month period ended June 30, 2014 amounted to EUR277 million or 2.4% of sales, at the same level as the six-month period ended June 30, 2013 (EUR279 million).

Operating income (EBIT)

Operating income, after amortization and depreciation of purchased intangibles, decreased from EUR1,347 million for the six-month period ended June 30, 2013 to 1,249 million for the six-month period ended June 30, 2013, a decrease of 7.3% linked to a decrease of EBITA and an increase of amortization of intangibles linked to Invensys acquisition of EUR19 million (EUR108 million on the six-month period ended June 30, 2013 compared to EUR127 million six-month period ended June 30, 2014).

Net financial income/loss

Net financial loss amounted to EUR201 million for the six-month period ended June 30, 2014, compared to EUR242 million for the six-month period ended June 30, 2013.

This decrease is explained both by the decrease to EUR145 million for the six-month period ended June 30, 2014, compared to EUR166 million for the six-month period ended June 30, 2013, on a lower cost of debt, and by the decrease in other financial expenses, net of other financial income, from EUR76 million on the six-month period ended June 30, 2013 to a net expense of EUR56 million for the six-month period ended June 30, 2014, mainly linked to a lower foreign exchange loss.

Tax

The effective tax rate was 23.0% for the six-month period ended June 30, 2014 compared to 24.7% for the six-month period ended June 30, 2013, down 1.7%. The corresponding tax expense decreased from EUR273 million on the six-month period ended June 30, 2013 to EUR241 million on the six-month period ended June 30, 2014. The income tax expense on the six-month period ended June 30, 2014 includes a deferred tax profit from the recognition of deferred tax assets on Invensys U.S. tax losses (previously unrecognized) that was made possible after the agreement on sales of Invensys assets negotiated with Invensys Trustee in February 2014, which allowed the tax integration of Invensys U.S. operations with Schneider Electric U.S. operations.

Share of profit/ (losses) of associates

The share of profit of associates amounted to EUR6 million for the six-month period ended June 30, 2014, compared to EUR12 million for the six-month period ended June 30, 2013, since first half 2013 was including the first quarter of Electroshield – TM Samara (fully consolidated from April 2013).

Discontinued activities

The net effect of discontinued activities totaled EUR70 million for the six-month period ended June 30, 2014, including mainly profit over six-months from the Appliance activity of Invensys, sold in June 2014, and CST business, compared to EUR30 million for the six-month period ended June 30, 2013, including profit from CST business only.

Non-controlling interests

Minority interests in net income for the six-month period ended June 30, 2014 totaled EUR62 million, compared to EUR43 million for the six-month period ended June 30, 2013. This represented the share in net income attributable, in large part, to the minority interests of certain Chinese companies.

Profit for the period

Profit for the period attributable to the equity holders of our parent company amounted to EUR821 million for the six-month period ended June 30, 2014, compared to EUR831 profit for the six-month period ended June 30, 2013.

Earnings per share

Earnings per share amounted to EUR1.44 per share for the six-month period ended June 30, 2014 and EUR1.52 per share for the six-month period ended June 30, 2013.

Comments to the consolidated Cash-flow

The following table sets forth our cash-flow statement for the six-month period ended June 30, 2014 and 2013.

(in millions of Euros)	**First half 2014**	**First half 2013** (a)
Profit for the period	883	874
Less net result from discontinued operations	(70)	(30)
Share of (profit)/ losses of associates, net of dividends received	(6)	(12)
Non-cash adjustments to reconcile profit for the period to net cash flows provided by operating activities		
Depreciation of property, plant and equipment	204	204
Amortization of intangible assets other than goodwill	227	202
Losses on non-current assets	(7)	-
Increase/(decrease) in provisions	(4)	(34)
Losses/(gains) on disposals of fixed assets	1	(7)
Difference between tax paid and tax expense	(177)	(171)
Other non cash-adjustments	33	19
Net cash provided by operating activities before changes in operating assets and liabilities	**1,083**	**1,045**
(Increase)/decrease in accounts receivable	(141)	(143)
(Increase)/decrease in inventories and work in process	(155)	(162)
Increase/(decrease) in accounts payable	(89)	(12)
Change in other current assets and liabilities	(133)	(124)
Change in working capital requirement	**(518)**	**(441)**
I - Cash flows from operating activities	**565**	**604**
Purchases of property, plant and equipment	(225)	(175)
Proceeds from disposals of property, plant and equipment	28	67
Purchases of intangible assets	(192)	(178)
Proceeds from disposals of intangible assets	3	3
Net cash used in investment in operating fixed assets	**(386)**	**(283)**
Acquisition of subsidiaries, net of cash acquired	(2,257)	(309)
Proceeds from sale of financial assets	6	13
Purchases of other long-term investments	(15)	(10)
Long-term pension assets	(43)	(28)
Net financial investments	**(2,309)**	**(334)**
II - Cash flows from / used in investing activities:	**(2,695)**	**(617)**
Repayment of bonds	(500)	-
Increase/(reduction) in financial debt	114	4
Proceeds from issuance of share capital	25	61
Sale/(purchase) of own shares	39	19
Dividends paid: Schneider Electric SE	(1,095)	(1,025)
Non-controlling interests	(54)	(48)
III - Cash flows from / used in financing activities	**(1,471)**	**(989)**
IV - Net foreign exchange difference	**37**	**8**
V – Effect of discontinued operations	**14**	**41**
Net increase/(decrease) in cash and cash equivalents: I + II + III + IV + V	**(3,550)**	**(953)**
Cash and cash equivalents at January, 1st	5,423	3,637
Increase/(decrease) in cash and cash equivalents	(3,550)	(953)
Cash and cash equivalents at June 30th	**1,873**	**2,684**

(a) 2013 figures were restated from discontinued operations and change in consolidation method disclosed in note 1

Operating Activities

Net cash provided by operating activities before changes in operating assets and liabilities reached EUR1,083 million for the six-month period ended June 30, 2014, increasing compared to EUR1,045 million for the six-month period ended June 30, 2013. It represents 9.3% of revenues for first half 2014 and 9.2% of revenues from first half 2013

Change in working capital requirement consumed EUR518 million in cash in the six-month period ended June 30, 2014, compared to EUR441 million in consumption in the six-month period ended June 30, 2013, reflecting normal cash-flow seasonality.

In all, net cash provided by operating activities slightly decreased from EUR604 million in the six-month period ended June 30, 2013 to EUR565 million in the six-month period ended June 30, 2014.

Investing Activities

Net capital expenditure, which included capitalized development projects, increased 36.4% to EUR386 million for the six-month period ended June 30, 2014, compared to EUR283 million for the six-month period ended June 30, 2013), and representing 3.3% of sales on first half 2014 compared to 2.5% of sales on first half 2013, due to higher sales of assets during first half of 2013.

Our acquisitions in 2014 represented a cash outflow, net of cash acquired, of EUR2,257 million for the six-month period ended June 30, 2014, corresponding mainly to the cash out for acquisition of Invensys, net of acquired cash & cash equivalents and net of the GBP103 million received from Invensys pension fund as a consideration for the assets previously kept in the *Reservoir Trust* and net of the EUR155 million cash in from the disposal of the activity Appliance. Acquisitions amounted to EUR309 million for the six-month period ended June 30, 2013, corresponding mainly to Electroshield – TM Samara.

Financing Activities

The decrease of financial debts amounted to EUR386 million during the six-month period ended June 30, 2014, compared to a net decrease of financial debts of EUR4 million during the six-month period ended June 30, 2013. The dividend paid by Schneider Electric was EUR1,095 million the six-month period ended June 30, 2014, compared with EUR1,025 million the six-month period ended June 30, 2013.

2014 Targets

Our performance in H1 shows continuous improvement of our early cycle businesses, high level of industrial productivity and strong contribution from Invensys driving margin expansion before FX.

With the stabilization of Western Europe outside utility market, improvements in North America and resilience in new economies, the Group expects some acceleration in the second half with continued growth in early cycle businesses and sequential improvement in IT and Infrastructure.

Therefore the Group confirms its 2014 targets:

- low single-digit organic growth in revenue
- 0.4 pt to 0.8 pt improvement of the adjusted EBITA margin vs. the 2013 pro-forma level of 13.9%, excluding the currency impact. The negative currency impact is currently estimated at approximately 0.4 pt, with most of the impact concentrated in H1.

Significant events of the period

In addition to the acquisitions described above, the key events of the period were as follows:

Change of legal structure of Schneider Electric to a European Company (Societas Europaea)

The shareholders of Schneider Electric SA on May 6, 2014 approved the transformation of the company's corporate form in a European Company (Societas Europaea), better reflecting the European and international nature of Schneider Electric. This transformation was effective from June 18, 2014. The company name is Schneider Electric SE from now on.

Partial renewal of the board of directors

The shareholders of Schneider Electric SA on May 6, 2014 carried on a partial renewal of the Board of Directors and appointed two new directors: Ms Linda Knoll (U.S. citizen) and Ms Lone Fønss Schrøder (Danish citizen). These nominations fall within the objectives to internationalize, rejuvenate and increase gender balance within the board. The board of directors of May 6, after having decided to keep the unification of Chairman role and CEO role of M. Jean-Pascal Tricoire, appointed M. Leo Apotheker independent Vice-chairman Lead Director who superseded M. Henri Lachmann.

Main risks and areas of uncertainty for the second half of 2014

The main risks and areas of uncertainty for the second half of the year are the same as those outlined in Chapter 1, paragraph 5 (Risk Factors) of the 2013 Registration Document filed with AMF on March 20, 2014.

Claims, litigations and other risks

(update to the Registration Document – page 44)
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.

Attestation

I hereby declare that, to the best of my knowledge, the half-year financial statements as at June 30, 2014 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 29, 2014

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 condensed half-yearly consolidated financial statements 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 interim 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 shareholders' 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, 2014, and
- the verification of the information contained in the interim management report.

These condensed half-yearly consolidated financial statements are the responsibility of the Board of Directors. 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 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.

2. Specific verification

We have also verified the information presented in the interim management report in respect of 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 financial statements.

Courbevoie and Paris-La Défense, July 29, 2014

The statutory auditors

French original signed by

MAZARS	ERNST & YOUNG et Autres
David Chaudat	Yvon Salaün