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PRESENTATION

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

Hello, and welcome. On behalf of all of Schneider Electric, I'm delighted to have you join our 2021 Capital Markets Day. I want to thank you, our investors, for your strong support and engagement in past years as we have continued to generate shareholder value. Today, we are here to focus on the future, a future which is sustainable, electric and digital, a future full of opportunity and a future worth investing in.

Let me share the agenda for the day. We will start with a session from our Chairman and CEO, followed by sessions from our Chief Digital Officer, as well as our Chief Strategy and Sustainability Officer. We will then have an interactive panel with our business leaders before hearing from our Chief Financial Officer. Following the sessions, all of our speakers will join in the Q&A session. So keep your questions ready as we go through the event, and we will be sure to address them. We know that your time is precious. So we really appreciate that you choose to spend it with us today. I want to thank you again for your interest in our company, and I'd like to pass the ball now to our Chairman and CEO, Jean-Pascal Tricoire, for his opening presentation.

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Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Thank you, Amit.

Hi, everybody. I'm really happy to be with you again for this Capital Market Day. I want to thank you for the time you have taken with us to share on the priorities on the strategies of Schneider. And this -- this time is important. This time is quite paradoxical. On 1 side, we are facing together and collectively the biggest pandemic crisis we've ever known. And at the same time, have been tightening this presentation accelerating -- accelerating because time of COVID has been a time of inflection for most of our markets. And the past few years have been also a time of acceleration for some of the new business we are putting together.

So let's go straight to the point. Today, I'm going to speak about 3 things. First, our markets and why they are accelerating; second, our new pillars of growth. And third, our unique operating model, which is supporting our strategy, but also making us fit for a world which is with COVID or post-COVID.

Let's first start by the big picture. The big problem we have been tackling at Schneider for the past 20 years: climate change and developing technologies to fight this phenomenon. We are just out of Glasgow, COP26. And the consensus is very simple. We need to do much faster and do more. Why faster? Because everything we do in the next decade till 2030 will have much more value than what we do afterwards. And if we look at those next 10 years, we need to do 3x more.

Today, the sum of the pledges, government companies that we have put together is only 4 gigatons. If we want to bring the curve of the evolution of the world from where it is today, to a trajectory of 1.5 degree, we need to do 3x more, 3x faster, 3x more. But there is a path. We've been working on that at Schneider for the past 20 years. And we can combine existing technologies today to resolve the problem. And if you look at the equation, 45% of the solution to carbon emission reduction is in the supply, replacing fossil fuel sources of energy by low carbon sources of energy. 55% of the solution is on the demand side, combining electrification and efficiency, digitization principally.

But let's face it, the world that this supposes to develop, it is very different, will be very different. On the one side, it's going to be immensely more digital, and we know that -- the Internet of Things coming at scale. But on the other side, it's going to be much more electric. Today, 20% of what we consume as energy is electric. This world in 10 years' time, will be 10% more electric, 30% of what we are going to be consuming will be electrical. And most of the evolution in the next 10 years will happen in buildings and in mobility. And there will be even more electrification in the 20 years following. So let's all be prepared to a world which is going to be massively more electric. And let's be practical and I wanted to share with you 1 example. The example that we all know, because we all have a home or we all have 1 apartment. And today, we all live in places that were built some time ago. Those places are powered by fossil fuel. They are not automated, and they are collected -- not connected really in an interactive dialogue with the grid.

Today, as of today, with existing technologies that are already available, we can create homes of the future. They have local generation, which is green generation. They are smart and they have a permanent communication with the grid. And look at the consequences in terms of results. The home of the future has an energy demand which will be divided by 2 to 3 respect to a traditional one. Carbon emissions divided by 4 to 10. Consequences for Schneider is that address -- our part of the market that we can address in the home of the future is 5x the market that we can address in a traditional home. Make no mistake, I'm not saying that our market is getting immediately multiplied by 5. This is a transition, but we are clearly going to a world which is made of homes of the future. And I've taken the example of a home, but I could make exactly the same example in a building or an industrial facility.

Now the second point of which we should be all sure of, it's not a fashion -- it's really a tipping point. It's an inflection, which is powered by the change in government attitudes, where governments are putting incredible stimulus to create a future which is greener. It's also brought along by companies which are signing in thousands to commitments in science-based targets on trajectory of 1.5 degree. But the most important probably change that happened recently is investors, which are holding now CEOs and board rooms accountable on their extra-financial and especially on their carbon footprint. So be prepared for a future that's going to be very different.

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But there are 4 things that we need to do to make this future happen. The first thing is to do 10x more retrofit because most of the carbon emissions are not happening in the new build, they're happening in the already existing building or [plant stock.] And it's only possible to accelerate retrofit if we use massively new technologies. Old technologies won't [push] an acceleration. So it's a lot about digitization and energy efficiency.

Second point, let's make sure that in developed countries, everything we build new is built to net zero, using the newest technology and especially software, to optimize the process of construction. And third, we need to create the future-proof infrastructure, which will enable the development of those smart places, namely smart grid, electric vehicle infrastructure. And then longer term, more innovation is coming along that will make it possible to address the hard-to-abate segments of industries building and cities. But what is important to realize here is that 70% of the present carbon emissions can be abated with present technologies. And the urgency is to deploy what we have. Deploy what we have in creating a future which will be more digital for efficiency, more electric for decarbonization and therefore, realizing that the equation of sustainability, smart and green digitization and electrification goes together.

And this explains very largely what we've done at Schneider for the past 20 years, making sure that our persistent strategy was to develop technologies to empower all to make the most of our energy and resources, bridging progress means energy for all, on sustainability, reducing carbon emissions for the planet we share all. We call it Life is On. And we went through this -- and we have become, over time, the digital partner of our customers for sustainability and efficiency.

Where are we today? We are a company of EUR 25 billion last picture at the end of 2020, 130,000 employees around the world and a few characteristics that distinguish Schneider. We are very focused on that combination of energy and automation technology for more efficiency and sustainability. We are also a very balanced company in terms of end markets and in terms of geographies. From the beginning, we have taken the strategy to solve our customers' issues. Our customers are facing incredible complexity. So we have created EcoStruxure as a digital architecture to allow them to become more digital and more sustainable. 2 years ago, I explained to you that we would be going 1 step further in efficiency to bring our customers 1 step further in digitization and sustainability by bringing together 4 integration. -- the 1 of energy and automation for energy and process efficiency, the 1 from endpoint to the cloud, connecting every connected products to the cloud through EcoStruxure. The 1 of the whole life cycle of installation from design to build in to operate and maintain through our portfolio of software.

And the last integration is bringing our customers from the traditional way of managing their company side by side to a unified company management. Of course, all of this has powered a tremendous transformation of our company. And you can expect as we go forward, to see the level of R&D to sales keeping on increasing as we develop more digital and more software in our business.

If we come back to our story, I'd explain to you that we had 3 phases. First phase 2003, 2013, 10 years to build the portfolio; 10 years with many acquisitions. In parallel, we already started to integrate those acquisitions: 2008 One Schneider; 2009 EcoStruxure. And that period of integration finished roughly in 2017.

And from 2018, we've been scaling all of this to transform our company. And the transformation has been immense, going from EUR 1 billion in digital to EUR 11 billion in digital, reinforcing our world-leading electrical capability electric business from EUR 6 billion to EUR 22 billion plus of business. And pivoting the solution that we offer to our customers to more sustainability, which is now representing 70% of what we sell to our customers. Now that's where we are.

Now let's look at the next cycle. Let's look at the future. And it starts by the realization, which was a point of my introduction, that our markets are accelerating. And in fact, our 4 end markets are really well positioned for a significant acceleration. Buildings in the future will be at least twice more electrical. In data centers, storage, computing, data is going to keep growing on generating units. Infrastructure is becoming smart and green and this is accelerated by the stimuli of the government. And, finally, every of our industrial customer has at the top of the agenda digitization and sustainability. So if you look back at the fundamental of our market, the best proxy you'll find to estimate the growth of our market over the past 5 years is the average of the growth of our peer competitors. On the market, if you look at that, it was around 2% of growth over the past 5 years. Good news is we grew twice faster, we overgrew our competition.

Now if I look at the next coming 3 years, we see a market that will be much more positive, actually probably growing to an average of 4% and allowing much more opportunities for us. Now adding to a market which is clearly more dynamic than what it used to be in the past years, we've

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over the years created new incremental growth drivers. Those growth drivers are not a parallel universe: they plug into the core of Schneider. And the first of them is, of course, services. And you know that over the past 10 years, we've been investing consistently in services and you've supported this investment. When we sell a mission-critical product -- and many of the products we sell are mission critical -- if we sell EUR 1 at the time of the sales, we can generate EUR 2 of revenue over the whole life cycle of that asset.

So what we needed to do was to track those assets and then serve those assets. And the great news is that now we track many more of those assets, which are on the field, but we still serve only a tiny minority of them, around 15% of the assets which are already installed. So we see the potential to keep growing field services twice faster than the average of the group. Of course, we do those services with the purpose of bringing more efficiency, more sustainability, which are the known taglines of Schneider. What we've seen over the past few years and especially during the coming years, is more services are coming from the need to elevate the level of safety and resilience of installation.

Let me be a bit more specific about what we do in services. And I won't go into the detail of this slide, but you see that we can bring services at every stage of the life cycle of the installations of our customers. Thank you for supporting over the past years, the development of our capabilities and services. We have now thousands of field trend specialists on the field, going every day to the installations of our customers. And the great news is that we have a rate of satisfaction on services, which is very high. More than 80% of our customers are very satisfied both on the service and the level of compliance of safety to the safety rules.

Our second growth driver is, of course, software. Software is so central to everything we do. It gives sense to all the systems we are connecting and to all the data we are collecting from those systems. We've been at Schneider very focused on the software we want to develop for our customers. And it's all dedicated to the work we do with our customers. What we do at Schneider with our customers is to develop projects and help them to manage their operations in IT, building, plants, power and infrastructure. And all of those systems are incredibly complex.

So we focus really on 2 points we want to solve. First, offering a complete and continuous digital [trend] from design to build, operation and maintenance, so that our customers have 1 digital twin, which is a faithful replication of what is happening in their operations.

The second problem to solve for our customers is that all of their projects include several domains. Industry, infrastructure, power, building and all of this have to integrate into the real life together. Let's make a simple example. If the industrial department wants to increase the size and the power of a machine, this will have modification induced into the power system. And at the same time, the construction site will need to accommodate that bigger machinery or that bigger motor. We want those changes to be seamless across the domains and across all the phases of life of our customers.

So summarize. 3 domains, 3 phases with over the past years and thank you for supporting the building of that. We've brought along a number of companies that offer the necessary blocks to build those 2 simplifications for the digital life of our customers. And this portfolio of software interfaces with the physical world through EcoStruxure, through the IoT, the connection to IoT. What we are aiming in fact, to do here is for the first time to offer to our customers for their complex projects on operation, a unified asset life cycle management, which brings a number of benefits. Of course, 1 unified digital twin across that life cycle. One big, huge data federation on which our customers can run their analytics and their algorithm. One unique portfolio of algorithms and AI capability because we work with a number of customers, a number of installations, which makes that we have developed those portfolios and those capabilities for other customers. And finally, a unified user experience and a unified software federation. So second growth driver is clearly digitization.

Now what is the main topic on the agenda of our customers? There, again, of course, sustainability. And we've developed over time our sustainability services business, which is today the spearhead of what we do at Schneider for efficiency and sustainability. That business today, which is around EUR 0.5 billion of turnover is made of consulting on digital, using our digital platform, Resource Advisor, NEO Network and some performance contracting services. We are developing this sustainability services fast today, and we intend to keep growing them double digit as we go forward.

Services, software and sustainability. Those 3 incremental growth drivers have 1 common point. They bring us into the life cycle of our customers. They allow us to stay connected with our customers. The other point is that they have a strong relationship between themselves. Software will detect problems. That will create a space for services. Our services can connect more installations that will generate more data and give place to

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more software. Today -- as of today, those activities represent 50% of our business, digitization and services, and we intend to bring it to 60% of our business by around 2025.

Now if we focus on that subpart, which is software and services, which is even more important because this is where you stay truly connected with your customers. Today, they represent 18% of our total turnover. We ambition to grow it by at least 5% of our total turnover by 2025. And today, when you look at the detail of those 2 activities, already 30% of the business we do here is recurring revenue. If we look to 2025, we ambition to bring that to at least 45% of the revenue that we have in software and services.

So now those 3 business, they don't live in a parallel world. They really plug in into the core. And to make it more practical, I'd like to share with you this slide, which is showing our software service, sustainability and products and controls combine together for a much higher integration of applications. Or rather than speaking about it, I'd like to call a customer, Livetech, to speak about the value of this integration.

(presentation)

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Now let's go to the next big application of Schneider buildings. Same story, all of those new activities plug into the core to supply complete solution. And there again, I leave you with the detail of that slide, but I would rather call (inaudible) from AECOM to speak about what we do together.

(presentation)

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Now let's go to my third point. And I want to remind you the unique characteristics of our operating model: integrated, open, multi-hub and ESG at every level. And I want to do that because any strategy can be executed if it can be supported by the right operating model. Let's start by number one. We have decided in 2008 and '09 to be on 1, One Schneider EcoStruxure because our customers want us to simplify their lives. They want one Schneider on 1 solution for them. This choice, this choice of organization, which can be at times demanding brings benefit for our customers, one customer experience, one digital journey, the biggest [italic] for digitization. But it brings also significant advantages for Schneider. Attractiveness for talents at the time when the market is pretty hot. Scale for deployment, capacity to position strategically and especially within our ecosystem, let's say, for suppliers at the moment. And simplicity and cost efficiency, especially when you go region by region.

Second characteristic, as we speak about partners. We are the company which works the most with partners. 70% of our products are done with suppliers. 60% of our solutions are integrated by partner integrators. We've also consistently developed our new technology with technology partners, doing alliances. And we are bringing together all of those people in exchange our marketplace where developers, integrators, end users can bring -- put business and technology solutions together.

Third characteristic is our unique multi-hub operating model, which you will realize is extremely important at the time when the world is more divided by politics, trade, digital and finally, sanitary condition. And probably, the unique characteristic of Schneider there is that our people are really in the regions. We are not a centralized company.

And I want to take you a bit through the last hub we built, India. I'm very proud that by merging together with Larsen & Toubro, we've made -- of India -- which is 1 of the most promising places in the world for electrification, digitization, urbanization, and manufacturing. We've done of India 1 of our major centers in the world: 30,000 employees, 30 factories. Present in 500 cities. Indirectly in 150,000 cities and a massive power in terms of R&D.

Finally, probably the most differentiating aspect of what we've been building over the past 20 years at Schneider is to become what we call at Schneider an impact company. That has been our compass for formulating our strategy and creating our operating model. What do we mean with an impact company? We think at Schneider, we command to make an impact. And for us, an impact company is a company that #1 is performing

because if you perform, then you can impact positively your environment. If you don't, you will want it or not -- damage your environment. So performance and sustainability go together.

Second characteristic is that we have a commitment to all stakeholders and in all dimensions of ESG. Fourth characteristic is that the strategy, the mission, the added value of our company goes directly to the cause of sustainability. And finally, ESG is embedded everywhere in our model, in our culture at the global level, but even more important in the world we live today, at the local level. We were honored that in Davos earlier this year, beginning of 2021, we were recognized by Corporate Knights as the most sustainable corporation in the world.

I would take just 1 example to show you that multidimensional commitment of Schneider into ESG, taking the climate dimension of ESG. Well, not only we bring 100 million tonnes a year of CO_2 savings for our customers, we have taken ourselves very stringent commitments to be carbon neutral, no biodiversity loss company at different horizons. We have committed to bring along our scope 3, our suppliers. And today, we have engaged with 1,000 suppliers to cut their emissions by a factor of 2. We have committed to communities in developing countries where we operate to supply electricity, green electricity to 50 million people, training along 1 million people to the future trade of smart energy. And finally, we offer to you investors the premise of 80% green revenue.

We've also made sure that our business is built on trust. Trust with every stakeholder around us. And that trust is based on the highest level of ethics, cybersecurity, safety, quality and of course, sustainability commitments. And at Schneider, we really believe that great people make a great company. When people join Schneider, they will certainly, every time find something we could correct and we listen to them. But there is a consistent feedback is that Schneider is a people company. People come at Schneider because they want to work for a meaningful mission in a meaningful way. They want the most inclusive workplace. And they want a place where themselves can make an impact where they can be empowered, thanks to our multi-hub model. This is supported by very practical things: Incentives, flexibility at work and engagement to community.

Time to conclude. Of course, we recognize that the next quarters will be disturbed in terms of supply chain. But we still see accelerated markets, we still benefit from our incremental growth drivers. And we have this operating model, which actually support them, but at the same time is very fit for a with-COVID world. So we stay optimistic. We see that shift to digitization and electrification, unfolding and accelerating as we go forward. So our ambition is to go into a phase where we are aiming to sustainable revenue growth, coupled with margin and cash expansion. Over the next 3 years, we see an organic growth on average of 5% to 8%. We also plan to expand every year of the margin by 30 to 70 bps per year. And finally, we are targeting by 2024 to have a cash generation of around EUR 4 billion. Beyond that horizon, and I know you're going to ask me the question, we see a growth that would be 5% plus organic on average across the cycle.

And we still see the possibility to further expand both margin and cash generation thanks to the transformation of our portfolio and the growth of our business.

Beyond those objectives, I want to share the aspiration we have inside of Schneider, the way we think. At Schneider, we want to grow, and at the same time, we are interested only by profitable growth. So we aspire all the time to be consistently a company of 25, around 25, if you sum up the organic growth and the operating margin that we are delivering. And that is a fair reflection of what our business must deliver: profit and growth at the same time.

With that, I'm happy to hand over to the next session, and you're going to have all the details of our objectives with Hilary later today.

Peter Weckesser - *Schneider Electric S.E.*

Hello, everyone. I'm very happy to have the opportunity today to talk about our digital transformation at Schneider, a digital transformation at scale. My name is Peter Weckesser, I'm the Chief Digital Officer at Schneider, and I have been in this role for about 1.5 years. When I came on board, I saw a company with very good digital maturity and strong foundations, which was also proven through our resiliency in the COVID crisis. I also found a company that has digital at the core of its strategy. While we have solid foundations, we are also convinced that we can generate a lot more value as we scale and accelerate our digital transformation. In my presentation today, I will introduce what that means for us at Schneider.

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I want to spend most of the time today talking about how we will create even more value for our customers and partners. But it all starts with ourselves. We are on a significant transformation journey for Schneider, for our employees and our business processes. We have a clear ambition to drive best-in-class productivity and efficiency across all of our business processes in supply chain management, in product life cycle management and in go-to-market. Every function in Schneider, every line of business is part of this. We are on a path to improve the efficiency of all of our employees, delight them with a cutting-edge digital experience, support their work-life balance and career opportunities.

For our customers and partners, we want to evolve our portfolio to augment it even more with software and digital offerings. And we will orchestrate an open ecosystem across our industrial data platforms. And most importantly, we will do all this at scale.

Jean-Pascal has already introduced our digital flywheel that drives new growth opportunities. With more software and more digital services, we are moving the conversation with our customers from a function and feature discussion to a value discussion about productivity, efficiency and sustainability. It is not a surprise that the number of our C-level engagements is continuously growing. More software and more digital will continue to drive more recurring revenue. The various elements of the flywheel generate pull-through on each other. More value from our advisers generates more connected products. More assets under management generate more demand for edge control and digital services. This flywheel already represents 50% of our group revenue today, but our ambition goes even beyond this.

Our digital transformation at scale serves 2 main purposes: one, drive more productivity for ourselves and our partners and customers. And second, continue to fuel growth through our digital portfolio and new business models. This is why we have defined a clear strategy that will unlock unprecedented productivity and growth for our customers.

Our approach is about unifying our software portfolio, unifying the user experience and creating a unified data federation. Our customers today are asking for integration across life cycle stages, from design, build, to operate and maintain. But our enterprise customers expect a second dimension of integration. Many of them manage factories and infrastructure. They manage power distribution in their sites. And finally, they all manage buildings. The result is a need for unification at scale across these 2 dimensions. Naturally, our customers expect a software portfolio that stretches across industry and infrastructure, power and building; a software portfolio that unifies the approach. This is exactly what we are working on. With our software portfolio across EcoStruxure, AVEVA, OSI, RIB, ETAP, Planon, IGE+ XAO, ALPI and our partnerships, we already have an outstanding coverage and a clear market-leading position when it comes to data platforms, particularly in operate and maintain.

We have already heard from Jean-Pascal that our plan is to make unification a reality, providing our customers with unmatched integration and interoperability -- we call that unified asset life cycle management.

Let me go into more details of our software strategy across the group. What is unified data federation and AI? We have embarked on the journey to build a data federation across our data platforms, which will also be open for third parties. This will provide our customers access to their data across multiple industrial platforms. It will also allow the utilization of AI and scale. One of the greatest challenges in successfully implementing AI is access to data. We plan to solve this for our customers.

What is unified user experience? We will enable our customers to find to select, to buy, to deploy, to get support for all of our software portfolio with 1 unified experience in our group.

What do we mean by unified software? We are building the technical integration of our software portfolio. That means creating the technical interfaces among our software products, along the customer journeys. From designing a digital twin to building and operating the assets, we already have hundreds of customers using multiple of our software products today.

Our unification approach will provide significant added value to our existing customers as well as to new customers that we will attract. These customers represent all industries and geographies. They all have specific needs. So how can we at Schneider make sure that we meet those needs as their digital partner for efficiency and sustainability? We believe the answer is openness. And it is my pleasure to introduce the next level of EcoStruxure openness.

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Today, EcoStruxure is already a leading industrial IoT platform, connecting 6 million assets under management with 50% growth rate this year. We have 100,000 collaborators in our exchange ecosystem. In recent years, we have built a fast-growing business with our EcoStruxure advisers, allowing our customers to generate actionable insights from the data we help them to collect from their assets. We will continue to invest and evolve this portfolio to make our EcoStruxure advisers even more interoperable in the future. We are extremely proud that we have been able to build a digital service business, leveraging the EcoStruxure platform and our adviser portfolio.

To drive even more productivity, efficiency and sustainability for our customers, we are taking the next step to further open up EcoStruxure. We are offering APIs to our customers and ecosystem partners to allow them to build their own advisers and applications and to define and operate their own business models around them. Schneider Electric Exchange will play a major role in building and enabling this ecosystem. With this step, we will commercialize EcoStruxure through recurring platform and data as a service business models.

We are working actively with customers and partners on our open platform approach. Let's hear from one of them.

Eugene Murariu

I'm Eugene Murariu. I'm the Head of Global Engineering for BMO. And I'm here to discuss about the collaboration between Schneider, BMO and BGIS. Bank of Montreal is a highly diversified financial services provider. It is the eighth largest bank by assets in North America, serving 12 million customers globally. We partner with BGIS, a leading global real estate and facility management services provider, helping us to achieve our energy, operational and health and well-being goals. We have very ambitious targets to reduce our carbon footprint by 30% by 2030, and this project is helping us to achieve the goal. We have been using EcoStruxure for retail solutions in our facilities. And now with the next level of EcoStruxure openness, we're starting to capture the value of Data as a Service.

Our solution is integrated in BMO's Remote Command Center to provide remote monitoring [of alarms] and keep parameters within our buildings. The result is greater operational efficiency through enterprise-level management and integration of [alarms] enabled by open EcoStruxure data. This level of visibility and integrated management helps BGIS reduce our energy costs while also driving down our cost to serve. The collaboration started as a pilot project and now is being scaled with deployments in more and more sites.

Peter Weckesser - *Schneider Electric S.E.*

As we could see, the Bank of Montreal and their partners, BGIS, are already unlocking added value through the integration of EcoStruxure data and leveraging an open API approach.

Time to summarize. Schneider is fully committed to the digital transformation. This transformation is a business transformation impacting every employee at Schneider. We have the same commitment and ambition when it comes to helping our customers with their digital transformation. With our software portfolio, we have embarked on a journey to make what we call unified asset life cycle management a reality, helping our customers to create unmatched value across the life cycle and across industry and infrastructure, power and buildings.

Finally, I was really happy to share that we'll be giving our customers the opportunity to use open EcoStruxure to build their own advisers and own business models in the largest industrial data ecosystem. We believe that our digital transformation at scale will have a lasting impact on all of our employees, customers and partners.

Thank you.

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Olivier Blum - *Schneider Electric S.E. - Chief Strategy & Sustainability Officer*

I'm Olivier Blum, the Chief Strategy and Sustainability Officer at Schneider Electric, and it's my pleasure to be with you today to share our sustainability strategy and how it contributes to the growth story of Schneider Electric in the next cycle.

As it has been explained by our CEO, Jean-Pascal Tricoire, we are an impact company. And an impact company for us is a company that performs, which is really the foundation of doing good. It's a company that impact all stakeholders in our ecosystem in all ESG dimensions, but it's also a company that impacts a lot with business positioning to the mission of the company. And last but not the least, it's a company that integrates sustainability everywhere in the model, in the culture, in the way you manage the company from the purpose to the strategy to the execution, from an external and internal governance standpoint, being also included in incentive. And at the end of the day, it's a company that sets up a model and a culture to have a very strong impact at the global and the local level.

So let me go more in details. We continue to accelerate our commitment to sustainability. And I will start quickly by telling you how we want to lead ESG by example and spend more time in the second part to explain how we have been evolving our business really in the field of sustainability.

So 2021 has been an important year for us. First of all, because we've been elected as the most sustainable company in the world by Corporate Knights, but also because we have launched our new strategy for the next cycle. So we have introduced our new ESG strategy with 6 long-term commitments. 5 global commitments in the field of climate, resource, trust, equal and generation, which are basically commitment we are taking at the global level and where we want really to progress everywhere in the world in all the subsidiaries of Schneider Electric. But because also, we believe that the solution to create a more sustainable world is also related to the local dimension and the local ecosystem, we are also asking our local country president to build a local part and we want to really empower them to build the strong impact for the local communities.

So what do we want really to impact as a company? We are committed to address the biggest challenge of our time, which are climate change and social inequality. And that's why we always like in our pledge have a kind of 10 years ambition. First of all, on the environment, we want really to make sure we achieve our ambition to be net zero by 2030, in line with the 1.5 trajectory. So we have approved our targets through the SBTi process, but we have also taken a new commitment, a new pledge, which is in the field of diversity to achieve no net diversity loss in our operations by 2030.

We continue to be very much committed on the social part of our agenda, continue to employ people across generation and region to get all equal opportunities for all our employees everywhere in the world. And last but not the least, we want to continue to have a very strong impact on governance by continuing to earn the trust of all stakeholders by living up to our principle of trust in the field of ethics, cybersec, safety and quality. So this is really the agenda for us in the coming years and again, addressing the 2 biggest challenge of our time, which are climate change and social equality.

So starting from this long-term ambition, what is very important for us is to make sure that we have an impact in the short term on all our stakeholders. And that's why we have been using this methodology of the Schneider Sustainability Impact, where we want to measure basically the progress we are making. We are publishing externally on a quarterly basis the progress we make on those top 11 metrics, which are really the key transformation indicator of the company, but also measuring the local impact with our colleagues from the different parts in the country. And of course, last but not the least, we continue to make external disclosure in the field of ESG in compliance with all the key standards in the market. And we are well on track so far with this ambition by 2025.

I'm not going to go into all details on the progress we are making. But what I would like to do today is to do a deep dive on what we are doing in the field of climate because it is very important for Schneider IT in our ESG strategy, but it's also very important on the business side. So as you know, we have taken an important commitment. We built a pledge in the past year, which is to become carbon neutral in our entire value chain by 2040. But for us, what is very, very important is what can we do in the short term. And we want to become carbon neutral in our own operation, but we want to go to the next level.

We want to go build the scope of our own operation. And this is why in 2021, we have built a massive program to engage our suppliers and divide by 2 their CO2 emission. We continue also to have an impact on communities by adding 20 million people in the next cycle will have access to green electricity. We have already achieved in the past cycle, 30 million and now we want to go to 50 million. And we will, of course, as a result of

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that, we continue to have a strong impact on the profile of the company by making it greener in order to achieve 80% of green revenue according to our own internal methodology.

Last but not the least, we want to have a strong impact in the market because when you combine all our commitments in the field of climate, I think Schneider will go fairly fast to become carbon neutral in our operations. We hope to have a strong impact quickly on our supplier. But the biggest impact at the end of the day is what we can bring thanks to the solution of Schneider Electric. And here, what we want to deliver in the next cycle is to deliver 800 million tonnes of CO_2 saved and avoided thanks to our solution.

That's a natural transition to the second part of my presentation, which is how we want to deliver that. You know the mission of the company. And we have been focusing a lot in the past years on how we could have a stronger impact to help our customer to go through their decarbonization journey.

First of all, we are convinced, and I'm not going after the COP26 -- I'm sure you're all very well aware about the conclusion. But we all know that we have to go much faster, 3x faster in the way we save CO_2 emission if we want to be back in line with the trajectory by 2030. We believe at Schneider Electric it's still possible. It requires a lot of effort, but it's still possible. And we've done a lot of extensive survey and working a lot with a large number of customers in the past 2 years. There are 3 key transformations which are required to be back to this really net zero trajectory by 2050. One, it's energy supply decarbonization: that represents probably 45% of the solution. Two, process electrification, 30%. And three, demand optimization. So I'll come back on that later, but we believe technology solutions are available to deliver both savings that will help us to be back on the trajectory.

Second point, which is very, very important when we look at the market, we see really the corporate world moving very fast. And it started in 2015 with the Paris agreement. It was fairly slow at the beginning. But now as you can see on the chart, in the past 4 years, every year, you multiply by 2 the number of companies which have targets in the field of climate, which are approved by SBTi. We see also the large company moving, 16% of Fortune 500 company have set target approved by SBTi. But at the same time then, 84% have not done it yet. But the good news is, I would say it's moving. And as Schneider Electric -- and I'll come back to that later -- we are engaged actually with 50% of those large companies who are really setting up their target in line with SBTi.

Now one good news: strong momentum on the corporate side. One bad news: it's still difficult for corporate to achieve their target. And we have observed in the past 2 years that the common road block are, one, difficult to go through this kind of complex landscape of reporting and assessment in the field of climate, difficulty for corporate to track energy data and therefore CO_2 emission, difficult to engage their ecosystem internally and externally. And bottom line, difficult to structure a program to consider that climate, like any other dimension in the company, should be handled with a strategy with a plan, with an organization with the reporting. So based really on this evolution of the market, on the customer side and what is needed on the climate side, at Schneider Electric, we came to the conclusion that best in class company do 3 things: they strategize, they digitize and they decarbonize. So they follow a simple 3-step approach from target setting to execution to be able to deliver results in line with their climate ambition.

And what we have been doing in the past 3 years is really to position Schneider Electric along those 3 dimensions, and we believe today, we have a unique value proposition to support our customer from strategy to execution. I'll come back more in detail, but strategize is about basically helping company to define the strategy and the trajectory. So it's basically done through consulting and agnostic consulting. The second part, which is digitize, it's basically about creating a platform where you capture all your energy data and therefore you are able to monitor your CO_2 emission.

And point number 3, once you have done that, is what are all the solutions that you should implement basically to reduce your carbon emission. And of course, we believe we have a very unique positioning because at Schneider, we can do 1, 2 or 3, we can do both if customers want to engage with us at each level or we can engage with customers at 1 of the levels depending on their journey and also depending on the maturity of the customer.

Let me go a little bit more in detail in each of those steps, and to share with you more importance on customer testimony. So let me start with the step one, which is really about the definition of the climate strategy. What we call strategize. We've been reinforcing our consulting practice over

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the past year to help our customers because as I said before, there are more and more corporations wanting to build their strategy, they don't know where to start. And this is where we come with different solutions depending on the maturity of the customer. But for both companies, we start from scratch. It's basically about measuring the baseline creating the road map, structuring a program and governance, but also being able to communicate and to report to the market. Let me share with you 1 example of ROCA, who have been through that journey in the past 12 months.

Carlos Velazquez

I'm Carlos Velazquez, Sustainability Director of the ROCA Group. The first step of our decarbonization journey was to define who could help us, and it was Schneider Electric. And we then -- we defined a holistic vision of what climate action meant for us as a multinational industrial group. Schneider support was instrumental to help us fully understand our starting point, where are we now, such as measuring our carbon footprint baseline. The next step of the work with Schneider became to develop the carbonization road map, where do we want to go, and define the milestones to reach our future goals through different milestones. Structuring a program by defining and putting in place the right governance, teams, resources, prioritizing the different decarbonization levels has been key to manage our budget and to maximize the return of our actions.

Olivier Blum - *Schneider Electric S.E. - Chief Strategy & Sustainability Officer*

So this example is a very interesting one. ROCA is a company that has started right from the beginning from scratch. And their need was basically to find a partner that helped to understand really this overall story of ESG carbon strategy. And you understand how we have helped them really to measure and to build the first level of ambition and program. So step 1 being very important, defining the strategy.

Step 2 is about how you can digitize to create a single source of truth for energy and sustainability data.

Let me give you a simple example. Would you imagine a Chief Financial Officer in the world of today, being able to do his or her job without a proper ERP where you have all your financial information? We strongly believe at Schneider Electric this is the same in the world of climate for the future. If you want really to deliver your ambition, your long-term pledge, your short-term ambition to decarbonize your company, you need 1 single source of truth where you can monitor all your energy data -- therefore, your CO_2 emission -- where you have the opportunity, thanks to digital services, and we have built over years a lot of knowledge that help our customers to identify opportunity of saving energy consumption.

And last but not the least, being able to report your data for internal or external purpose. So we've built over the past year, a very strong leading platform in the market, which is EcoStruxure Resource Advisor, where we have accumulated a lot of experience by working with a lot of multinational and that make this platform a very powerful platform to help our customers to digitize their information related to climate.

What I suggest, let's go through this video to go more in details to understand how EcoStruxure works, but also how it has been used by 1 of our customers, Marriott.

(presentation)

Olivier Blum - *Schneider Electric S.E. - Chief Strategy & Sustainability Officer*

So as you can see, EcoStruxure Resource Advisor is really 1 single source of truth where you have all your information and you have understood how we can build leverage by our customer.

Of course, we have a very good example with Marriott. But we have also other implementation with private equity firms, for instance, 1 really to have a very strong implementation of an ESG program with a strong focus on climate that we implement EcoStruxure Resource Advisor in all their portfolio companies, and we'll have the opportunity to consolidate and to monitor that data and to be able to challenge real-time all their company in their decarbonization journey.

Let's now move to the step 3, which is about the execution of your decarbonization strategy. We have identified 4 levers. And of course, the way to implement it can be very different by segment, by type of customer, depending on the maturity, but we believe that in most of the cases, those 4 key levers are the ones that will help you to maximize your chance of achieving your decarbonation target.

So one, it's about the electrification of the operation. Two, it's about energy efficiency and how you can reduce energy use. Three is about how you can replace some energy source by leveraging more renewable. And fourth, more and more, we believe it's also about how you can engage your value chain. We have a unique portfolio of solutions that can help you to achieve your target. And depending on the customer, that's going to be a mix of all those solution.

Of course, it can start by the electrification of your operation by leveraging EV solution, by electrifying your process in industry or in building. It could be the installation of microgrid. You could have a strong focus also on energy efficiency by leveraging, for instance, our EcoStruxure power solution or all the products that we have that make you more efficient, variable speed drives; UPS, for instance, our latest SF6-free switchgear that will help you to reduce significantly your carbon emission. It's about also, for instance, leveraging the unified operation center, thanks to AVEVA solution and so on and so forth.

Of course, a big focus on the renewable helping you really to have access to power purchase agreements to switch to renewable energy. But also more and more, we've seen a large number of opportunities to engage your value chain. And let me give you here 2 examples. One, what we have been doing with RIB, which is basically the 6th dimension when you design and you build for sustainability, which is focused on how you can simulate a building at the design stage to make it as efficient as possible from a carbon standpoint. So we are leveraging RIB, we are leveraging ETAP, but also solution with AVEVA in the field of industrial software.

The 1 I would like to highlight on this slide is what we have been doing with supplier and why because just to do a deep dive on this one, many companies who have been engaged in their decarbonization strategy, realized that the Scope 3, not all of them, but it's a large number, representing average 10x more than their operational emissions. So 10x more than what they emit in their Scope 1 and 2.

Usually, they face 3 major challenges: one, very large number of suppliers in front of them, lack of visibility in terms of data and lack of internal competency to help supplier. So what we've been developing at Schneider is an offer that combine all, basically the capability that I've explained before, to help our customer will to have a strong impact on the emission coming from their Scope 3 supplier.

So probably, you remember that 1 year ago, we've communicated what we've been doing with Walmart around the gigaton program, which was basically to help Walmart to consolidate all the needs of their supplier to aggregate their needs in terms of access to renewable PPA. Then we launched in the framework of our own ESG strategy the Zero Carbon Project, which is basically what we do at Schneider to help our top 1,000 suppliers to reduce their emission. And recently, we launched the Energize program in the pharma industry with the same objective.

Let's hear from 1 of the leader of the company in the pharma industry to understand the benefit seen by them.

Unidentified Participant

The Energize program, which was announced at COP26 will really accelerate our internal and external goals, primarily around Scope 3, which is all of our extended supply chain. The goal of the program working with Schneider Electric and 9 other leading pharmaceutical companies is to really enroll our suppliers, educate them and assist them in their own electricity and energy requirements. Therefore, giving them access, removing barriers for them so that they can do more internally, which, in turn, will make our Scope 3 goals and our overall net zero and net climate impact goals be attained faster and hopefully, easier.

Olivier Blum - *Schneider Electric S.E. - Chief Strategy & Sustainability Officer*

Very exciting program. How does it work? Basically, the Energize program, as I said before, (inaudible) company in the pharma industry. And what we have been doing for them is to create a platform that will offer decarbonization services to all their supplier, and we call this platform Neo-Network,

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which is a platform Schneider, I think, has developed in the past for PPA purpose and that step-by-step we have expanded to offer other decarbonation services.

So the supplier, once accessed to this platform, they would be able to access to training module. They will be able to access some solution that help them to measure their carbon emission, for instance, but also to have access to other provider of solution in the ecosystem that we are creating.

And how does it work bottom line? The vision we have is really to create a marketplace for decarbonization solutions. So you've understood that we started 1 year ago with Walmart with a group of suppliers focused on PPA. We extended that with 1,000 suppliers of Schneider, not energized, and you could imagine in the future that we could add more community of supplier, if some of the customers are interested to have access to this same ecosystem, where basically we connect buyers or people who have needs to go through their decarbonization journey with a very large number of solution provider. We are part at Schneider, I think, of those solution provider, but we are also connecting our customers, our supplier in that case, with provider of PPA, for instance, in the field of renewable energy.

So that creates a very strong marketplace for decarbonization solution, which is very, very promising in the future. So to conclude, you understand that with our sustainability strategy, we have the ambition to become the preferred partner of corporate at all stages of their sustainability journey. We can engage with our customer in the step 1, 2 or 3. Some of them will engage with us at all level.

But what is very, very important, the sooner we enter in the process, the more chance we have, of course, to go through the other part of the journey, which is the digitization and decarbonation. And as you understand, there are more and more corporates who are engaged in their climate transition. And of course, all those decisions are taken at the highest level of the company, and that creates a very, very strong position for Schneider, I think, at Board level, at CxO-level, which is excellent for the position of the company in the future.

So to wrap up, sustainability is a strong driver for Schneider, I think. You have understood that it's very much integrated between what we do on the ESG side and what we do for our customer. We implement some of the solution for Schneider, renovate, we learn a lot. We can bring those expertise to the customer. And vice versa, we are also bringing back from all the experience we had with our customer, a lot of innovation for our own decarbonation strategy at Schneider, I think. By doing that, we have the ambition to create a very strong agnostic consulting practice and increasing significantly the revenue in the next cycle, continue to grow our digital services, thanks to our 2 core digital platform that could create another 15 gigawatt of renewable solution for the market.

And last but not the least, it's a very strong accelerator of the growth of our entire portfolio at Schneider, I think, and of course, the contribution in our journey to reach 80% of green revenues. And as a result of that, we believe we can have a very strong impact on the decarbonization of our customer by achieving this 800 million tons of CO_2 saved and avoided by 2025.

Thank you very much for your listening. I'm, of course, available today or later for any kind of questions that you have on our sustainability strategy.

(presentation)

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

Welcome to our next session. Having already heard about the vision for the future, our digital ambitions as well as our positioning for sustainability, we now turn our attention to the business and to our customers.

I'd like to introduce the panel that we have here. First of all, we have Barbara Frei, who is leading our Industrial Automation business, a long and illustrious career in automation and previously actually heading our European operations as well. We've got Peter Herweck, who is the CEO of AVEVA. AVEVA, as you know, is a listed leading industrial software company, in which Schneider has a majority holding, and it's consolidated in the group's financial statements. And joining us from Asia is Philippe Delorme, who is the Head of our Energy Management business, and we're going to kick off the conversation now.

And I'm going to kick it off with you, Philippe, because I know you stayed out late to join this panel. Philippe, if I may ask you around the topic of how the needs of our customers have evolved in the recent years. And as a business leader, how do you make decisions, which keep the needs of the customers at the forefront.

Philippe Delorme - *Schneider Electric S.E. - EVP Energy Management*

Well, it's very simple. I mean we operate at Schneider with a simple principle, which is we always start with a customer perspective. So if it comes to sales, whether channel sales or end-user sales, we are organize by customer type and end-markets that represent the whole portfolio. So for every customer category, we define the right portfolio and the value proposition with EcoStruxure as the backbone of our solutions.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

Barbara, anything to add?

Barbara Frei - *Schneider Electric S.E. - EVP Industrial Automation*

No. I just can confirm what Philippe said. So we really try to look from an end-user's perspective. This is also why we have strong segments in place, which are segment leaders with very strong teams, which are experts in those different end-markets. And when we look how are our end-markets, 50% is in building and data center, another 50% is in industry and infrastructure.

And when we look at the majority level of those customers on that digital journey, you see differences. So for instance, I think building is a little bit behind. Industry from the history is a bit more advanced. But all of them need exactly, as Jean-Pascal has mentioned, these 4 steps of integration. So we really would like to look with our customer from an end-to-end perspective over the whole life cycle.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

Right. So effectively we're looking at what the customer needs. And in many cases, it's pretty evident that what they need is an integrated sort of solution from both of your businesses.

Barbara Frei - *Schneider Electric S.E. - EVP Industrial Automation*

Absolutely.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

So maybe if we sort of dwell a little bit deeper into the integrated nature of the portfolio, Philippe, maybe I'll come back to you again, some thoughts around that, please.

Philippe Delorme - *Schneider Electric S.E. - EVP Energy Management*

So first of all, it's important to realize that when we talk about Energy Management, this business is pervasive across our 4 end-markets. So in Energy Management, we see great opportunities around all our end-markets. And with regard to industry and infrastructure, the ability to provide energy and automation together is a key competitive advantage.

Now if we move back to building, efficiency and sustainability are really the key trends shaping what we call the buildings of the future. So these buildings might be the cornerstone of the energy and the climate transition to move to a net-zero future, and that's where it's so important to drive the deployment of net-zero building.

So to build net-zero building, you need to build an all electric infrastructure that is very efficient and reliable. And you need to add on that a digital backbone to ensure energy visibility and automation to drive efficiency. So practically, what does it means? It means highly reliable power distribution, medium voltage and low voltage, of course, a digital layer on top that we call EcoStruxure Power and say, in parallel, the automation layer to drive building management.

And that layers, of course, can include PLC's drives to manage motors because there are many motors in the building. In many cases, we have cybersecurity, augmented reality. So really, we see the full Schneider portfolio at play here. So if we take an example of a customer, let's take the U.S., for instance, we have a great reference there with -- actually, we have many more, but 1 that I wanted to talk about, which is United Therapeutics, which is an American biotech company, which decided to work with us to build their new flagship building in Silver Spring, Maryland. So it's a 6-story building, 120,000 square feet. The first net-zero building on the East Coast, and one of the largest net-zero commercial building in the U.S., of course, certified LEED Platinum.

So you're going to ask, so how does it work? Well, it's pretty simple. The building does utilize 3,000 solar panel on its roof. It also leveraged a full geothermal energy system, which makes on 1 side the building very electrical and energy frugal.

On top of that, in this project, Schneider Electric has provided an extensive power and building management offer, thanks to our EcoStruxure Power and Building portfolio. All this combined allows us to optimize the system performance and reduce totally the energy use.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

Sounds very exciting, Philippe. That's a great example to share. Barbara, maybe from your perspective around the same question.

Barbara Frei - *Schneider Electric S.E. - EVP Industrial Automation*

So let me take the angle of the industry. So the industry is really one of the primary user of electricity. And specifically, when we talk aloud the electro-intensive industry, here we take fertilizer, chemical, glass, cement, all things we always need to continue to use also in the future.

So for instance, when we look at the European Union, this electric-intensive industry is eating up more than half of the energy consumption in the European Union. So the integration of automation and energy over software is really giving us the chance to make the life cycle over the whole plant and bringing together power and the process automation domains. This really drives profitability, and it also drives the sustainability, so the industrial sustainability, which is important for us as a business driver.

So positioning, and a key management, industrial automation is for us quite unique. And I think it's a competitive advantage that we have at Schneider Electric. So I would like to bring the example of Veolia Water Technologies. It's a global provider of water and wastewater, very well known, and they are active in the public and in the private sector.

And we're talking about a project in Italy. It's a water treatment facility at the coast of Sorrento. And sustainability is really at the core of this customer. So reusing recovered material for industrial and irrigation purpose is 1 of the key mandates we had there. So the solution we provided was covering both process and energy.

So we gave DCS a hybrid application. That's the EcoStruxure Process Expert, but we also installed medium-voltage, low-voltage equipment, frequency converters, and also EcoStruxure Power to really have the full approach here. So in the end, we were really able to save 15% of energy and up to 20% production efficiency. And I think that's really a powerful combination we can provide here.

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Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

No, that's great. And that clearly shows that how you've been able to bring energy as well as automation together for the benefit of customers for tangible results, which are quantifiable.

Barbara Frei - *Schneider Electric S.E. - EVP Industrial Automation*

Absolutely, and accountable for.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

Absolutely, yes. I think the 1 other angle which we've discussed -- which we haven't discussed so far, which I think really brings all of this together for the benefit of customer really is software, right? So software is something which is pervasive across our entire portfolio.

And I'd like to bring in Peter over here. So Peter, not only are you, of course, CEO of AVEVA, but you know Schneider Electric very well as well. Share with us and with our audience the strategic sort of thinking behind the portfolio that's been built together today, and of course, with a little bit of specific emphasis on AVEVA.

Peter Herweck - *AVEVA - CEO*

Sure. Thanks, Amit. Let's talk about AVEVA first before going a little bit large on the Schneider software portfolio. Now AVEVA is the leader in the industrial software market enabling the digital transformation for our clients to achieve efficiency and sustainability. They go both very close together.

Now that's, of course, at the heart of EcoStruxure because many of the clients buy complete solution when Schneider goes to market, meaning also across the layers that we have described in EcoStruxure. Now we've been fortunate that we can also bring the OSISoft PI System into the game. It is the golden standard if we're talking about the data infrastructure that we have at our industrial and infrastructure clients.

Now when you look at the Schneider software portfolio, there are really 2 uniquenesses that we -- that you need to keep in mind. Number one is there are really 3 threads of software that we need to look at, and they all go from design to build, to operate and maintain in the industrial and infrastructure market, in the buildings market. And then of course, both of those, and that's why I have it in the middle is the power market.

So that's 1 uniqueness. The second uniqueness, and that's why it's important that we have the structure we've chosen with AVEVA is the software needs to be agnostic and it needs to be neutral. What does that mean? Agnostic means when I talk to some of my partners, and they go into clients, the automation base is vast there, and it needs to connect to Schneider systems, but then unfortunately, there are also some other systems there. And that's the uniqueness.

Their ability to sell is just fabulous because it connects agnostically to the automation layers open because other software can be connected to it. These 2 unique features, if you will, differentiate us also in front of the client.

So how does it work? A short example of somebody who's going to build or modify a plant. Usually, they do the design of the process, then they want to actually build the plant. And in the build process, they may find out that they need to change a pump. Now if they change the pump, the pump has different electrical specifications, they would use ETAP software to do the simulation to see how much power the network uses that may result in a new transformer or it may result in 1 additional electric panel that needs to go into the cabinet.

Then you go back to the design software, and all of a sudden, that panel is added, and they're looking with a size wise it fits together. And you go from there and basically you split out the bill of material that will with the RIB (technical difficulty) have in this regard. And some of the software

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assets are of course (technical difficulty) working very close with Barbara's automation system when we're talking automation expert. It's a world leading. It connects flawlessly together. No issue here. And secondly, some of the assets are hosted with Philippe. Maybe you want to give a couple of more insights here.

Philippe Delorme - *Schneider Electric S.E. - EVP Energy Management*

Thank you, Peter. So indeed, last year, we finalized the acquisition of RIB Software, a global player in the digital transformation of the construction industry. We also concluded the acquisition of ETAP, which is a worldwide leader in electrical calculation and simulation. We also completed our investment into Planon, which is a reference in smart building for real estate manager and facility managers.

And you also remember that in 2018 and '19, we completed the acquisition of ALPI on one side and IGE+ XAO on the other side in the field of electrical cabin. So thanks to this unique portfolio, we are empowering our customers to make better informed decisions to drive sustainability and efficiency across the full life cycle.

So here, I'd like to provide some pretty exciting examples. The first 1 is here in Hong Kong with Swire Property, which is a leading property developer, an owner and developer of mixed-use property (technical difficulty).

Ratio today is 75% (inaudible) software and 25% on hardware developments. Another important aspect that specifically the market is asking for is the openness, the open standards. So the customers don't want to have anymore priority systems where you cannot interoperate between each other. They want to have open standard, and the open standard in automation, which is called Universal automation, is based on IEC 61499.

So it really enables communication, open protocols between the different vendors. And we think vendors, which will not in the midterm jump on this train might lose out in the market. So when hardware and software life cycles (inaudible) the systems are more agile, processes and machines are easier to engineer and to reconfigure and diagnose because we believe in this concept and the standard of IEC 61499, as already mentioned by Peter before, we have launched to the market such a solution, which is called the Automation Expert. And this is something that we are now penetrating the market with gaining first projects and convincing not only the customer, which are asking for it, but also others in the market to follow us.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

All right. Maybe, Philippe, I come to you as a follow-up on this one. The entire concept of -- obviously, there's a lot more digital and software as a value proposition to customers. How has the relationship or the go-to-market to customers evolved or changed as a consequence of this?

Philippe Delorme - *Schneider Electric S.E. - EVP Energy Management*

Well, the world has changed, clearly. And really, this all move has led to a shift in our relationship with our customers as digital and software are actually a very good entry point at sea level. So as we focus on efficiency and sustainability, we are more outcome focused, and it creates more stickiness and actually more recurring revenue.

So let's take a few examples. So take one, a year ago, we started a conversation about data management and workplace occupant experience with a large fragrance company. The conversation involved C-level, whom we don't talk to traditionally at Schneider. So that included the Head of Workplace, the digital strategy team, HR, transformation team, the CFO.

And while this conversation actually started with EcoStruxure Engage Enterprise App, which was Schneider, we expanded the scope to include an entire ecosystem of solution around workplace management, such as room booking, visitor management, ticketing, which allowed us to introduce Planon.

One year later, we are now deploying on 1 side EcoStruxure Engage, which is a Schneider piece, and Planon Workspace Management Solution in 60 buildings across 40 countries for 60,000 users. So digital is also impacting the way we think about R&D with software and connectivity first. So if we take an example, which we recently launched, which is PrismaSeT Active, which is our newly launched, natively connected low-voltage switchboards, which offers a whole range of cutting-edge features that are essential to shaping building of the future.

It is not really more expensive than a conventional equipment, 100% wireless, and any of our partners can implement it easily and in a most cost-effective way. Just using a cellphone. So we deployed PrismaSeT Active in France at big and small facilities. Take an example, for instance, we implemented that with Cegelec, which is a contractor, and B2EI, which is a panel builder, both of them chose PrismaSeT Active for large tertiary projects in the Paris region.

They were seduced by PrismaSeT Active because it can detect fire hazards in the cabinet even before it would occur, thanks to its HeatTag sensor, while its energy data captured by the PowerTag sensor can be transmitted to the customer smartphone.

Peter Herweck - *AVEVA - CEO*

Yes. Maybe, Amit, I can follow up on some of the things that Philippe has said because I think it's essential. We've said in the past that the software is going to bring you to the C-level. I think this has been further augmented by the topic of sustainability.

It is on the agenda of the CEOs and the C-level at any of our clients in any industry these days. And the 2 things are very much linked together. You've seen this earlier from Olivier, but there is -- let me talk about maybe 2 examples in industries where we're on. And I think we need to look at the vast installed base that is there that needs refurbishment and needs to be more efficient and more sustainable.

And secondly, we need to look at whatever is newly built. Let's start off with something that's newly built with the client that we have in clean power is Ontario Power Generation. They have a vast fleet of hydro and also nuclear power plants. They use the PI System as their single truth of data as I said earlier.

And now with the integration of the PI System into the AVEVA portfolio, you can directly from the PI System start the predictive analytics. And what they do is -- or what we do is we can predict if there is going to be a problem in a hydropower plant or in the nuclear power plant and enable them to drive the asset in the most efficient way that gives them tremendous savings.

In this regard, it's in the neighborhood of a single-digit million dollars range just for a catch that they would have in a nuclear plant, for example. But if we look at the bigger opportunity, it's the installed base that's out there. And of course, we're competing with a lot of folks out there. And 1 of the largest contracts that has just been awarded in the last couple of months was from Aramco, the largest energy company on the planet.

And they want that their assets are also -- deploy it with a predictive analytics package, and we've been fighting technically against all competitors that are out there. You name them. And it's been the largest contract that has been rewarded to AVEVA to worry about 2,500 assets that they have currently in operation to reduce the energy consumption and increase efficiency and with that reduce CO2 footprint. I think it's essential with it. And we'll look forward to expanding that to 10,000 or maybe even the 34,000 assets that they have under operation.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

Thank you for sharing that, Peter. I think what I'm taking away from all of this is, is it fair to assume that most of the investments that we probably need to deploy in the coming years will therefore be linked somewhere to the topics of digital and sustainability? Is that a fair assumption, Barbara?

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Barbara Frei - *Schneider Electric S.E. - EVP Industrial Automation*

Absolutely. Of course, we also refresh our core offers. That's still important. And we ensure, of course, the native connectivity, as also Philippe mentioned before, in his R&D priorities. So most of our products are connected, maybe with the exception of a push button. Our EcoStruxure layer is #1 now. From this, more digital services also can, of course, be derived. The next step, which will now come for us, is artificial intelligence.

And you can do artificial intelligence on different levels. You can do it on the connected products, on the edge control, but also on the apps and analytics. And in the next 12 months, we really would like to focus on 2 areas. The 1 is the artificial-based insight -- intelligence insight. And this is the 1 where we expand our advisor's capability to make more predict and make recommendation.

And here, we are in close cooperation, of course, with AVEVA. We are not going to reinvent the wheel, but we are reusing, as just Peter described, what is already available, but bring them on top of it our more domain expertise for certain segments.

The other 1 is the, a, artificial intelligence-based control. So that means there is a coexistence of the traditional control that you have in a certain process and artificial intelligence model. This model will allow you in the certain scenario to make certain decisions like a dynamic pick-and-place process or you can really improve the quality over the lifetime of the process. So this gives us ample of opportunities now in the future to even bring more value in the sense of artificial intelligence. And what I would like to emphasize here, this is not replacing human, it's more augmenting human.

So also with scarce labor and skilled people, this will help certain operators to make more, let's say, qualified decisions based on artificial intelligence that we provide.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

Philippe, would you like to add something to this comment as well?

Philippe Delorme - *Schneider Electric S.E. - EVP Energy Management*

I would say Barbara said it all, and I would say in Energy Management, we have pretty similar principle. Of course, we still want to invest in the core, and there are many new areas for innovation. We mentioned SF6-free everything related to the new energy landscape. And then we will also ramp up on R&D in digitization.

First, at the Edge, by embedded connectivity in our products to lower the cost, simplify the experience, keep developing software that would sit on the edge for real-time critical application. And then we see a massive acceleration on the cloud with 2 big things. On 1 side, the move to cloud multi-tenant, which is a big deal with built-in cybersecurity. The second 1 being artificial intelligence, combined with the cloud to unleash new values, which is really what we call a software-defined innovation.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

All right. Lots of good areas to look forward to in the coming years. Let me now pivot the discussion to a different topic, which is around our multi-hub setup. It's quite evident on this call. As we can see, our leaders are located in different parts of the world. But I want -- maybe Barbara, if we can start with you, can you simplify what the multi-hub actually means and how it seems to work for us and specifically in the last year or 2, which were obviously difficult COVID periods.

Barbara Frei - *Schneider Electric S.E. - EVP Industrial Automation*

So multi-hub means we are really close to the market. We are a listed company, based in Europe, in France; however, our largest single markets are the U.S. and China. So with these hubs, we have really the capabilities or the possibility to be very close to what's happening in those markets.

We can be part of local committees, we can influence standards, we can attract talent. We speak the same language as the customer, and this is extremely powerful. And this, of course, also means that we empower a lot to people in the front, our zone presidents, our county presidents, to make decisions for the customer and it's a big trust between the different businesses and what is happening in the local market.

And again, I would like to emphasize the aspect of talents. If you want to attract a talent from somewhere in the world, we always can say, hey, you can choose between the locations. Wherever you feel comfortable together with your family or your private life, this is the help we can provide to you. And this gives us, from my point of view, a big competitive edge in this kind of tailor market.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

Yes. And I think we have many, many examples in the company of leaders who joined on account of this.

Barbara Frei - *Schneider Electric S.E. - EVP Industrial Automation*

Absolutely.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

Maybe Philippe, to you on the same question around the multi-hub, but maybe with a different perspective, more to do with the R&D and the development process.

Philippe Delorme - *Schneider Electric S.E. - EVP Energy Management*

Yes. So indeed, as Barbara said, the world is becoming less flat, and there is a growing need for innovation to be done closer to our customers with stronger customization in the last miles. So for this reason, we structured mostly 4 main hubs, in North America, in Europe, in China and in India, with strong empowerment, as Barbara mentioned, and the layer of orchestration on the top to make sure that we would create platform and ensure a maximum reuse of core technologies across the board.

Besides, we've deployed agile methodologies to put our customers at the heart of our innovation process with more iteration and a shorter time to market. In parallel, our supply chain follows the same structure. So R&D and plans can work together. So combined with agile, our multi-hub setup gives us an operational advantage in the regions to respond to local customers quickly. And it also contribute to global business through collaboration across geography.

As a result, we are seeing a drastic acceleration of the number of innovation coming out to market despite COVID-19, which is a fantastic performance. So to illustrate our multi-hub strategy, let me give you 2 great examples. So the first 1 is about our brand new generation of automatic transfer switch that we developed with our hub China team.

Back in 2004, we acquired a local company named Wingoal. And in the past 17 years, this team has established a very strong competency in the field of automatic transfer switching. They issued over more than 300-plus patents. They were involved in the formulation and amendments of 40-plus regulation and application codes in China.

So since the multi-hub setup in 2019, the team took a more important responsibility to develop a brand-new platform for our global product for transfer switch. So we did start with the first launch in China that worked very well, and we are now launching in international markets. So that's the first example.

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So the second example is L&T E&A, which is another great illustration of this setup. So last year, as you know, we acquired L&T E&A to accelerate in India and drive export from India with innovations that are frugal, fit for purpose, and close to our markets in emerging economies. India is now our fourth global hub of technology, innovation and manufacturing, which is really super exciting.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

Thank you for sharing Philippe. Let's now talk about our partner model. I think it's a very important aspect of our go-to-market strategy. A large part of our business is done through distributors and partners in general. And I want to spend a few minutes just to let our audience get a better understanding of how our partner network works and how it's evolving and what we think about it into the future as well. Philippe, should I start with you?

Philippe Delorme - *Schneider Electric S.E. - EVP Energy Management*

So sure. So indeed, we built over many, many years, a huge network of partners worldwide, over 600,000 partners and service provider. It's a massive advantage. And here, size and scale matter. All our partners, electrician, system integrators, our distributors have always been extremely important to us to bring our core solution to our end-users, customers.

So over the past years, we have been working to help accelerate their digital transformation so that they can be more efficient and improve their service level. Let's take an example. We are supporting, for instance, a large French panel builder called REYES Group with SEE Electrical, an electrical CAD software coming from IGE+ XAO. These tools allow REYES Group to design and engineer in 3D a digital twin of electrical panels, which saves a lot of time in the manufacturing process and enhance quality, thanks to multiple error checks, mechanical checks, and wiring checks.

Another example is our strategic partnership with Autodesk. So the 2 companies, Autodesk and Schneider Electric, decided to partner to integrate BIM electrical design workflows within Revit. The end games, first, more collaboration as we break silo between architects and electrical designer; second, more sustainable and energy-efficient designs that helps positively address climate change.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

Barbara, maybe you want to add something from the Industrial Automation side.

Barbara Frei - *Schneider Electric S.E. - EVP Industrial Automation*

Look, also in the industrial automation area, we really have to partner together with others to make the adoption of this digital transformation also happen. And when I -- I'd like to go on 2 examples. One is the universal automation organization that we just launched on November 4.

So there are 25 parties joining this 1 and more are coming to join. It varies from machine builders over equipment manufacturers to universities and end-users. And with this, we want to enter in a kind of plug and produce environment for automation software. And this is in principle like a -- bit like an App Store, where people start to enrich with their applications the library and where you can then take the long-time library free of charge from. So this is really something how we want to accelerate collaboration in the universal automation space.

The other part is cybersecurity. So as Peter was saying, in 2018, we started to enter into the cybersecurity business from an OT perspective, and here, we have several partners that we work together with. And of course, also Schneider Electric Venture is helping us in finding get the right partners in the market. So that's for us really crucial.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

All right. And Peter, maybe from your standpoint, I mean, obviously, AVEVA is using partners as well, not the traditional Schneider partners, but...

Peter Herweck - *AVEVA - CEO*

To a certain extent, maybe let me start it off with saying how differentiating a global partner network is in different categories and different stages, and it is very hard to copy, and it needs to be in the DNA of the company. That's what I learned in my journey.

Now in the software space, you'd be surprised also how sophisticated our partner network is. It includes just simple distributors that sell some of our software that is just a golden standard in the market, and we've grown with it. Now we've added the OSIsoft PI System. They have no experience with distributors. So we're bringing them into our distribution network, and the first synergy deals sold to the clients that we didn't know before as an example.

Then there are system integrators. System integrators usually have software, and they have automation equipment to it. They may have Schneider automation equipment or somebody else's. And it's important from a software perspective, I said agnostic, that you serve both of them, and we do. Then you move to more complicated things where we have a software package where it requires real global implementations, be it on the cloud, be it into the infrastructure that our clients have, the IT infrastructure.

And with that, it's important to have large partners. And we're 1 of the strategic partners with Accenture, for example, or with Microsoft or if it's a joint solution we're offering together with Schneider. It's important to have these staged approach if you will. And then in the end, if we're bringing something very new to the market, we do the implementation ourselves.

But at the end of the day, as a software company, we want to sell software. So -- but if you bring like, for example, a methane reduction software or a greenhouse reduction software onto the market, you need to engage with the client in the beginning and drive this forward until you can hand it over to the distributor. So the network of distributors and partners is key for superior growth in my view.

Barbara Frei - *Schneider Electric S.E. - EVP Industrial Automation*

And just to mention here, process automation unit in Schneider Electric is really a key partner. It's a super system integrator for AVEVA and that's really adding value then in the whole value chain. So having the agnostic software from AVEVA, then we bring our domain knowledge and co-deliver a complete solution to the customer.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

Interesting. And it's interesting, you said methane reduction, which is a very topical issue just from a couple of weeks ago in the COP discussions. But maybe just I want to labor this point a little bit further because some of the questions we get from investors from time to time is that as we are having more and more digital sales, we're having more software business model, what -- do you see the role of our partners changing or evolving in coming years? So Philippe, if you just want to address that point, please?

Philippe Delorme - *Schneider Electric S.E. - EVP Energy Management*

I think Peter said it very well. Partnership is part of our DNA, and we'll continue to be part of the DNA. So we believe our partner will continue to play a vital role to the benefit of our customers and our planet. And in this context, really we see digital as a key enabler. So to strive, there is no doubt that our partners will need to adapt to embrace the digital journey, but we are very attached to keep working with them because we believe they are absolutely part of our necessary ecosystems.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

All right. Very clear. Let's talk a little bit about services. We've heard earlier in the afternoon about the role of services in our future growth. Of course, services has been growing very nicely for us for a number of years. But I just wanted to ask you guys as business leaders as to what is the real opportunity in services? And how are you going about it? Maybe back again to you, Philippe.

Philippe Delorme - *Schneider Electric S.E. - EVP Energy Management*

So you said it, I mean, service is a very important growth opportunity for Schneider. It starts with our installed base. We have a very large installed base. We are already covering part of it. And we are working to cover it even more extensively. So additionally, what we are doing is deploying what we call a seamless CapEx to OpEx to recurring approach to all our greenfield projects.

So what does it mean? It means that for all our equipment, when they leave our factories, they are systematically equipped with native connectivity with all technical information, and they are systematically tracked in our digital logbook. So they are natively service ready. And after commissioning the end-users are registered in our database.

So this means that it's enlarged the tracking of our installed base and allows us to offer our customers tailored services and generate in the end recurring revenues. So if we take some example, Schneider is partnering, for instance, with Equinix, which is a large data center provider in several countries, including Ireland, the U.K. and Australia, on the multiyear maintenance contracts to ensure predictive maintenance of their all power system infrastructure.

So since the start of the project, our service team closely worked with Equinix to co-design, understand their CapEx and OpEx need at the same time and coordinate with our operations team to ensure a consistent experience across the different geographies. So we are deploying the same approach to brownfield projects for which we provide green and digital monetization services.

Take an example, removal of SF6 system optimization, thanks to our green calculator, digital to make the equipment services ready. And all of this allows us to bring safety, reliability, efficiency and sustainability to our customers. So to illustrate, we are supporting Western Power the state utility in Western Australia to recycle its SF6 gas contained in their medium-voltage switchgear equipment.

So Barbara, maybe over to you to share with us about the role of digital in services because I'm sure it's playing a major role there.

Barbara Frei - *Schneider Electric S.E. - EVP Industrial Automation*

Absolutely. So we were mentioning before that now all our products are natively digitally connected. So that means, in principle, we can say to the customer from day 1, we can give you a remote solution to help you to reduce downtime, to make predictive maintenance. However, said so, some of the solutions were already available 20 years ago, when I started to promote this kind of solution in the market. But I would say it was really through the last 18 months with COVID that the cost of demand for this kind -- digitally enabled service contracts has really increased.

So you were not able to call to the site physically. Many things had to be done remotely, is it making the maintenance or fixing issues. And then, of course, the appetite of our customers now to go really into a more predictive instead of a reactive maintenance has absolutely increased. And now with our advisor portfolio, the connected product, we have all in our hands to make this kind of offers to our customers.

And 1 example I would like to bring here is from FRONERI. FRONERI is an ice-cream producer, which is producing in 20 countries all over. And we are talking here about a manufacturing or a plant in Egypt, whether it's an ammonium compressor, which was regularly failing because of the motor. And what we did, we -- together with the customer, we worked on a solution to install an asset manager advisor so that we can always predict if something might happen or not.

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So we can then also send service people in advance that before something happens, and the downtime of this customer in its production has reduced -- been reduced significantly. And as you mentioned before, it's very attractive for us also because it's a recurring business. So we renew the service contract every year. And of course, after a certain period, we have to fight for it, but that's exactly what we are going for.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

Wonderful. So great example on services and a lot more to come.

Barbara Frei - *Schneider Electric S.E. - EVP Industrial Automation*

Yes, absolutely. We are spending our R&D money also on this kind of the portfolio.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

All right. Let's move to the topic of megatrends. We've heard a lot, and we have regular discussions with investors, who are quite excited with the themes which are associated with Schneider, right? So electrification, digitization and sustainability. I'd like you guys to give -- maybe to go a level more granular than that and share exactly what within those large themes are the specific areas, which are really related to our growth in coming years. So Philippe, if you might want to give us a couple of examples there.

Philippe Delorme - *Schneider Electric S.E. - EVP Energy Management*

Sure. So very right, Amit, that over the past few years, we've seen a drastic acceleration of 3 megatrends you've been listing. So the COVID-19 crisis clearly created a much stronger appetite for sustainability, as it really pushed many businesses, government and consumer to really pause, think and look at the world that we are living in.

So to respond to all of this, we believe that it's calling for a very different world that we call Electricity 4.0 that relies on more electric and digital technology to drive sustainability and efficiency. So today, around the world, we see multiple regulation and stimulus packages that will help economies to recover while accelerating these 3 new trends.

So to name a few, the $1.2 trillion infrastructure bill in the U.S., signed on November 1, aims at building a national network of EV chargers, electrifying thousands of schools and connecting every American to reliable high-speed Internet. In Europe, the European Fit for 55 Package, released last July, advances decarbonization in the EU by aligning the energy and the climate regulatory framework with a 2030 target to cut carbon emissions by at least 55%.

It includes many impactful measures, for example, mandatory targets for annual increase of renewable in heating and cooling, mandatory energy management system for manufacturing sites or network losses, mapping of transmission and distribution network.

And we should mention a fourth trend, which is also increasingly visible, which is the world is becoming more regional and fragmented. So overall, I would say Schneider is uniquely positioned to benefit from this momentum, thanks to the many competitive advantages we've covered in our panel today.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

All right. And Barbara, anything else to add in terms of the megatrends from your perspective?

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Barbara Frei - *Schneider Electric S.E. - EVP Industrial Automation*

Look, I think it's worth to mention 2 trends. One is, as Philippe before related to, sustainability, the industrial sustainability, and the other part is the digital twin. So industrial sustainability is not new for us. We are doing this to be in the business so to say. So whenever you add some automation to a process, usually, it's more efficiency that you achieve afterwards. However, today, we have an interplay, and we call it the industrial sustainability triad. It's the energy that you use, it's the software that you need to optimize the process, and then in principle, you have the automation part, which optimizes process, energy, resources and so on. So we have here very good examples in logistics, warehouses, also when we talk about processes in water treatment. So let me give you one example from a company called Blue Ocean Technology how this works.

So it's a Norwegian company, which is handling sludge in aquaculture. So what you need to do in these kind of things, if you want to reuse the sludge, which is produced usually from fish farming. You need to pump a lot the water. You need to look at the quality of the water so that in the end, you have a product that you can use, again, like, for instance, fertilizers.

So what we did, we applied the EcoStruxure Machine Advisor, which allows to look at the performance of the pumps at the quality of the water. And in the end, we were able to reach with this customer 25% better performance in energy use and also in the output of producing this kind of fertilizers. So it's really this tried which makes the difference of getting the sustainability thought in this game. So the other trend in our market is the digital twin. And one key aspect of the digital twin is that all datas are brought together and made visible and start to evolve over the time. So if you have a running process, you can evolve your digital twin and therefore, even when the process is running, look into the future and optimize your process. And here, of course, it's extremely important to look also what AVEVA does in this kind of area.

Peter Weckesser - *Schneider Electric S.E.*

Yes, yes, very happy to talk about the, if you will, 2 of the mega trends that involve the digital twin. One is the energy transition that we see with many of our clients. And the second is really the evolution that we see in the electrical usage starting with the grid and AVEVA starts in the transmission, but also further into the distribution grid where we have a comprehensive suite of software products that help to work against intermittence in the grid.

It helps nations to do all the arrangements in between their different utilities that are out there that positions us uniquely. But if we go to the energy transition at our energy clients, the -- it is totally clear to them how they need to reduce their CO2 footprint while at the same time, staying at very efficient levels.

Now it does help if you have the engineering model that Barbara talked about. And now with the OSISoft Pi System that we're bringing in, we're able to bring digital twin into a digital thread where you can actually look at the total history of the asset digitally simulate how you can change the process into the future to drive down CO2 emissions, for example, in very complicated calculations for the value chain that's done totally on the cloud.

I talked about the emissions reductions that we have, the predictive and prescriptive analytics where we prescribe what needs to be done in the future to reduce the CO2 footprint or the utilization of energy to drive the assets. So it's really fabulous differentiating solutions that help us to grow in this market quite rapidly.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

Well, fascinating discussion. Time does really move fast, but I'm going to try to put in one final question before we leave. Of course, investors are interested in the future and to see what are the exciting opportunities ahead of us. And I might just want to ask each of you, just in maybe 1 or 2 lines as to what is the one aspect which to you is most exciting about Schneider as we look into the future. Maybe Barbara, I'll start with you.

Barbara Frei - *Schneider Electric S.E. - EVP Industrial Automation*

So looking at the current trends we see in the market, which means increasing energy prices, scares of labor force. So to achieve sustainable operations is one of the biggest challenges that the industry has faced up to now. And I think at Schneider Electric, with our combined portfolio between industrial automation and energy management, we are very well positioned to help the industry in these kind of challenges.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

Peter?

Peter Weckesser - *Schneider Electric S.E.*

You see digitization from my perspective, delivers a secular growth trend and Schneider with its software companies is uniquely positioned to participate in that growth journey.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

And maybe the last one to you, Philippe.

Philippe Delorme - *Schneider Electric S.E. - EVP Energy Management*

Yes. Maybe to conclude and combine. So the opportunity we have attached to electricity 4.0 with a combination of a massive electrification and a massive digitization to drive sustainability, efficiency and resiliency is a super exciting and indeed, Schneider Electric is fantastically and uniquely positioned to respond to that massive opportunity.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

All right. With that, all I have to do is thank each of you for sharing in such an open manner. But don't go far away because very soon, we are going to be back to take the care question-and-answer session. But before that, it's over to Hilary to share about the financial framework for the coming years.

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

Hi, all. I'm excited to be here with you today and to spend some time together on the more financial aspects of our sustainable growth journey. And to me, this journey is also about growth that's scalable over the medium and long term. Let's start first with growth. If we look at the history of our markets and our performance over the past decade, we see end markets that remained in the around 2% to 2.5% range paired with the company in significant transformation, and that transformation has been across many aspects of our business: our segment and end market focus, our geographies, our acceleration towards digital our focus on improving our systems business through selectivity and transactionalization and the solidification of our unique, collaborative and open operating model, all the while with a focus on our portfolio through select acquisitions and disposals.

In simple terms, all of our actions have been geared towards more product, more services, more software and better systems. These transformations have already resulted in a structural shift in our growth profile and drove around 4% growth for the overall group, 2 points above market since the end of 2016. And of course, sustainability has been a key part of our DNA since 2005 and has only grown in importance internally and as a business opportunity over this time frame.

In the next 3 years and beyond, we see a few key things happening. First, based on economic data, we believe our end markets are poised to go through a period of higher growth in the range of around 4% between 2022 and 2024. Since 2016, we've proven our ability to grow above market. And Jean-Pascal spoke in detail about our key future incremental growth drivers: services, sustainability and our unified asset life cycle management software that give us confidence to set our 3-year revenue growth guidance at 5% to 8% organic.

Again, in simple terms, the strategic priorities that will drive this growth are more products, more services, more software and more sustainability. Now we're starting the first year of this guidance with some supply chain constraints. And as I mentioned a few weeks ago during our Q3 call, these are unlikely to abate for at least another 2 to 3 quarters, including Q4 of 2021.

However, we've taken these potential impacts into account to the best of our knowledge in all of the guidance we've given during this Capital Markets Day. As a management team, we're also focused on the long term across all aspects of our business. Therefore, in addition to our organic growth guidance of plus 5% to 8% for our next 3 years, we're upgrading our across-cycle organic growth guidance to an ambition of 5% plus another step change. And by across the cycle, we mean the entirety of any economic cycle. And there are a few elements behind this upgrade.

First, the journey towards a more digital, more electric and more sustainable world is just beginning and will bring big changes over the next decades. We certainly don't have a crystal ball, but we expect the opportunities in our end markets to remain dynamic, driven by these key global transformations over the longer term. And our current incremental growth drivers, software, services and sustainability, will continue beyond 2024. Plus, we continue to invest in future-looking incremental growth drivers, both organic and inorganic, and I'll speak to both of those shortly based on our views of the future.

One of the key elements for developing those future growth drivers is innovation, fueled by our investments in R&D. We've seen a small step-up in R&D as a percentage of sales over the past years, primarily tied to our shift towards digital. And as we shared earlier this year, around 1/3 of our orders growth in 2021 is linked to new product innovations over the past 3 years. So we see the return on those investments.

Tied to the continued evolution of our portfolio towards software and digital, as well as our focus on long-term sustainable growth, we expect to step up this level of R&D investment over time, both in euros and as a percentage of sales. And with our R&D teams, we're keenly focused on allocating our resources towards our focused areas. So across the digital flywheel, including towards more and more native connectivity of our products on sustainability on cybersecurity and some newer focuses like adapting our electronic offers for resilience and on artificial intelligence.

And you heard a bit about this from Peter Weckesser and during the panel discussion just prior. And of course, as CFO, a key focus for me is to follow return on investment as a key metric to ensure these R&D investments make sense. While we do expect a step-up in R&D over the next years, it's important for us that our sustainable growth also remains scalable over the longer term.

So it translates to further margin expansion opportunity and cash flows. Since the end of 2016, we've already been on a journey both of growth and of profitability. And we're now on track to achieve our target of around 17% adjusted EBITDA margin at the end of 2021. That's 1 year early. And that's a margin expansion of around 365 basis points organic over the past 5 years, using the midpoint of our 2021 guidance.

And let me spend a few minutes on the drivers of that past 5 years of margin expansion as we expect a number of these to continue to fuel our margin journey in the future. Of course, our structural shift in growth rates from around flat from 2012 to 2016 to around 4% since is a driver.

And then at the level of gross margin, we moved from 38% at year-end 2016 to 40.4% in 2020 with continued improvement through H1 of 2021. This was driven primarily through consistent delivery on industrial productivity, positive net pricing and consistent improvement on our systems margin as well as the structural changes in our portfolio towards more software, both through acquisitions as well as higher organic growth positively impacting our mix.

We also drove structural savings in SFC over that same time period, both for reinvestment in R&D and sales and with an acceleration since 2019, resulting in an organic improvement in our SFC to sales ratio of 70 basis points at year-end 2020, and again, with some further improvement in H1 of 2021. And with organic improvement annually since 2016, except during 2020, where the limited deterioration we see in that year reflects our strong tactical and structural SFC actions to respond to the coronavirus crisis. So what do we expect for our future adjusted EBITDA margins?

We've mentioned to you previously that 17% was not the end of the journey. And indeed, that journey continues. We've set a target of plus 30 to plus 70 basis points organic expansion annually in our adjusted EBITDA margins between 2022 and 2024, resulting in around 1 to 2 points additional organic EBITDA margin expansion over the next 3 years. And I'll speak through the drivers of that.

Additionally, beyond 2024, we expect further opportunities to expand our profitability based on the same key drivers we see from 2022 to 2024.

Moving to the specific factors behind our margin expansion. Of course, sustainable growth is an element in our continued margin progression, but not the only factor. Starting with some key drivers of gross margin, industrial productivity has been a key driver for us in the past. We've driven around EUR 3.3 billion in productivity in the past 10 years, and we see further opportunity to drive industrial productivity in the future.

We had prior set a target of around EUR 1 billion in industrial productivity from 2020 to 2022 linked with our around 17% margin ambition. Although we're realizing our 17% ambition in advance of finalizing this productivity target, we expect the around EUR 1 billion to largely remain on track, excluding extraordinary impacts from the ongoing global supply chain crisis, and I'll speak to those impacts in my next slide about pricing.

Going forward, we're not going to give a specific numerical target beyond 2022, but we do expect a good level of industrial productivity to continue, driven by continued benefits from scaling our primarily regional platform and our continued ability to negotiate with suppliers.

Second, on pricing. We've been able to drive strong net positive pricing over the past decade, and that's comparing absolute euros of additional price versus absolute euros of additional costs due to increases in our raw material index.

Since 2020, a number of factors, largely due to the coronavirus crisis, have resulted in additional costs or cost increases that don't impact our RMI, like plastics, electronics, freight additional personal protective equipment and other costs. We've had key focus on ensuring we price accordingly. And you can see here the around EUR 500 million in net price we've driven above RMI over the past 5 years. Going forward, we would expect our innovation and differentiated value proposition will allow us to maintain strong pricing power. And we expect to continue to execute on our ambition of flat to positive pricing across the cycle, including incremental cost inflation, not captured in our RMI.

The last point I'll make specific to gross margin is on our mix. We've seen a consistent trending of our mix towards a less negative impact due to a focus on selectivity and transactionalization in our systems business and transformation of our portfolio organically and inorganically toward more software and services. Obviously, there are many elements that can impact mix positively or negatively in any given quarter, including geography, business cycle and positioning in the market.

However, over time, we would expect that flattening trend to continue based on our strategic growth drivers of more products, more services, more software and more sustainability and the overall evolution of our revenues, which I'll speak to on the next slide.

As Jean-Pascal detailed, we have a big evolution of our revenues underway towards more digital and more resilient. First, we're driving another step change in our path toward a hybrid digital company by moving towards around 60% of our group revenues in our digital flywheel of connectable products, edge control and software and services by 2025 from around 50% today. Part of this increase is due to the growth rate of the digital flywheel itself, and part of this is driven by planned R&D investments to shift key product lines to native connectivity and into the digital flywheel. Our continued strong strategic focus on more software and services drives an expected increase there from around 18% of group revenues today to around 23% by 2025, an increase of 5 points. These numbers are based mainly on organic growth, but do factor in recently closed acquisitions and our disposal program.

Software and services is a very resilient and sticky part of our revenues, as we saw in 2020, driven in part by its exposure to recurring revenues, and we expect a step-up in our recurring revenues as a percentage of software and services by 15 points to 45% by 2025, another key revenue evolution, driven by our shift to Software-as-a-Service at AVEVA and in our energy management software portfolio and with more digital services and multiyear contracts in services.

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We also expect to begin reporting our ARR, or annual recurring revenues, in software and services by year-end 2022. The other key component to our adjusted EBITDA margin and scalable growth is management of our fixed costs or SFC. If you recall, last year, we extended and increased our target for total structural savings to around EUR 1 billion between 2020 and 2022.

Through H1 2021, we've delivered around EUR 560 million, and we're on track for the remaining EUR 440 million, including more efficiency from more digitization and standardization across our organization. After 2022, we expect to shift our focus from driving structural savings to ensuring operating leverage. And therefore, we expect a continued reduction in SFC to sales ratio over the longer term, partly mitigated by the -- in the medium term by our step-up in R&D.

This leads me to items below our adjusted EBITDA line enter restructuring in particular. We've made a lot of efforts over the past 18 months to ensure that everything we book into restructuring is identified and tracked within our structural savings program or our long-term industrial plan. Based on this and our shift in focus away from structural savings and towards operating leverage, we would expect to reduce our restructuring cost to around EUR 100 million per year starting in 2023.

Turning now to cash flows. We've made a step up in our cash from around EUR 2 billion on average from 2012 to 2016 to around EUR 3 billion on average, driven by our improved top line and profitability as well as our focus on pragmatic working capital management. These same drivers will project us towards a company of around EUR 4 billion in free cash flow by end of 2024, with cash conversion expected to continue at around 100% across the cycle.

We also expect to continue to be a CapEx-light company with across-the-cycle investments in tangible CapEx, including supply chain of around 2% of sales. In the near term, we would expect this around 2% to increase by around 10 to 30 basis points to support our already discussed focused on resiliency in our supply chain.

Behind all of these financial targets is a focus on adding value through our strategic choices and our operational execution. One of the key metrics we focus on to track that value is ROCE in our core business and also to track the value add of our acquisitions over time. Based on the ambitions we've shared here today, we expect to drive our ROCE towards 15% in the next years, including already closed acquisitions.

Turning now to capital allocation. Our priorities remain unchanged. We're focused on disciplined capital allocation with an emphasis on shareholder returns over the short, medium and long term. And I'll go through some detail on each of the boxes in the next slide.

First, as a priority, we remain committed to strong investment-grade credit ratings to ensure reliable access to capital markets even during times of economic uncertainty. This allows us the flexibility to maintain and even accelerate our strategic plans at times when other companies might not be able to do so. And of course, it supports our low cost of debt.

Second, we've maintained a progressive dividend for the past 11 years even in the challenging environment of H1 2020 and return to shareholders in the form of reliable dividends remains a priority for us going forward.

Moving to portfolio optimization. We have 2 aspects to cover here. First, in terms of acquisitions, we continue to be focused on integration and realizing the value from our recent acquisitions particularly L&T and the acquisitions we've made toward building our unified asset life cycle management software portfolio.

Overall, we're happy with the integrated, focused and differentiated portfolio we've built across hardware and software. In the near term, therefore, we would expect any acquisition to be bolt-on in nature and tied to our incremental growth drivers for today or for the future. For any acquisitions, our key focus is our ability to create value, starting with an in-depth understanding of the target business and our plan to drive future cash flows and ROCE from that business.

We also continue working on our disposal program and expect to meet our ambition of EUR 1.5 billion to EUR 2 billion in revenue sold by year-end 2022. We're not setting a target for future disposals. However, we consistently review our portfolio to ensure that all of these pieces are a good strategic fit and are adding value to our customers and shareholders.

Lastly, on share buyback. We reopened our program at end of July, and we're on track to purchase EUR 1.5 billion to EUR 2 billion in shares between now and year-end 2022. As you know, we have a price cap on share buyback, set at EUR 150 at the moment. So we'll propose to raise that to EUR 250 at our next Annual General Meeting.

I've talked a lot about value during this presentation. And I think our key focus is on sustainable growth through our strategic portfolio positioning and incremental growth drivers a translation of that growth into our margin expansion and cash flows and our disciplined capital allocation, all translate to total shareholder returns.

You can see here, we've driven plus 180% in total shareholder returns since the end of 2016, when we started our journey of growth and profitability, and that journey continues. I'll finish by reiterating the targets I've discussed throughout my presentation and as presented earlier by Jean-Pascal.

First, between 2022 and 2024, we expect strong growth of plus 5% to 8% on average and a continued expansion of our margin between plus 30 and plus 70 basis points annually. We expect that growth and margin expansion to translate into a step-up in our cash flows over time with free cash flows of around EUR 4 billion expected by end 2024.

We upgraded our longer-term targets to an ambition of 5% plus organic growth in revenues across the entirety of the economic cycle with further opportunity to expand our margins and cash flows in the future. And in ambition, we're using internally to guide our strategic planning and decision-making and we'd like to share with you today is to strive toward a consistent company of 25%. That's as a sum of our organic growth and adjusted EBITDA margin across the cycle. This is a big goal, but one we feel is worth striving for. And with that, I'll close my presentation, and we'll rejoin you in a few minutes for the Q&A.

(presentation)

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

Thank you for your attention so far.

QUESTIONS AND ANSWERS

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

We now move to the last leg, which is our Q&A session, and we have all the speakers from earlier today represented here between Europe here and Hong Kong on the other side.

We're going to kickstart the Q&A. But I might just want to remind you, I'm sure there are a lot of questions. And to ensure that we try to get to everybody, stick to 1 question per analyst, and we come back to you if we have the time. So with that, we'll get started, and I'll turn it over to the operator for the first question.

Operator

Our first question comes from Andreas Willi from JPMorgan.

Andreas P. Willi - *JPMorgan Chase & Co, Research Division - Head of the European Capital Goods*

Yes. Good morning, good afternoon to everybody. The first question I have is on the higher organic growth target. With the capital goods company growing at those kind of levels, we haven't really seen historically, is actively rare in our sector. If you look at how you manage the risks associated with this ambition, the company needs to gear up to deliver that. How do you look at kind of addressing the risks, the concerns around that

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differentiating cyclical versus structural growth and what are you using to make sure that we don't end up in a situation for cyclical reasons, you then kind of get called out in the near term in terms of resilience and profitability, which always has been a strong point of Schneider historically?

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Thank you, Andreas. Hilary, you want to take that question?

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

Sure. Andreas and I think you're probably referring to the across the economic cycle growth. I think we went into some detail on our markets on the next 3 years. So we did upgrade our across the economic cycle growth to an ambition of 5-plus percent.

And I would say a couple of things there. First, we're talking about the entirety of the economic cycle. And it is a step change for us, one that we've started as of 2016, as you can see. And I exactly understand what you're talking about on the risks managing this. And I think we tried to go through a number of different impacts there that we have to both drive structural growth through the incremental growth drivers that we're putting in place, not just the ones that we have today, but in the future and consistently looking at those incremental growth and on the SFC side, we talked about some step-up in R&D over time that's associated with those structural growth drivers.

We intend to remain with a level of flexibility over the course of the economic cycle as well to continue to maintain that resiliency in margins that I think has been a trademark of Schneider over the past years and I think in our modeling accessibility for ourselves to consider.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

All right. Thank you, Andreas. We'll take the next question, please?

Operator

Our next question comes from Jonathan Mounsey from BNP Paribas.

Jonathan R. Mounsey - *BNP Paribas Exane, Research Division - Analyst of Capital Goods*

I'm just wondering about the shape of that margin story you've laid out. So should we be just really assuming 30 to 70 bps every year out to 2024? Given the level of cost base inflation, purchase price wage inflation right now, is it more perhaps that 2022 would be a sort of a slow start to that journey? Or can we expect significant progress in the 12 months ahead, please?

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Hilary, here's a question goes back to you again.

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

Yes, thanks. So a couple of things, and we spoke a little bit. I would point to a couple of things about 2022. Obviously, we're not giving specific 2022 guidance at the Capital Markets Day today. Like usual, we'll give a specific guidance for 2022 in February, when we give our year-end results.

A couple of factors, though, that we talked to in the Q3. One, we are entering 2022. We talked in the Q3 about some supply chain. I mentioned it again today, just a few minutes ago associated -- you saw it in our Q3, and we expect that

(technical difficulty)

Jonathan R. Mounsey - *BNP Paribas Exane, Research Division - Analyst of Capital Goods*

Selling synergies. And how do you expect that to evolve as more customers move into the digitize and fusion phases of the decarbonization strategies and presumably pull through more of your core portfolio? And then linked to that, it was more a clarification, if I could. Does the target to increase the consorting revenue fourfold by 2025, which I think are spotted on your slides. What's the base for that? Is that the full EUR 500 million of sales you highlighted earlier? Or is it -- was kind of consulting just a part of that?

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

So Olivier, can you take that question?

Olivier Blum - *Schneider Electric S.E. - Chief Strategy & Sustainability Officer*

Yes. First of all, to clarify on the consulting side, we don't have necessarily a huge ambition in value in terms of consulting. But as you have understood, for us, that's a.

(technical difficulty)

company and moving on main metric at 70% to make the 50% of the cases, there is an opportunity of pull-through for us on electric.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

All right. We probably move to the next question.

Andre Kukhnin - *Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst*

What would be the kind of ultimate end result and goal of that project for you?

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Peter Weckesser, can you take that on?

Peter Weckesser - *Schneider Electric S.E.*

Yes. Thank you very much for that question. On the growth on EcoStruxure, there's one number that I would like to share, which is really the growth of our assets under management, which is about 50% this year. So we are growing by the end of this year to about 6 million connected assets to EcoStruxure.

And all these assets deliver data into our EcoStruxure platform. Second part of your question around this openness. We have actually really built 3 or 2 business models today, and we are extending that to a third business model. First one is we have built a successful business with our advisers.

Second, our advisers in EcoStruxure enable a very successful business, which we call digital services. And now thirdly, we are taking the step of opening up EcoStruxure, which really means that we are creating an API as well as an ecosystem of partners so that our customers and partners can build their own applications, their own advisers and their own business models around EcoStruxure.

So with this openness, we're going, in addition to our adviser and digital services business model, also in a business model which is around data and also platform-as-a-Service clearly with the ambition to build the largest data -- industrial data ecosystem of the industry.

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Maybe I can turn also to Philippe, if you can give us one example of what EcoStruxure is representing for you. I mean for -- on the energy management side, EcoStruxure is central to our differentiation.

So first of all, the digital layer that we put on top of most of what we sell in low and medium voltage. So that's really, really important. And then -- so that's the power side. And then very often, we combo that with the process of our customer. It can be a building management. It can be EcoStruxure IT. It can be the plant and process coming from the automation of the grid. And the combination of the 2 makes us really, really differentiated.

So I would say there is really the value, and you can find a lot of that in the digital flywheel. But there is the pull-through and what we see every day is that as we drive our journey towards more efficiency and sustainability. EcoStruxure is a backbone and really the key point of entry with our customers.

And I remind that today, EcoStruxure is roughly 40% of our business. And if you add to that the services, it makes 50% of our business. And as we go to the horizon of 2020, that 50% is becoming -- will become 60% of our turnover.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

All right. Thank you, Andre. Next question, please.

Operator

Our next question comes from Phil Buller from Berenberg.

Philip John Buller - *Joh. Berenberg, Gossler & Co. KG, Research Division - Research Analyst*

Obviously, a lot of ground covered and lots of questions. But can I ask one of you, Jean-Pascal or perhaps it's one for Peter, on the topic of cybersecurity. It's been touched on a few times in passing, that strikes me as a increasingly important topic, especially given the growth in connectivity of everything and the fact you're involved in digital service contracts, energy-as-a-service contracts everything to do with EcoStruxure essentially. It seems as though you're perhaps absorbing higher exposure to risks that may stem from cyber issues in the future.

So I was hoping you could elaborate a little on your own in-house capability specifically in cyber. And is there anything you need to do more on perhaps through the partnerships that are already in place or via M&A, please?

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

I'd like Peter Weckesser or Barbara to speak about the subject.

Peter Weckesser - *Schneider Electric S.E.*

Okay. Yes, if I can start. Cyber is certainly a key foundation of our business. We are collecting data on behalf of our customers. And certainly, this is all based on a strong level of trust that we have built with our customers. And in order to live up to that expectation of our customers, we have made in the past significant investments into the cybersecurity of our platforms.

So we have dedicated roles in our platform engineering teams that really take care of the cybersecurity. We have dedicated roles that take care of the operations of our cloud and on-prem based platforms. So cyber is clearly key to that.

Also internally, when it comes to the protection of our own systems, IT systems, we have a sophisticated approach of really assessing the relevant assets that we need to protect going through a risk-based approach to identify potential risk and then identifying the measures and implementing the measures to mitigate these risks. So cyber has been a key topic for us in the past and will continue to be a key topic in the future and a topic that we're also investing in.

Barbara Frei - *Schneider Electric S.E. - EVP Industrial Automation*

Yes. And of course, it's also a business for us, so the new cybersecurity services agreements that we are doing. If you might remember in the Capital Markets Day 2 years ago, Peter presented to your business plan. We are on track with this business plan. So it's a double-digit growing business quite successfully.

And we started in the oil and gas business and are now moving more towards new segments like critical infrastructure, critical buildings, where we, of course, and you mentioned it before Phil, working together with partners. That's really a key here. And of course, we continuously look for opportunities also to make share or buy share of companies or even make certain acquisitions there.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

All right. Thank you, Phil, for the question. Next question, please.

Operator

Our next question comes from Ben Uglow from Morgan Stanley.

Benedict Ernest Uglow - *Morgan Stanley, Research Division - MD and Head of European Capital Goods Equity Research*

I guess I wanted to come back to the 5% to 8% growth target, which obviously is quite ambitious. Can you calibrate a little bit between Energy Management and Industrial Automation, is it correct for us to think that you might see higher growth on the Industrial Automation side because of software? Or do you -- or is that assumption not correct? So that's question #1. Question #2.

(technical difficulty)

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

And all of the strategic choices we made in the past in order to capture over the next years. So we look at -- we have our additional growth drivers of sustainability with its pull-through, other things that are on top of just dynamics that are going on in our end markets over that 3-year period.

So I gave you a bit of a breakdown there that around 4% is what we think we have in terms of opportunities just mark it in front of us. And then those additional growth drivers are what bring us the confidence again to come to that 5% to 8%. In terms of the balance between Energy

Management and Industrial Automation, I think we talked a lot today about the complementarity between those 2 businesses and the fact that from an end market point, we're actually addressing a lot of customers with both Energy Management and Industrial Automation.

So we're fairly balanced in terms of end markets, and we see that level of opportunity over the next 3 years to be not significantly differentiated, I would say, between the 2 businesses from an end market standpoint.

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

And if I may ask Peter to comment where AVEVA is selling software or Philippe, we sell software also significantly in Energy Management. Peter, if you want to comment on...

Peter Weckesser - *Schneider Electric S.E.*

The whole portfolio that AVEVA has goes into industrial and infrastructure markets, and some that follow us have looked at kind of announcements we made at the Capital Markets Day the AVEVA that's fully supportive of the target that Hilary has put out earlier. And we see that over the cycle because there is secular growth in the market in respect to digitization, I guess that goes into what's in there on top of the 4%, and it goes to a variety of end customers.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

All right. We'll move to the next question, please.

Operator

Our next question comes from Martin Wilkie from Citi.

Martin Wilkie - *Citigroup Inc., Research Division - MD*

Yes. Just coming back to the growth in software. And also, we can see some of the software revenues in AVEVA, but not necessarily so much across the rest of the portfolio. It sounds that we are going to get some disclosure on annual recurring revenues in software, but only from the end of next year. Just to ask why we have to wait. Is there a change in business model, either unbundling software from other parts of revenues or perhaps a shift to software-as-a-service? Or is it just purely because you've made some acquisitions recently, and therefore, there's some integration to do? But just to wonder why we can't see the ARR numbers as they are today.

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Well, I can -- there would be many people who could speak around that around the table because all of us are taking care of software nowadays but I would say you said it. It's established a clean baseline after the integration of everything we are putting together. From there, we feel we want to report figures on a very strong baseline, and we feel we're going to be able to.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

Thank you, Martin. Next question, please.

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Operator

Our next question comes from Gael de-Bray from Deutsche Bank.

Gael de-Bray - *Deutsche Bank AG, Research Division - Head of European Capital Goods Research*

I have actually 2 questions, please. The first one is on the financials. And the second one, the strategy. So the first one for Hilary, if I take the midpoint of your growth and margin targets by 2024, it implies an adjusted EBITDA CAGR of about 10%. But your free cash flow target of EUR 4 billion implies a free cash flow CAGR of only about 5%. So how do you reconcile the two?

And then the second question, from a strategy perspective, why do you have a different approach to software between Energy Management and Industrial Automation, I mean for Industrial Automation, you obviously use AVEVA as a lifted independently run entity focused on the industrial software and you don't have the same setup in Energy Management. So is it because you haven't not yet found the right target in the market? Or is there a more fundamental reason behind the different approach?

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

So Hilary, for the first one.

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

Sure. So on the question about free cash flow. You'll see that -- and actually, I think just paired with what we've done historically, unlike our -- the targets that we gave in terms of revenues, the targets that we gave in terms of adjusted EBITDA, we chose not to give us specific range in terms of free cash flow.

We just said that we're stepping up to around $4 billion. One could infer that there's a specific range around that as well. What I would say is I spoke to quite a few elements, I think, above and below the line, both in growth, both in terms of the expansion in margin in terms of our below-the-line items, which we expect to decrease as well as our cash conversion ratio.

So what I would say is from the guidance, you shouldn't take away that we wouldn't expect our cash flows to generally move along the same trend as our P&L. Of course, we have working capital. But aside from -- and we talked to them on the Q3, things like some inventory buildup associated with the supply chain that's purely as of today. So in the near term, we wouldn't expect anything special around the working capital either. So I let you make your own viewpoints and guidance around that, but we just specifically didn't choose to give a range around free cash flow the same with the others.

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

So, Philippe?

Philippe Delorme - *Schneider Electric S.E. - EVP Energy Management*

So..

(technical difficulty).

So earlier today, Jean-Pascal and then Peter have explained that on the software side, we are really building a portfolio industry, and that piece is in AVEVA and pretty close with close synergies with Industrial Automation. And then we have 2 other threads, one on power, one on building.

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Those 2, let's say, in the short term, have a lot of synergy with the rest of the portfolio of Energy Management. Hence, the positioning today with Energy Management. But I would say, regardless, we are working very closely with Barbara, with Peter and Peter, I will say Peter Weckesser on the platform side and Herweck on the AVEVA side to make sure that when we have to combo -- when we have the opportunity to combo those offers together, we can also drive this seamless integration for our customers.

And as Jean-Pascal said, it's a lot of work that's keeping us pretty busy. So Peter on the Aveva side, on my side, on the power portfolio and the building portfolio, and we are obsessed by driving this, let's say, integration and bringing those entities together, but also driving some transversality across those 3 threads for our customers.

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

It's indeed a lot of teamwork.

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

Indeed.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

All right. Thank you, Gael. We move to the next question now.

Operator

Our next question comes from James Moore from Redburn.

James Moore - *Redburn (Europe) Limited, Research Division - Partner of Capital Goods Research*

It's around your impressive margin ambition. Could I clarify 3 things, really. Your R&D ambition, are we talking 5.5% or 6%? And secondly, does the transition to more recurring revenue or SaaS drive any margin compression. And if so, when and how much? And finally, should we interpret the 25 internal ambition of 5% organic plus 20% adjusted EBITDA from 25?

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Hilary?

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

Sure. So let me -- so on the margin ambition, we talked about the 30 to 70 basis points over the next 3 years with further opportunity thereafter.

On the R&D ambition, which for me is a really important part of ensuring that we continue to create those growth accelerators in the future, again, driving us to that longer-term growth target that we put out. We haven't given any specific numbers.

What I would say in terms of guidance there, of course, we have a little bit of flexibility. We do our resource planning on an annual, but also a cycle basis, right? R&D can't just be planned on a year-to-year basis, and we don't want to stop and start. We look at things beyond budget in R&D also to focus priorities, what the teams want to work on, what they think they can work on all at the same time.

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But in terms of financials, I would say over the next years, you can expect that step-up could be in the 1 to 2 points in terms of R&D, all taken into account in the margin guidance that we've given.

Recurring revenues, so the ARR and the journey to SaaS, in particular, on the software side of the business, is primarily tied to less margin, tied primarily tied to a depression in shorter-term revenue growth. So something that AVEVA talks about quite a bit. They have a -- in their Capital Markets Day, they talked around 10% CAGR in revenues over 5 years, but with some slowness at the beginning associated with that transition to Software-as-a-Service.

And we would see the same in the consolidation of Schneider and the our energy management software businesses. So that's taken into account. It's not really a margin issue as opposed to being taken into account in the top line guidance that we've given.

In terms of the company of 25%, the way that we like to think about it, it really is sort of an internal North Star for decision-making. So when one business can ask a lot of questions like, do you want growth or do you want profitability? In fact, we really want that internal North Star to make sure that we're balancing both margin and growth over time and particularly across the economic cycle. And so each and every year, it won't be an exact equation like you've said, but that's really a consistent ambition that we want to achieve or that we want to think about when we're making our internal decisions.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

All right. Thanks, James. Next question, please.

Operator

Our next question comes from Guillermo Peigneux-Lojo from UBS.

Guillermo Peigneux-Lojo - *UBS Investment Bank, Research Division - Executive Director and Industrials Analyst*

My question is with regards to the 5% to 8% growth target again. I wanted to ask whether there is any granularity around how much of this is actually coming from volume? How much of it is coming from price and how much is coming from mix? I guess, obviously, the mix is referred as 1 part of the equation that is benefiting you. So I want to get some granularity around that, if possible.

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Hilary again?

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

So on the 5% to 8% growth, the way that you can see that we've planned our business on the pricing side that will be at least neutral or positive over the cycle. And when we're looking at the long-term revenues, we generally think in that way, too. So the 5% to 8% is going to be primarily volume driven in our mind, starting with that 4% market that we looked at.

Of course, we're still over the cycle. And so year-to-year, things can be different. But as we're doing our planning, we're generally looking at being pricing neutral over the cycle and the way that we're modeling that is more that we're looking at the volume side of revenues.

In terms of mix, I think what you're referring to on the top line is probably the digital flywheel and the -- sorry, the top line ambitions we have really in the growth accelerators. So we talked about the fact we expect the digital flywheel, which is today around 50% of our business, to grow to around

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60% of our business and within that software and services being a real accelerator for us. So we talked about services growing at 2x growth. You can infer that being probably double digit.

AVEVA, I'd already mentioned that given in their Capital Markets Day, a target of around 10% growth. And all combined, that will grow our software and services by about 5 points. So we're around 18% of the group today to around 23% in the future. And those are -- that's really the big evolution in our revenues that I would talk to that's tied to the 5% to 8% growth.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

All right. Thank you, Guillermo. We take the next question, please.

Operator

Our next question comes from Eric Lemarié from Bryan Garnier.

Eric A. Lemarié - *Bryan Garnier & Co Ltd, Research Division - Research Analyst*

Actually, my first question is on ESG and on the governance. When should we expect the separation of the Chairman and CEO position? And why didn't you change the situation at the last AGM in April 2021? Does it mean we should wait 4 years before change here or maybe no change at all in the future?

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

So we -- I will take that one, I think. So what the Board said is that we wanted this transition to happen with the necessary time when we say it 4 years. So nothing has changed since the last AGM.

Now I remind you, for the governance of the company that we have a leading independent director. We have 5 committees, and that governance is very solid. And we test it every year. We assess it every year, and it's been retained as a performing governance. But we've given the time line and we stick to that timeline.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

All right. Thank you, Eric, for that question. I believe we've taken at least one question from each of the analysts, of course, mindful of time. It's past midnight, well past midnight, I believe, now for our colleagues in Asia. We are going to be in a couple of conferences this week, so lots more opportunity to speak to all of you. But I think before we close, I would like to give the floor back to you, Jean-Pascal, for your concluding remarks from our Capital Markets Day.

Jean-Pascal Tricoire - *Schneider Electric S.E. - Chairman & CEO*

Yes. Thank you, Amit, and thanks to all the team who prepared the whole session today, and thanks to all of you who are spending time with us, some time to understand and sharing of those problems.

So we see a market in inflection an acceleration. We see additional layers of growth that we have built methodically over time. We want to deliver to you that mix of growth and profitability that go together and be very selective on our business so that we combine both in how we drive our operation.

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So thank you for being with us today. Thank you for supporting us, and thank you for having the dialogue with us, and we look forward to seeing you in the next coming month to speak about the deployment of what we explained today.

Amit Bhalla - *Schneider Electric S.E. - SVP Head of Investor Relations*

Thank you, all.