

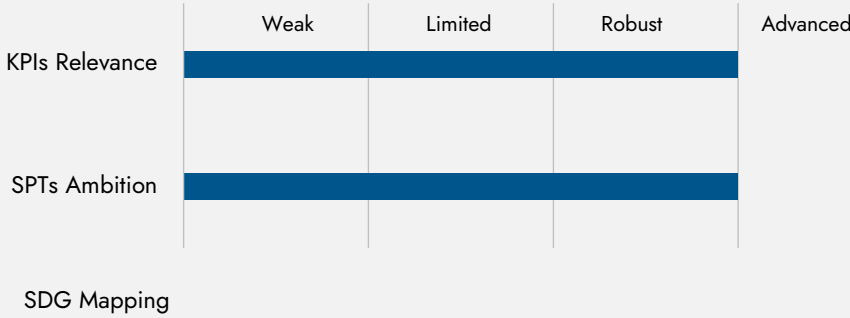


# SECOND PARTY OPINION

## on Schneider Electric's Sustainability-Linked Financing Framework

V.E is of the opinion that Schneider Electric's Sustainability-Linked Financing Framework is **aligned** with the core components of the Sustainability-Linked Bond Principles (SLBP) 2020.

### Framework



### Characteristics

Audit of the data	Yes
Three-year historical data	Partially available for KPI 1 (2 years)
Nature of the impacts on the bond's characteristics	Financial
Disclosure of means for achieving the SPTs	Yes

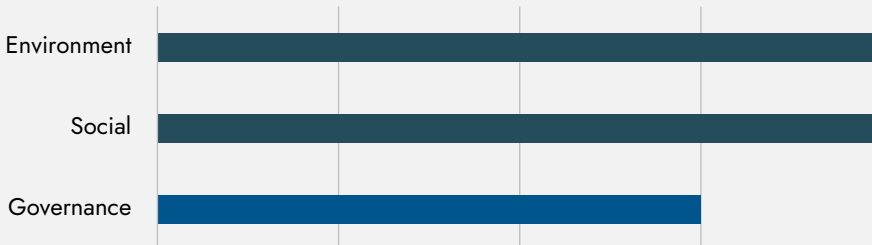
### Sustainability Performance Targets (SPTs)

- KPI1: CO<sub>2</sub> emission savings and avoidance for Schneider Electric's customers
  - SPT: "Deliver 800 mega-tonnes saved and avoided of CO<sub>2</sub> emissions to our customers"
- KPI 2: Gender diversity from hiring to front-line managers and leadership teams
  - SPT: "50% women hiring (a), 40% women among front-line managers (b), 30% women in leadership teams (c)"
- KPI 3: Number of underprivileged people trained in energy management
  - SPT: "Train 1 million underprivileged people in energy management"

	<u>Baseline (2020)</u>	<u>2025</u>
<b>SPT 1</b>	280	800
<b>SPT 2</b>	(a) 43% (b) 25% (c) 23%	(a) 50% (b) 40% (c) 30%
<b>SPT 3</b>	268,000	1,000,000

### Issuer

#### ESG performance as of September 2020



#### Controversies

Number of controversies	One
Frequency	Isolated
Severity	High
Responsiveness	Reactive



#### Controversial Activities

- |   |   |   |  |
|---|---|---|--|
| <input type="checkbox"/> Animal welfare       | <input checked="" type="checkbox"/> Fossil Fuels industry | <input type="checkbox"/> High interest rate lending | <input type="checkbox"/> Pornography             |
| <input type="checkbox"/> Cannabis             | <input checked="" type="checkbox"/> Coal                  | <input type="checkbox"/> Human Embryonic Stem Cells | <input type="checkbox"/> Reproductive medicine   |
| <input type="checkbox"/> Chemicals of concern | <input type="checkbox"/> Gambling                         | <input type="checkbox"/> Military                   | <input type="checkbox"/> Tar sands and oil shale |
| <input type="checkbox"/> Civilian firearms    | <input type="checkbox"/> Genetic engineering              | <input checked="" type="checkbox"/> Nuclear power   | <input type="checkbox"/> Tobacco                 |
| <input type="checkbox"/> Alcohol              |   |   |  |



## Keys findings

V.E is of the opinion that Schneider Electric' Sustainability-Linked Financing Framework is **aligned** with the core components of the Sustainability-Linked Bond Principles (SLBP) 2020.

### Selection of Key Performance Indicators (KPIs) – aligned with SLBP

- The KPIs are relevant and material from an environmental and social standpoint.
- The KPIs are measurable, externally verifiable however the KPI 1 is currently not widely used and does not allow V.E to appropriately compare the performance with relevant peer companies<sup>1</sup>.
- The KPIs' definition, the rationale behind their selection, the calculation methodologies and perimeter of reporting are clearly defined.

### Calibration of Sustainability Performance Targets (SPTs) – aligned with SLBP

- The SPTs demonstrate a robust level of ambition.
- The timeline, baseline and trigger events are clearly disclosed.
- The means to achieve the SPTs are clearly disclosed and credible.

### Bond Characteristics – aligned with SLBP

- The nature of the bond's characteristics' variation is clearly disclosed.

### Reporting – aligned with SLBP and best practices identified by Vigeo Eiris

- The internal control and reporting processes are relevant, transparent and support the provision of reliable data.
- The Issuer commits to annual reporting on all relevant information related to the KPIs and its associated SPTs, including results, underlying methodologies and assumptions.

### Verification – aligned with SLBP

- The KPIs will be externally verified on an annual basis and the company will publish quarterly updates.
- The performance level against the SPTs will be externally verified as of December 31<sup>st</sup>, 2025, and in any case for any date/period relevant for assessing the SPTs' performance leading to a potential adjustment of the bond's structural characteristics and the verification assurance (Limited assurance) reports will be made publicly available.

## Scope of External Reviews

<input checked="" type="checkbox"/>	Pre-issuance Second Party Opinion	<input checked="" type="checkbox"/>	Independent verification of KPI(s) reported data
<input checked="" type="checkbox"/>	Independent verification of SPT(s) achievement		

## Contact

Sustainable Finance Team | [VESustainablefinance@vigeo-eiris.com](mailto:VESustainablefinance@vigeo-eiris.com)

<sup>1</sup> Schneider Electric is fully transparent on its methodology, and invites industry peers to adopt it as new industry standard.



# SCOPE

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V.E was commissioned to provide an independent opinion (thereafter “Second Party Opinion” or “SPO”) on the integration of one environmental and two social factors to the Sustainability-Linked Instruments<sup>2</sup> (the “Instruments”) issued by Schneider Electric (the “Issuer”) in compliance with the Sustainability-Linked Financing Framework (the “Framework”) created to govern their issuances. The Framework will include the Issuer’s commitment to achieve specific targets (“Sustainability Performance Targets” or “SPTs”) regarding one environmental and two social Key Performance Indicators (hereafter the “KPI”) proposed by the Issuer as part of its sustainability strategy. As opposed to other sustainable financial instruments such as green bonds or other types of green loans, the objective is not to finance sustainable projects or investments. Indeed, such facilities are agnostic on how funds are used. The main feature of this type of financing is the variation of the bond’s financial and/or structural characteristics, depending on whether the Issuer achieves predefined sustainability performance objectives.

For these so-called Sustainability-Linked Instruments, the selected KPIs to be linked to the variation of the bond’s financial and/or structural characteristics are the following:

- **KPI 1:** CO<sub>2</sub> emissions saved and avoided for Schneider Electric’s customers
  - o SPT: “Deliver 800 mega-tonnes saved and avoided CO<sub>2</sub> emissions to our customers”
- **KPI 2:** Gender diversity, from hiring to front-line managers and leadership teams
  - o SPT: “50% women hiring, 40% women among front-line managers and 30% women in leadership teams”
- **KPI 3:** Number of underprivileged people trained in energy management”
  - o SPT: “Train 1 million underprivileged people in energy management”

Our opinion is established using Vigeo Eiris’ Environmental, Social and Governance (“ESG”) assessment methodology, and the International Capital Market Association’s (ICMA) Sustainability-Linked Bond Principles (“SLBP”), voluntary guidelines, published in June 2020. This opinion is strictly limited to the integration of three environmental factors in the Instruments. This opinion does not cover the integration of broader sustainability factors (i.e. social and governance), or the labelling of the instruments where the final decision is left to Schneider Electric. This opinion does not constitute a verification or certification.

Our opinion is built on the review of the following components:

- 1) **Framework:** we assessed the Framework’s alignment with the core components of the SLBP 2020.
- 2) **Issuer:** we assessed the Issuer’s ESG performance<sup>3</sup>, its management of potential stakeholder-related ESG controversies and its involvement in controversial activities.<sup>4</sup>

Our sources of information are multichannel, combining data from (i) information gathered from public sources, press content providers and stakeholders, (ii) information from Vigeo Eiris’ exclusive ESG rating database, and (iii) information provided by the Issuer.

We carried out our due diligence assessment from October 23<sup>rd</sup> to November 17<sup>th</sup>, 2020 and consider that we were provided with access to all of the documents we requested. We took reasonable efforts to verify the data accuracy.

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<sup>2</sup> The Issuer reports that Instruments will include Sustainability-Linked Bonds, Sustainability-Linked Convertible Bonds, or any other debt instruments whose financial characteristics are linked with sustainability performance targets.

<sup>3</sup>The Issuer’s ESG performance was assessed in September 2020 by a complete process of rating and benchmark developed by Vigeo Eiris. All potential evolutions and data published after this date are not included in the rating.

<sup>4</sup> The 17 controversial activities screened by Vigeo Eiris are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Gambling, Genetic engineering, High interest rate lending, Human Embryonic Stem Cells, Military, Nuclear power, Pornography, Reproductive medicine, Tar sands and oil shale, and Tobacco.

# FRAMEWORK

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The Issuer has described the main characteristics of the Instruments within a formalised framework which covers the core components of the SLBP 2020 (the last updated version was provided to Vigéo Eiris on November 16<sup>th</sup>, 2020). The Issuer has committed to make this document publicly accessible on its website before the first issuance date, in line with good market practices.

## Alignment with the Sustainability-Linked Bond Principles

### Selection of Key Performance Indicators (KPIs)



### COHERENCE

Vigéo Eiris considers that the KPIs selected are coherent with Schneider Electric' strategy and priorities in terms of sustainability.

In 2019, Schneider Electric has re-affirmed its ambition and commitments in terms of Climate Change mitigation. Its climate ambitions are defined for 2025, 2030 and 2050 and include committing to:

- Be carbon neutral in the Group's operations by reducing CO<sub>2</sub> emissions with energy efficiency, renewable and electrification and offsetting remaining emissions no later than 2025;
- Demonstrate that Schneider Electric is carbon positive together with its customers and partners, thanks to CO<sub>2</sub> savings delivered by EcoStruxure before 2025;
- Achieve net-zero operational emissions and reduce scope 3 emissions by 35% by 2030 (vs 2017) as part of its validated 1.5°C Science-Based Target;
- Become carbon neutral on full end-to-end footprint by 2040 (full scopes 1, 2 and 3), 10 years ahead of 1.5°C climate trajectory. This means that all Schneider products will be carbon neutral in 2040.
- Engage with suppliers towards a net-zero supply chain by 2050

Additionally, Schneider Electric has led many initiatives to reinforce its impact towards access to energy, particularly in the countries in which it operates. Schneider Electric Access to Energy program includes:

- Dedicated training and entrepreneurship program aimed at developing skills in the electricity trades and supporting entrepreneurs in this area, in particular women's entrepreneurship;
- Dedicated products and solutions for rural electrification, enabling the creation of local jobs in distribution, energy services, agriculture, etc., with a strong focus on women's empowerment;
- Investment funds for impact on energy access to further support local economies.








To date, Schneider Electric has provided energy access solutions to more than 27 million people, invested in 20 companies, trained more than 246,000 underprivileged people and supported more than 800 entrepreneurs. It targets enabling 50 million people access to electricity by 2025 (80 million by 2030), 1 million people trained, 10,000 trainers trained, and 10,000 entrepreneurs supported by 2025.

Finally, Schneider Electric is a signatory to a number of agreements in favour of diversity and gender equality, including the United Nations Women's Empowerment Principles (WEP). In 2019, Schneider became the first multi-national company to achieve 100% commitment to the UN Women's Empowerment Principles (WEPs) across its global leadership team.



SDG CONTRIBUTION

The selected KPIs are likely to contribute to seven of the United Nations’ Sustainable Development Goals (“SDGs”), namely: Goal 4. Quality Education, Goal 5. Gender Equality, Goal 7. Affordable and Clean energy, Goal 8. Decent work and Economic development, Goal 9. Industry, Innovation and Infrastructure, Goal 10 Reduced inequality and Goal 13. Climate Action.

KPI	SDG	SDG TARGETS
CO <sub>2</sub> EMISSION SAVINGS AND AVOIDANCE FOR CUSTOMER		7.2 By 2030, increase substantially the share of renewable energy in the global energy mix 7.3 By 2030, double the global rate of improvement in energy efficiency.
		9.4 Upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.
		UN SDG 13 consists in taking urgent action to combat climate change and its impacts. Companies promoting renewable energies can contribute to reducing GHG emissions through these projects.
GENDER DIVERSITY FROM HIRING TO FRONT-LINE MANAGERS AND LEADERSHIP TEAMS		5.1 End all forms of discrimination against all women and girls everywhere 5.5 Ensure women’s full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.
		10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.
NUMBER OF UNDERPRIVILEGED PEOPLE TRAINED IN ENERGY		4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship. 4.5 By 2030 ensure equal access to all levels of education and vocational training for the vulnerable 4.7 By 2030, ensure all learners acquire knowledge and skills needed to promote sustainable development,
		8.6 By 2020, substantially reduce the proportion of youth not in employment, education or training

**KPI 1: CO<sub>2</sub> EMISSION SAVINGS AND AVOIDANCE FOR SCHNEIDER ELECTRIC'S CUSTOMERS**

**MATERIALITY**

V.E considers that the selected KPI reflects one of the Issuer's most material sustainability issues as well as the one of the most material challenge for its sector.

This KPI refers to the more general objective for Schneider Electric to become a key player for a net-zero built environment notably through the products provided to their client which, according to the materiality matrix presented in the framework, is one of the most important challenges to be addressed.

The Electric Components & Equipment sector has a major role to play regarding climate change and energy efficiency. There is an increased demand for eco-efficient products, since electric components and equipment constitute key elements to reduce impacts of other industries. In this sense the eco-design of products is a key driver of competitive advantages for companies in the sector. Setting a KPI to identify the impacts of the company's products and service is therefore highly material and relevant for Electric Components & Equipment sector actors.

**KPI 2: DIVERSITY FROM HIRING TO FRONT-LINE MANAGERS AND LEADERSHIP TEAMS**

V.E considers that the selected KPI reflects one of the Issuer's material sustainability issues as well as a material challenge for its sector.

According to the materiality matrix presented in the Framework, the promotion of diversity is recognised as an important challenge both internally and externally.

Beyond Schneider Electric, the issue of equal access of women to management positions is crucial for all sectors. A recent study<sup>5</sup> has shown that although women reach managerial positions in similar proportions to men, particularly at the beginning of their careers, they lag significantly behind when it comes to accessing to management positions associated with hierarchical responsibilities.

In addition, the increased representation of women in jobs and especially their access to managerial positions is particularly important, given the fact that the Electric Components & Equipment sector has historically shown an over-representation of men, especially in the highest hierarchical positions.

**KPI3: NUMBER OF UNDERPRIVILEGED PEOPLE TRAINED IN ENERGY MANAGEMENT**

V.E considers that the selected KPI reflects one of the Issuer's material sustainability issues as well as a material challenge for its sector.

According to the materiality matrix presented in the Framework, the contribution to training and education in energy and digital profession is recognised as an important challenge for the company.

Companies of the Electric Components & Equipment sector are expected to promote local economic and social development in particular by enabling the promotion of the transfer of technology and skills to developing countries or the training and integration of young underprivileged people. Therefore, like SE, several companies in the sector have set up, in partnership with NGOs and local authorities, training and skills transfer activities in territories in need.

<sup>5</sup> <https://www.cereq.fr/femmes-managers-en-debut-de-carriere-une-legitimite-conquerir>

## MEASURABILITY AND VERIFICATION

The selected KPIs are externally verifiable and measurable on a consistent methodological basis (the Issuer reports that for KPI 2 new way of measuring has recently been adapted to address historical data). The Issuer reports that the KPI 1 has historically been externally verified<sup>6</sup> and the values cover the past 2 years only. KPI 2 has not been externally verified, the values cover the past 3 years. KPI 3 has been externally verified and the values cover the past 3 years.

The Issuer commits to inform the relevant stakeholders of any changes in the methodology (including changes in perimeter, KPI methodology, SPT calibration etc.)

## CLARITY

The rationale and process for the selection of the KPIs is considered relevant and is clearly disclosed within Schneider Electric's Framework. The definition, perimeter and underlying methodologies for the selected KPIs are clearly defined:

- KPI 1: it covers both avoided and saved emissions by their clients thanks to their products and services. CO2 emissions savings are defined by the Issuer CO2 Impact Methodology as a reduction of global CO2 emissions compared to previous years. CO2 emissions avoidance is defined by the Issuer as a limitation of the increase of global CO2e emissions versus an alternative situation. The methodology has been built following the "Reference Technology Scenario" (RTS) by the International Energy Agency (IEA) in line with the Paris Agreement which sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C. The Issuer refers to the GHG Protocol: A Corporate Accounting and Reporting Standard, Revised Edition including scope 1, 2 and 3 emissions as defined by GHG Protocol Standard. The Issuer has stated that the methodology is designed to become a shared industry standard, its principles are applicable across capital goods and consumer durables sectors. However, this type of KPI is currently not widely used by sector peers, some similar indicators exist in the sector with specific corporate definitions, which does not allow Schneider Electric's KPI to be benchmarked properly.
- KPI 2: The KPI is composed of the following 3 sub-KPIs: (a) % women hiring, (b) % women front-line managers, and (c) % women in leadership teams. Front Line Managers refer to those who are Non-Direct Variable Cost (NDVC), who are Junior and Mid-Management and whose direct reports are individual contributors only. Senior Leadership refer to total number of Senior Vice Presidents and Vice Presidents.
- KPI 3: This KPI is based on the calculation of persons who have benefited from courses in energy management dedicated to underprivileged people (in partnership with NGOs and local authorities). The minimum duration of these courses is three months (or at least 100 hours) and may be adjusted to consider digitalization.

The scope and methodology will be made available in Schneider Electric's first annual Sustainability Impact (SSI) 2021-2025 report (i.e. around March 2022) for the three KPIs.

<sup>6</sup> Only saved emissions have been externally verified while avoided emissions have not.

## EXHAUSTIVENESS

The Issuer reports that the selected KPI covers around 20% Schneider Electric's revenues. The Issuer reports having the objective to widen the coverage of this KPI<sup>7</sup>.

The Issuer reports that the selected KPI covers all the employees of the Group.

The Issuer reports that the selected KPI covers initiatives of the Schneider Electric Foundation and the Company's local entities.

## AREA FOR IMPROVEMENT

Areas for improvement consist in providing historical externally verified KPI values covering at least the previous 3 years for KPI 1 (which have been provided for 2 years) and selecting indicators based on internationally recognised standard and widely used in the sector to allow accurate peer comparisons.

## BEST PRACTICES

- ⇒ The selected KPI(s) appropriately reflects material ESG challenges for its sector and the company has disclosed its materiality matrix.
- ⇒ The KPIs are measurable or quantifiable on a consistent methodological basis and there is a clear commitment of the issuer to inform the relevant stakeholders of any material changes in the methodology (including changes in perimeter, KPI methodology, SPT calibration etc.).

<sup>7</sup> Please refer to Schneider Electric's CO<sub>2</sub> Impact Methodology for the detailed formulas. The Issuer has stated that the methodology has been developed with the support of an independent and expert consulting company (Carbone 4). For more details on the widening please refer to the Bond Characteristics part of this Second Party Opinion.



## Calibration of Sustainability Performance Targets (SPTs)



### AMBITION

#### KPI 1: CO<sub>2</sub> EMISSION SAVINGS AND AVOIDANCE FOR CUSTOMERS

By using the CO<sub>2</sub> emissions savings and avoidance for their customers, Schneider Electric intends to capture the complete impact of its products on climate change. This type of calculation is currently not widely used and does not allow V.E to appropriately compare the performance with relevant peer companies. The Issuer has provided historical data for the past two years only.

Table 1 – Cumulative CO<sub>2</sub> emissions saved and avoided for costumers (in million tonnes of CO<sub>2</sub>)

KPI	REPORTED DATA		OBJECTIVES	
	2018	2019	2020* (Baseline)	2025**
	105	200	280	800
Annual variation (%)	NA	90.5%	40%	
Total variation (%)			186%	
Additional CO <sub>2</sub> emissions saved and avoided (in million tonnes of CO <sub>2</sub> )	NA	95	80	520
Annual variation (%)	NA	-9.5%	-15.8%	NA

\* Equivalent to 3/10 (see bond characteristics part). Historical figures (from 2018 to 2020) are estimated and subject to minor change following review. Externally verified figures will be made public in Q1 2021.

\*\* Equivalent to 10/10.

The methodology for the KPI calculation and the lack of a significant number of peers to compare it to only allows V.E to consider the level of ambition of the KPI based on Schneider Electric historical data. However, only two years of historical data were provided.

Based on several points of comparison, we consider that Schneider Electric' targets show a robust<sup>8</sup> level of ambition. The selected SPT is consistent with the Issuer's strategy which aims at being carbon neutral by 2025 and to contribute to its clients' decarbonisation, which is considered to be ambitious. The objective is to allow Schneider Electric's clients to reach their emissions reduction goals with an objective set at a cumulative total of 0.8 giga-tonnes of CO<sub>2</sub> emissions saved and avoided by 2025 compared to 2020 level, which has been estimated to be at 0.280 giga-tonnes. This represents a 186% increase compared with the baseline and an average annual growth of 23.3%.

<sup>8</sup> VE scale of assessment: Weak / Limited / Robust / Advanced. V.E's assessment has been limited to comparison with the issuer's historical data.

The Issuer has provided historical data on the KPI for the past two years which demonstrates that between 2018 and 2020 the cumulated CO<sub>2</sub> emissions saved and avoided have increased by 160%. However, the additional CO<sub>2</sub> emissions saved and avoided per year between 2018 and 2019 display a decrease of 9.5% (105 compared with 200) and a decrease of 15.8% between 2019 and 2020 (200 compared with 280). This historical data indicates that the additional CO<sub>2</sub> emissions saved and avoided per year have been decreasing between 2018 and 2020. Therefore, the SPT demonstrates a higher ambition for 2025 than the data displayed for the past years.

#### MEANS FOR ACHIEVEMENT

- The measures to achieve the SPT are credible and disclosed in the Framework. The SPT will be achieved through four main strategies.
- The Issuer has planned to expand the coverage of their savings calculations to all of its products and services;
- The Issuer has planned to grow businesses that deliver substantial CO<sub>2</sub> savings to customers, including acquisition of new businesses that would allow the acceleration towards low carbon;
- ESS (Energy & Sustainability Services) are a key success factor, this market is foreseen to expand;
- New markets (efficient, digital, services, consulting, software, renewables, hydrogen) are expected to take higher relative importance at Schneider Electric;
- The Issuer has stated having set up an incentive plan based on the performance of the SSI which weighs 20% in the collective part of the annual incentive for over 60,000 eligible employees.

#### KPI 2: DIVERSITY FROM HIRING TO FRONT LINE MANAGERS AND LEADERSHIP TEAMS

By using (a) the percentage of women among new hires, (b) the percentage of women front line managers and (c) the percentage of women in leadership teams, data set should fairly reflect positive or negative KPI's trends of the Issuer's commitment towards gender equality thus enabling the investors to make an appropriate assessment of the overall social performance.

Table 2 – Gender diversity from hiring to front line managers and leadership teams

	REPORTED DATA			OBJECTIVES	
<b>KPI 2 a: % women among new hires</b>					
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020 (Baseline)*</b>	<b>2025**</b>
	42%	37.9%	40.4%	<b>43%</b>	50%
Annual variation (%)	N/A	-4.1%	+2.5%	+2.6%	
Average annual variation (%)	-0.8%			+1.6%	
Expected total variation (%)	N/A			+16.27%	

	REPORTED DATA			OBJECTIVES	
<b>KPI 2 b: % women front-line managers</b>					
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020 (Baseline)*</b>	<b>2025**</b>
	N/A	N/A	24.2%	<b>25%</b>	40%
Annual variation (in % points)	N/A	N/A	N/A	+0.8%	
Average annual variation (%)	N/A			+2.6%	
Expected total variation (%)	N/A			+60%	
<b>KPI 2 c: % of women in leadership teams</b>					
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020 (Baseline)*</b>	<b>2025**</b>
	20.8%	21.6%	22.7%	<b>23.2%</b>	30%
Annual variation (%)	N/A	+0.8%	+1.1%	+0.5%	
Average annual variation (%)	+0.95%			+1.2%	
Expected total variation (%)	N/A			+29.31%	

\* Equivalent to 3/10 (see bond characteristics part). The value will be confirmed following the external review of 2020 data.

\*\* Equivalent to 10/10.

Based on several points of comparison, we consider that Schneider Electric' targets show a robust<sup>9</sup> level of ambition.

The objective of promoting gender equality within Schneider Electric is reflected in the KPI diversity from hiring to front-line managers and leadership teams, which is broken down into 3 different SPTs, namely: to reach by 2025 (a) 50% of women among new hires, (b) 40% women front-line managers and (c) 30% of women in leadership teams.

According to the data provided by the Issuer (both historical and projected performances), the average annual variation (in % points) between 2017 and 2019 for the share of women in leadership teams and the share of women among new hires represented + 0.95% and - 0.8% respectively which is lower than the +1.2% and +1.6% respective average annual variation (in % points) forecasted between 2020 and 2025. Note that data for 2017, 2018 and 2019 are not available for the share of women front-line managers, which does not allow us to appropriately assess the KPI's performance over time.

<sup>9</sup> VE scale of assessment: Weak / Limited / Robust / Advanced

Additionally, with regard to the expected variation between 2020 (baseline) and 2025, it is of +29.31% for the share of women in leadership teams, +60% for the share of women front-line managers and +16.27% for the share of women among new hires.

In order to appropriately assess the targets, set by the Issuer in comparison with sector standards and sector peers and provide a comprehensive analysis of Schneider Electric' strategy, V.E relied on research data collected among the companies included in its rating universe as well as on public data from the CAC 40 companies.

With regard to the Electric Components & Equipment sector (Europe), Schneider Electric appears to be in line with the average of the sample of 27 companies in V.E's rating universe, i.e. 24.3% of women in management positions for the year 2019. Some companies in the sector have already set targets for the 2020 -2025 period. Overall, V.E considers that the target aiming to increase the proportion of women front-line managers is ambitious in comparison with its peers.

V.E, as part of its rating methodology, does not review the data related to the share of women in leadership teams and the share of women among new hires, therefore it is not possible to conduct a similar analysis to the one described above. Nevertheless, we consider that the target of 50% of women among new recruits by 2025 is an ambitious objective that will contribute to the goal of gender parity in the workforce. In particular, for a sector that has historically been predominantly man-dominated and which is experiencing difficulties in recruiting women. It should be noted that the sector average of women in the workforce in 2019 for companies in V.E's rating universe is 34.7%.

In regard to the proportion of women in leadership teams, the comparability is limited given the diversity of indicators reported by companies. However, the feminisation of leadership teams at Schneider Electric may also be considered in relation to the proportion of women on the executive committee which represents on average 18% among the 60 companies of the CAC 40<sup>10</sup>. Schneider Electric is therefore above the average of its peers with a share of 31.25% of women on the Executive Committee. It should be noted that none of the CAC 40 companies achieve strict parity within the executive committee (parity within the executive committee is not regulated by law, unlike parity within the board of directors, which is regulated by law in France since 2011). The best performance in 2019 is being achieved by Danone with a 42% share of women on its Executive Committee<sup>11</sup>. Furthermore, the proportion of women on the Executive Committee is higher than the overall proportion of women managers in Schneider Electric, which demonstrates the company's ability to promote women to management positions, particularly on the Executive Committee, while facing the challenge of recruiting women, particularly in the executive population.

## MEANS FOR ACHIEVEMENT

The means for achievement of the SPTs are credible and disclosed in the Framework. The Issuer reports that the SPTs will be achieved through the various measures implemented within the company in favour of diversity and in particular:

- Awareness raising measures including a company-wide communication campaign on the value of having a diverse and inclusive culture and the distribution of guides to gender equality and parenting in place to raise awareness concerning diversity;
- Training for all employees on diversity with a focus on gender, including an on-line training programme;
- Monitoring of the percentage of women and people with disabilities in the company's workforce;
- Confidential reporting system and grievance procedures in place to enable the reporting of violations of the principle of gender equality which can be associated with disciplinary procedures and corrective measures addressing discrimination, harassment or unfair treatment cases;
- Childcare facilities and childcare subsidies available;
- Monitoring of salary disparities: the company monitors the ratio of salaries between men and women at executive, middle management and skilled workers level;

<sup>10</sup> Observatoire Skema de la féminisation des entreprises. (2020). La féminisation des instances de gouvernance et plafonds de verre des entreprises du CAC40: quel impact sur les performances économiques et boursières? Edition 2020. <https://www.skema-bs.fr/Documents/faculte-recherche/Observatoire-Skema-de-lafeminisation-des%20entreprises-2020.pdf>

<sup>11</sup> Palmarès de la féminisation des instances dirigeantes des entreprises du SBF120 : [https://www.egalite-femmes-hommes.gouv.fr/wp-content/uploads/2020/07/DGCS\\_CRH\\_Palmares%CC%80s\\_2019\\_V2-002.pdf](https://www.egalite-femmes-hommes.gouv.fr/wp-content/uploads/2020/07/DGCS_CRH_Palmares%CC%80s_2019_V2-002.pdf)

- Flexitime initiatives including the Global Family Leave Policy establishing global minimum standards for paid family related leaves to support the company's employees during critical stages of their lives;
- The Issuer has stated having set up an incentive plan based on the performance of the SSI which weighs 20% in the collective part of the annual incentive for over 60,000 eligible employees.

### KPI 3: NUMBER OF UNDERPRIVILEGED PEOPLE TRAINED IN ENERGY MANAGEMENT

By using the number of underprivileged people trained in energy management over the years, the data set should fairly reflect positive or negative KPI's trends of the Issuer's commitment to promote local development, thus enabling the investors to make an appropriate assessment of the overall KPI's performance.

Table 3 – Number of underprivileged people trained in energy management

KPI	REPORTED DATA			OBJECTIVES	
	2017	2018	2019	2020 (Baseline)*	2025**
	148,145	196,162	246,268	268,000	1 million
Annual variation (in %)	N/A	+32.4%	+25.5%	+9%	
Average annual variation (%)	+29%			+30.13%	
Expected total variation (%)	+66%			+273%	

\* Equivalent to 3/10 (see bond characteristics part). The value will be confirmed following the external review of 2020 data.

\*\* Equivalent to 10/10.

Based on several points of comparison, we consider that Schneider Electric' targets show a robust<sup>12</sup> level of ambition.

According to the data provided by the Issuer (both historical and projected performances), the average annual net variation between 2017 and 2019 for the number of underprivileged people trained in energy management represented +49,061 people trained which is significantly lower than the average annual net variation of +146,400 people trained forecasted between 2020 and 2025. Therefore, it seems that the SPTs represent a significant improvement compared to the company's *Business as Usual*.

From a sectorial perspective, quantitative comparability remains limited given the diversity of actions implemented in terms of local development. However, it should be pointed out that among the 27 companies in VE's rating universe, only a minority of companies reports implementing initiatives for the transfer of skills and the development and training of populations in need in the operating areas.

<sup>12</sup> VE scale of assessment: Weak / Limited / Robust / Advanced

## MEANS FOR ACHIEVEMENT

The means for achievement of the SPTs are credible and disclosed in the Framework. The Issuer reports that the SPTs will be achieved through the various measures implemented within the company and in particular:

- The Schneider Electric Foundation and Volunteer actions and means aiming at providing financial and technical support to training projects of local partners;
- The Tomorrow Rising Fund which provides funds to the training of the youth with the support of the top management;
- The Issuer has stated having set up an incentive plan based on the performance of the SSI which weighs 20% in the collective part of the annual incentive for over 60,000 eligible employees.

## BEST PRACTICES

⇒ The means for achieving the SPTs are disclosed.

## Bond Characteristics



As stated by the Issuer in the Framework, the proceeds of Schneider's Sustainability-Linked instruments will be used for general corporate purposes.

Schneider measures its environmental and social impact via an internal dashboard called Schneider Sustainability Impact (SSI). This "barometer" measures Schneider Electric's sustainability results since 2005. The newly published 2021-2025 SSI dashboard measures the company's progress on 12 indicators (amongst which the selected KPIs of this Framework). The SSI provides, on a scoring scale of 10, an overall measure of the Group's progress on sustainability goals. This is done by converting each KPI's performance on a 10-point scale, considering that base year performance receives a 3/10 score, and the 2025 objective translates in a 10/10 score.

Then, for each KPI, the relevant score is obtained by linear interpolation. The Issuer reports that, under this Framework, if the Company failed to meet the KPI Minimum Score Threshold (9/10) (which is the average of the three KPIs' respective performances) – see equivalence with the table below – as of December 2025 a premium payment will apply under the contemplated Sustainability-Linked Convertible Bond. A step-up margin may be specified in the relevant documentation of a specific transaction.

SCORE /10	0	1	2	3	4	5	6	7	8	9	10
% achievement	- <b>43%</b>	- <b>29%</b>	<b>-14%</b>	<b>0%</b>	<b>14%</b>	<b>29%</b>	<b>43%</b>	<b>57%</b>	<b>71%</b>	<b>86%</b>	<b>100%</b>
KPI 1	Not relevant (cumulative)			280(TBC)	354	429	503	577	651	726	800
KPI 2.a	20%	21%	22%	23%(TBC)	24%	25%	26%	27%	28%	29%	30%
KPI 2.b	19.6%	21.7%	22.9%	25%(TBC)	27.1%	29.3%	31.4%	33.6%	35.7%	37.9%	40%
KPI 2.c	40%	41%	42%	43%(TBC)	44%	45%	46%	47%	48%	49%	50%
KPI 3	Not relevant (cumulative)			268,000 (TBC)	372,571	477,143	581,714	686,286	790,857	895,429	1,000,000

\*V.E considers that, as of today, there is insufficient information and precedents in the market to appropriately assess the potential best practices regarding the bond characteristics' variation. In this sense, the "Aligned" level is currently considered to be the highest level to be achieved by Issuers on this pillar.

## Reporting

Not Aligned

Partially Aligned

Aligned

Best Practices

**KPI 1: CO2 EMISSION SAVINGS AND AVOIDANCE FOR SCHNEIDER ELECTRIC'S CUSTOMERS**

**KPI 2: GENDER DIVERSITY FROM HIRING TO FRONT-LINE MANAGERS AND LEADERSHIP TEAMS**

**KPI 3: NUMBER OF UNDERPRIVILEGED PEOPLE TRAINED IN ENERGY MANAGEMENT**

### REPORTING

The Issuer commits to report on the KPIs on an annual basis until the Instruments' maturity and or conversion and in case of material changes in the perimeter, methodology, KPIs or the SPTs' calibration.

For KPI 1, the methodology has not changed over the last 2 years, but the scope has evolved to include new offers. For KPI 2, new way of measuring has recently been adapted to address historical data and finally, the methodology for KPI 3 remains unchanged.

In terms of reporting process, The sustainability department will be in charge of collecting data from each relevant operational division. An initial internal verification of the data is carried out by the sustainability department.

### CONTROL

The selected KPIs are internally verified through the Issuer's operational processes.

In addition, the score of each KPIs against each SPT will be verified by an External Verifier.

### ACCESSIBILITY OF RESULTS

The Issuer has committed to publicly disclose the information of the KPIs as part of its Schneider Sustainability Impact report. The reporting will include:

- Up-to-date information on the performance of the selected KPIs, including the baseline where relevant;
- A verification assurance report ("Limited Assurance") relative to each KPI outlining the performance against each SPT, the average equivalent score on the scale between 3 and 10 (3 being the same level as base line and 10 being equal or above to the SPT level, will not be disclosed for each SPT but overall, and timing of such impact, on the financial instrument performance; and
- Any additional relevant information enabling investors to monitor the progress of the KPI. Information on evolution of KPIs will be available on Schneider Electric's website on a quarterly basis as part of its SSI quarterly publication.

### BEST PRACTICES

⇒ The reporting will be published annually and in case of material changes in the perimeter, methodology, KPIs or the SPTs' calibration.



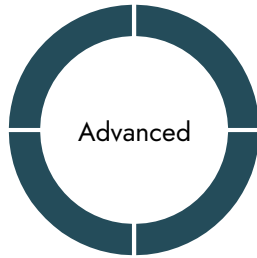
## Verification



The KPIs will be externally verified on an annual basis and the company will publish quarterly updates. The performance level against the SPTs will be externally verified as of December 31<sup>st</sup>, 2025, and in any case for any date/period relevant for assessing the SPTs' performance leading to a potential adjustment of the bond's structural characteristics.

The verification assurance reports will be made publicly available on Schneider Electric' website.

# ISSUER



Schneider Electric engages in the digital transformation of energy management and automation. The Company was founded by Adolphe Schneider and Joseph-Eugène Schneider in 1836 and is headquartered in Rueil-Malmaison, France. In 2019, the Company acquired ALPI, a Company operating in the software for the design of automated electrical installation and Caneco solutions editor industry for more than 30 years.

## ESG Performance

The Issuer's ESG performance was assessed through a complete process of rating and benchmarking.

As of September 2020, Schneider Electric displays an advanced ESG performance (66/100), ranking 2<sup>nd</sup> in our Electric Components & Equipment sector, which covers 25 companies. The company demonstrates an advanced performance in the Environmental and Social pillar, and a robust performance in the Governance pillar.

DOMAIN	COMMENTS	OPINION
Environment	<p><b>Schneider Electric's performance in the Environmental pillar is considered advanced.</b></p> <p>Schneider Electric commits to all its responsibilities in terms of environmental protection and reportedly integrates life-cycle analysis conclusions in the design of its products. However, the Company does not report the share of its products that are eco-designed in 2019. Targets have been set with regards to energy consumption, energy-related emissions, waste and atmospheric emissions, the company targets to reduce its energy consumption by 10% by 2020, compared to 2017 levels. Additionally, Schneider Electric joined EV100, EP100 and RE100 and committed to source 100% of electricity from renewable energy by 2030, with an intermediary target of 80% by 2020, compared to 2017 levels. The company also aims to accelerate its 2030 goal of carbon neutrality by demonstrating carbon neutrality in its extended ecosystem by 2025, bringing forward its objective by 5 years and achieving net-zero operational emissions by 2030 as part of validated SBTi targets. Finally, extensive measures to limit the environmental impacts related to the disposal of its products are reportedly in place, including information on recycling and dismantling methods.</p>	Advanced
		Robust
		Limited
		Weak
Social	<p><b>Schneider Electric's performance in the Social pillar is considered advanced.</b></p> <p>Regarding employees' health and safety, a highly relevant commitment is in place backed up by extensive measures toward both stress and health and safety issues. In addition, all related KPIs display a positive trend in the past five years. 74.6% of employees are reportedly covered by collective agreements. Extensive measures to address responsible management of reorganisation appear to be in place including outplacement services.</p> <p>The Company reports on Human Rights Policy which includes a commitment to respect and promote human rights in society and has allocated significant</p>	Advanced
		Robust



	<p>measures to address the issue, including trainings. In addition to a comprehensive commitment, the Company has set a target to promote diversity and has implemented extensive measures to prevent non-discrimination. Finally, the Company reports to implement some measures to monitor the respect of freedom of association within its operations.</p> <p>The Company has a formalised commitment to promote local social and economic development which addresses all of its responsibilities and reports on relevant measures to address the issue including hiring of local personnel. Finally, Schneider Electric commits formally to address access to energy in developing countries, and has set quantified targets in this regard, as well as extensive measures, including rural electrification projects.</p>	Limited
		Weak
Governance	<p><b>Schneider Electric’s performance in the Governance pillar is considered robust.</b></p> <p>The majority of Board members are considered independent, and 50% of members are women. The internal control system covers most of the CSR risks inherent to the Company’s business operations and strong processes dedicated to management of these CSR risks appear to be in place. Schneider Electric is transparent on its executives’ remuneration, and CSR performance objectives are reported to be linked to executives’ variable remuneration schemes. In a less positive note, anti-takeover devices have been identified, as well as major voting rights restrictions.</p> <p>With regards to business ethics, the Company commits to prevent corruption and anti-competitive practices and reports on formal trainings as well as internal controls to address both issues.</p>	Advanced
		Robust
		Limited
		Weak

## Management of ESG Controversies

As of today, Schneider Electric is facing one stakeholder-related ESG controversy, linked to three of the six domains we analyse:

- Business Behavior, in the criteria of “Corruption” and “Anti-competitive practices”.
- Community Involvement, in the criterion of “Social and economic development”.
- Corporate Governance, in the criterion of “Audit & Internal Controls”.

Frequency: The controversy controversies is considered isolated, in line with the sector average.

Severity: The level of severity is high, based on the analysis of its impact on the company and its stakeholders, in line with the sector average.

Responsiveness: Schneider Electric is reactive, in line with the sector average.

## Involvement in Controversial Activities

As of June 2020, Schneider Electric displays involvement in two of the 17 controversial activities screened under Vigeo Eiris methodology, namely:

- Military (*minor involvement*): Schneider Electric has an estimated turnover from involvement in military sales which is between 0% and 5% of total turnover. This turnover is derived from the sale of energy management technology and services, electrical distribution and automation services for naval vessels.
- Nuclear Power (*minor involvement*): Schneider Electric has an estimated turnover of nuclear power plants, which is below 5% of total turnover. This turnover is derived from the supply of a range of technologies and services for nuclear power plants, including project management and consultancy and the supply of Nuclear Instrumentation and Control solutions for nuclear power plants. The company completed the acquisition of AVEVA in 2018. AVEVA provides IMS (international monitoring systems) for nuclear projects.

The Issuer appears to be not involved in any of the other 15 controversial activities screened under our methodology, namely: Alcohol, Animal welfare, Cannabis, Civilian firearms, Chemical of concern, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Pornography, Reproductive Medicine and Tobacco.

The controversial activities research provides screening of companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from Vigeo Eiris.

# METHODOLOGY

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In V.E' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organisation, activity or transaction. In this sense, V.E provides an opinion on the Issuer's ESG performance as an organisation, and on the processes and commitments applicable to the intended issuance.

Our Second Party Opinions (SPOs) are subject to internal quality control at three levels (Analyst, Project Manager and Quality Reviewer). If necessary, this process is complemented by a final review and validation by the Expertise Committee and Supervisor. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the Issuer; then the Executive Director in charge of Methods, Innovation & Quality; and finally, V.E' Scientific Council. All employees are signatories of V.E' Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

## ISSUANCE

### Alignment with the Sustainability-Linked Bond Principles

Scale of assessment: Not aligned, Partially aligned, Aligned, Best Practices

*The Framework has been evaluated by V.E according to the ICMA's Sustainability-Linked Bond Principles - June 2020 ("SLBP") and on our methodology based on international standards and sector guidelines applicable in terms of ESG management and assessment.*

### Selection of Key Performance Indicators (KPIs)

KPI's materiality and coherence with the Issuer overall sustainability strategy, KPI's measurability and clarity, internal and external control over the KPI's data, exhaustiveness of the perimeter.

### Calibration of Sustainability Performance Targets (SPTs)

Coherence of the SPTs with the overall sustainability strategy, ambition of the SPTs (compared the Issuer's own performance, sector peers and relevant international standards), trigger events' disclosure, means credibility (including scope and geographical coverage of the means).

### Bond characteristics

Disclosure of the bond characteristics' variation, meaningfulness of these variation.

### Reporting

Reporting process formalisation and verification, data's accessibility.

### Verification

Verification of the performance against the SPTs.

## ISSUER

### Issuer's ESG performance

Scale of assessment of ESG performance: Weak, Limited, Robust, Advanced

*NB: The Issuer's level of ESG performance (i.e. commitments, processes, results of the Issuer related to ESG issues), has been assessed through a complete process of rating and benchmarking developed by V.E.*

The Issuers ESG performance has been assessed by V.E on the basis of its:

- Leadership: relevance of the commitments (content, visibility and ownership).
- Implementation: coherence of the implementation (process, means, control/reporting).
- Results: indicators, stakeholders' feedbacks and controversies.

## Management of stakeholder-related ESG controversies

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation based on unproven facts.

V.E reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources is considered as long as it is public, documented and traceable.

V.E provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- Frequency: reflects for each ESG challenge the number of controversies that the Issuer has faced. At corporate level, this factor reflects on the overall number of controversies that the Issuer has faced and the scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- Severity: the more a controversy is related to stakeholders' fundamental interests, proves actual corporate responsibility in its occurrence, and have caused adverse impacts for stakeholders and the Issuer, the higher its severity is. Severity assigned at the corporate level will reflect the highest severity of all cases faced by the Issuer (scale: Minor, Significant, High, Critical).
- Responsiveness: ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the Issuer for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

The impact of a controversy on an Issuer's reputation reduces with time, depending on the severity of the event and the Issuer's responsiveness to this event. Conventionally, V.E' controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

## Involvement in controversial activities

17 controversial activities have been analysed following 30 parameters to screen the Issuer's involvement in any of them. The Issuer's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The specific nature of the controversial products or services provided by the Issuer.

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