

# Our approach to sustainable development



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A company's long-term viability depends on its ability to respond to economic, social and environmental challenges. At Schneider Electric, responsibility is an integral part of our strategic vision and improvement program. More than a philosophy or business culture, responsibility is a strategic commitment that enables us to federate our entire organization around tangible objectives, as part of our corporate mission.

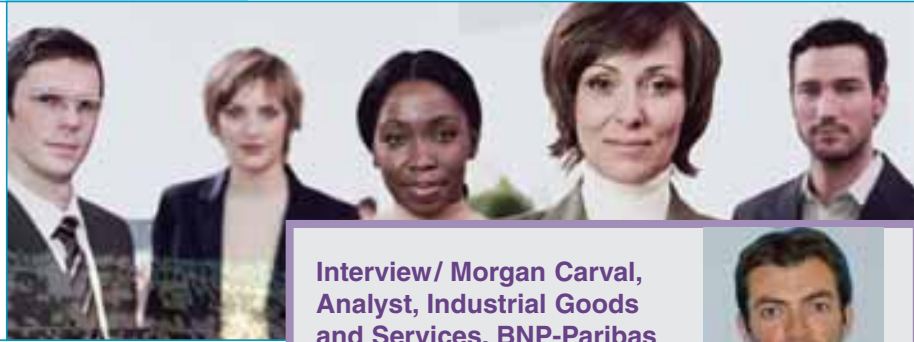
This allows our teams around the world to buy into our sustainable development approach and adapt it to local laws and practices. With this in mind, we have established and aligned global and local objectives to which all units and employees contribute directly.

***"Responsibility is a state of mind, a lever for improvement, that ensures being able to meet the challenges presented to us."***

Henri Lachmann

# Corporate governance and sustainable development organization

With sustainable development, our challenge is to create a community of active, effective process managers throughout the organization. This commitment at the local level gives our approach its global scope.



The Schneider Electric Board of Directors comprises thirteen members, eight of whom are independent Directors, as defined in the Bouton report on corporate governance. Foreign representation is also significant as the Board includes five non-French Directors. Employee shareholders are represented by a Director who sits on the Supervisory Board of the "Schneider Actionnariat" corporate mutual fund. The average age of the Board members is 61. In March 2003, the Board approved a set of operating rules and procedures that include and expand on previously adopted resolutions concerning the organization and operations of the Board and its committees (Remunerations/Appointments and Audit). Schneider Electric has also adopted a code of ethics for Directors and employees. Two committees—the Remunerations and Appointments Committee and the Audit Committee—assist the Board in its mission. One Director and member of the Audit Committee, James Ross, has been assigned on behalf of the Board to develop specific expertise in the area of sustainable development.

## Involvement at the highest levels

The new Schneider Electric organization implemented in 2002, which separates strategic deployment from operational management, is aligned with the main guidelines of sustainable development policy.

The organization includes:

- A Chairman and Chief Executive Officer who oversees strategic deployment and two functional divisions (Finance & Control-Legal Affairs and Human Resources & Communication).
  - A Chief Operating Officer, who oversees three corporate divisions (Customer & Market, Product & Technology, and Globalization & Industry) and the operating divisions (Europe, North America, International & Iberia, and Asia & Pacific).
- In 2003, five executive committees were created: Direction & Strategy, Acquisitions, Operations, HR and New Products.

## Interview/ Morgan Carval, Analyst, Industrial Goods and Services, BNP-Paribas Asset Management, Sustainability Research



**BNP Paribas Asset Management is the investment management arm of BNP Paribas, the leading bank in the euro zone in terms of net profits. A subsidiary with its own resources, BNP Paribas Asset Management has €167.7 billion of assets under management and is one of the leading players in European fund management.**

→ *What are the main criteria used by BNP-Paribas Asset Management for its non-financial assessments?*

In addition to traditional financial evaluation, we try to uncover sources of value creation or destruction in the area of corporate governance, social and environmental responsibility. We look at issues such as shareholders' rights, human capital management, pollution risks and a range of other sector-specific issues.

→ *What trends do you anticipate for Schneider Electric's industry?*

Tighter environmental legislation will create new responsibilities for manufacturers. This concerns both product content, through the banning of toxic compounds, and end-of-life management, with new recovery and recycling requirements. On the other hand, the potential increase in electricity prices and development of renewable energy sources will create new requirements for industrial customers. On the social side, investors' concern over employment practices and labor standards will increase as the industry expands in emerging countries.

[www.bnpparibas.com](http://www.bnpparibas.com)

Schneider Electric has a clearly defined environmental strategy and a history of social responsibility inherited from Merlin Gerin, Telemecanique and Square D. Today, *Our Principles Of Responsibility* have given our commitment greater alignment.

Corporate Governance: legal obligations, recommendations & expectations				Schneider Electric's performance		
Independence	Directors with regards to Management	At least 30% of Board members and 50% of Remunerations Committee members should be independent Directors ▲	Percentage of independent Directors	Board of Directors	Audit Committee	Appointments and Remunerations Committee
		Average term of 5 years for Directors ▲	Bouton report definition* ▲	53 %	100 %	40 %
	Auditors with regards to Management	No consulting services sold by auditors ▲ ■		4 years		
		Meetings between auditors and Directors without senior management ■ ▲		True		
Directors among themselves	No cross-Directorships, no seats on the same Boards and no shared past (education, career or family) ▼		Twice with external auditors Four times with internal auditors			
Role in decision-making	Directors	Number of meetings and average attendance rate ▼	8 three-hour meetings, 91%			
		Audit, Appointments and Remunerations Committees ▲	Audit Committee	Appointments and Remunerations Committee		
		Number of meetings ▲	5	4		
		Attendance rate ▲	100 %	100 %		
		Assessment of Board operations every three years ▲	Assessed in 2002, reviewed in 2003			
	Shareholders	Attendance at Annual Meetings ▼	40 %			
		Percentage of decisions submitted to a vote by shareholders ▼	0 %			
	Other stakeholders	Directors representing employees or other non-shareholder stakeholders and percentage of their proposals approved ▼	0 %			
		Number of corporate social responsibility resolutions voted and approved at the Annual Meeting ▼	1			
		Number and percentage of questions at the Annual Meeting about corporate social responsibility issues ▼	8 questions on corporate social responsibility out of a total of 17 (47%)			

Obligation - Recommendation ▲ Viénot or Bouton reports ■ Sarbanes Oxley Act ▼ Other issues expressed by stakeholders

\*For the company or its group, the Director is not an employee or corporate officer (mandataire social) and has not been one during the previous five years; is not a corporate officer of a company in which the company holds, either directly or indirectly, a directorship; is not a customer or supplier (going back five years) that is material for the company or its group; does not have any close family ties with a corporate officer of the company; has not been an auditor of the company over the past five years; and has not been a Director of the company for more than twelve years.

## A dedicated organization

Following the creation of a Sustainable Development department in 2002, two specific groups were formed in 2003:

- The sustainable development council, which sets strategic objectives for the Company's sustainable development improvement plans. Members meet with the Chairman once a year to confirm compliance with sustainable development principles in their respective areas.
- The sustainable development committee, which brings together representatives from the functional and operating divisions. With the Vice-President Sustainable Development, it deploys sustainable development improvement plans within the Company and ensures their consistency.

## Correspondents across the organization

Our sustainable development approach is relayed by an extensive network of correspondents throughout our organization. Each production site has its own environmental management officer reporting directly to the plant manager who, in turn, reports to the country manager. This network of 160 correspondents is supported by an environmental policy manager in the Globalization & Industry department. Our eco-design strategy is supported by the Science and Technology Division, which coordinates

its application with product managers who oversee environmental issues. Dedicated intranets within each of these networks centralize information on strategy, regulations and best practices. Regarding social strategy, operating division executives are responsible for effectively managing human resources in subsidiaries under their management. They are in charge of implementing and tracking the NEW2004 program and deploying Our Principles of Responsibility. Information on social strategy is continuously exchanged on He@rt, the Human Resources intranet.



### Interview with James Ross, Independent non-executive Director of Schneider Electric, Chairman of National Grid Transco

→ How does the concept of sustainable development benefit shareholders?

We're living in a transparent, interconnected world. Shareholders no longer accept that a company can create wealth without respecting the law or the interests of other stakeholders, including employees.

→ What is your approach to sustainable development?

I think it has to be part of a very broad vision that takes into account the Company's long-term interests. If we can match these interests to those of the larger community, then we have a very powerful lever. At Schneider Electric, we're beginning to see involvement in these issues at the operating level. Senior management believes fully in sustainable development. As a Director, I'm committed to seeing how and to what extent the Company is meeting its sustainable development commitments.

# Managing our approach

In a globalizing world, *Our Principles of Responsibility* provide a reference that informs the decisions and actions of everyone in the organization. These principles define the Company's commitment to each of its stakeholders and align all our policies.



## ***Our Principles of Responsibility, the Company's reference***

Implemented in late 2002 and early 2003, Our Principles of Responsibility were developed by 600 team members in some 15 international working groups. Today, it is the document of reference for individual employees and teams. Non-compliance with the Principles constitutes gross negligence. The Executive Committee approved the document and its deployment procedures in December 2002.

Commitments made for the Company as a whole were met in 2003:

- Internally, we communicated extensively with the entire worldwide workforce to inform employees about Schneider Electric's commitments. Some 65,000 copies of the *NEWWorld* in-house newsmagazine were distributed in French, English and Spanish.
- The finalized Principles of Responsibility are included in all new work contracts worldwide.
- Local policies are based on the document. Broad-based deployment began in the country organizations in 2003 and will be finalized in 2004.

Our Principles of Responsibility have been translated and given to each employee in China, Hungary, France, the United States, Spain, South Korea, Greece, Japan, Germany, Turkey, Brazil and other countries.

To find out more, go to: [www.schneider-electric.com/fr/pdf/principes\\_resp\\_fr.pdf](http://www.schneider-electric.com/fr/pdf/principes_resp_fr.pdf).



## Our Principles of Responsibility in Taiwan

Schneider Electric Taiwan distributed the Company's *Principles of Responsibility* to its 80 employees. Each was asked to sign a form acknowledging receipt of the document and to take a quiz to demonstrate his or her understanding of the concepts. The *Principles of Responsibility* are also handed out to all new employees, included in work contracts, posted in offices and on the intranet, and printed on pay slips. Management discusses the Principles at its meetings and all team members are regularly tested on their proper deployment.

Major challenges and how we are meeting them

Economic challenges	Social challenges	Environmental challenges
▲ Develop the market ● for energy efficiency and reduced consumption	◆ Ban forced labor/child labor	▲ Improve the energy ● efficiency of our products
■ Innovate	◆ Promote human rights	▲ Reduce product size ●
Achieve a balanced fit between renewal markets in industrialized countries and investment markets in emerging economies	▲ Foster better health ■ and safety conditions	▲ Pursue research and ● development of alternatives ■ to hazardous substances
▲ Invest in emerging economies * to contribute to their economic growth	▲ Respect and promote ◆ social dialogue	▲ Reduce toxic airborne ● emissions from products through eco-design and improvements in leak-tightness and manufacturing processes
* Maintain a balanced presence ■ worldwide (innovation, production and sales shared equitably among all continents)	▲ Increase salary and career ■ opportunity equity	● Minimize products' end-of-life impact
▲ Maximize local economic impact for our operations	▲ Promote diversity and ■ ban discrimination within the Company	● Develop solutions for end-of-life waste, notably through the recovery of materials and energy
▲ Make a meaningful ■ commitment in our host regions	▲ Make management ■ positions available to local people	● Reuse and reduce production waste
■ Aim for total product quality	Restructure responsibly	● Eliminate soil pollution on production sites
▲ Foster equitable relationships ▼ with suppliers	▲ Develop staff employability	● Limit the procurement chain's environmental impact
▲ Eliminate uncompetitive practices and corruption	▼ Ensure supplier compliance with ILO conventions	
● Promote improvements in safety conditions for product use	▲ Foster employee ■ participation in local development initiatives	
■ Adjust base costs to business conditions		

- ▲ Principles of Responsibility
- Environmental policy
- Company program
- \* Manufacturing policy
- ▼ Supplier relations
- ◆ Global Compact commitment

Environmental issues

In 1992, Schneider Electric published an environmental policy that has recently been redefined to take into account changes within the organization (i.e., the NEW2004 program), as well as external developments such as the emergence of new environmental regulations and procedures. The policy is designed to improve production processes, strengthen eco-design methodology for products and integrate customers' environmental protection concerns.

Social issues

Our *Principles of Responsibility* also serve as a social charter, replacing the Management Charter introduced in 1994. In particular, the Company's employees "can express their cultural diversity and are managed without discrimination. They are encouraged to develop their team spirit and new competencies, and are recognized for their initiative and risk taking in contributing to the Company's growth" (first commitment in *Our Principles of Responsibility*).



## Managing our approach



### Management systems

#### Eco-production and eco-design

Schneider Electric has set two major environmental objectives for year-end 2004: **achieving ISO 14001 certification for all production sites and applying eco-design methodology to all new global products.** Since the introduction of the ISO 14001 standard in 1996, we have been fully involved in a plant certification process, with the goal of obtaining accreditation for all production sites by year-end 2004.

This commitment requires plants to constantly upgrade their processes through the use of Best Available Techniques.

In addition to our eco-design initiatives, we have set four priority improvement objectives: eliminating hazardous substances in electrical distribution products, reducing product energy consumption during manufacture and use, reducing consumption of natural resources, and cutting the amount of product-generated waste.

We use life cycle analysis methods to assess the environmental impact of our products, identify significant effects and measure improvements (see page 43).

#### Increasing employee commitment

Human resources objectives, integrating both local and global issues, are an integral part of our company program. They focus on promoting the best possible working conditions for our 74,276 employees around the world.

With a special emphasis on respecting cultural differences, these objectives promote employee development through training, international mobility, meaningful dialogue and social coverage. These actions comply with guidelines defined by the International Labor Organization.

### Deployment indicators as of December 31, 2003

- ▶ 74% of production sites and logistics centers are certified to ISO 14001 standards
- ▶ 57% of new global products are eco-designed
- ▶ 75% of employees take part in satisfaction surveys
- ▶ 60% of employees have a variable salary component linked to local and Company-wide results
- ▶ 100% of employees benefit from basic social coverage
- ▶ 84% of sites are involved in the Schneider Electric Foundations' campaigns



**TeSys U**  
Motor starters



**Masterpact NT**  
Low voltage  
circuit breakers



**Sepam serie 40**  
Protection relays

## Involvement and outreach

Informing employees and raising their awareness of the issues are two key components of Schneider Electric's sustainable development approach. This approach has been enhanced through certain team members' active involvement in various organizations.

### Within the Company

#### ► For all employees

Each issue of *NEWWorld*, our in-house newsmagazine, includes a special sustainable development section. Topics covered recently include *Our Principles of Responsibility*, eco-design, the Schneider Electric Foundation and the Global Compact.

With a print run of 65,000, the magazine is published four times a year in three languages: French, English and Spanish.

#### ► For managers

Training programs at the Schneider Management Institute systematically include an initiation to our new sustainable development commitment.

In 2003, 434 managers from 62 countries took part in these seminars.

One group in the *Profession Manager 2004* program worked specifically on sustainable development issues, helping to define challenges facing the Company and identify best practices.

#### ► For the functional divisions

Special environmental training programs are organized with modules tailored specifically to the needs of marketing and production managers and buyers.

### Outside the Company

#### ► Global Compact

Launched in 1999 at the initiative of UN Secretary General Kofi Annan, the Global Compact brings together, under the auspices of the United Nations, private companies and non-governmental organizations to unite "the powers of the market with the authority of universal ideas."

Signatory parties pledge to respect nine major principles in the areas of human rights, labor rights and the environment. By signing the Compact in December 2002, Schneider Electric publicly expressed its support for these universal values. In 2003, initiatives focused on encouraging partners to share in our commitment.

To date, 128 Schneider Electric suppliers have signed the Global Compact.



*Five international managers in the Profession Manager 1 training program chose as their team project "Making our global responsibility local."*

#### ► Observatoire Social International

Schneider Electric is also involved in projects undertaken by Observatoire Social International, a French organization that seeks to create a balance between business and social needs. The Company has signed the "Right to life-long education and training," which promotes partnership and co-responsibility between companies and educational and professional training organizations.

#### ► Other associations

Schneider Electric leads discussion groups on management and social issues at the Institut de l'Entreprise and, since 2001, has been a member of ORSE, an organization that monitors corporate social responsibility.

For many years, the Company has also actively supported ADMICAL, a French association that promotes the development of corporate sponsorship through Europe's CERES network, and IMS, an institute for social patronage.

#### ► Professional organizations

In 2004, Schneider Electric's Chief Executive in France was elected President of GIMELEC, the French industry association for electrical equipment, automation and related services.

#### ► Standards organizations

Schneider Electric plays an active role in AFNOR, France's standards organization, where it participates in the sustainable development working group. Other commitments include:

- > In France, UTE, a French electrical engineering standards organization.
- > In Europe, CENELEC, the European Committee for Electrotechnical Standardization.
- > Globally, the International Electrotechnical Commission and the International Organization for Standardization.

# Scorecard



## Sustainable development as a management tool

Designed to drive sustainable, profitable growth, our NEW2004 (New Electric World) company program includes six challenges, one of which is specifically related to sustainable development. The program has established quantitative objectives and time frames for meeting environmental, social and community responsibility goals.

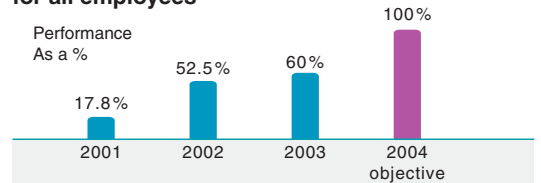
The five other NEW2004 challenges ([Be More Customer-Centric](#), [Be Committed to Quality](#), [Be More Global](#), [Increase our People's Commitment and Think Innovation](#)) also support our sustainable development initiatives through such actions as reducing the cost of non-quality by 50% or conducting satisfaction surveys of all employees every two years.

NEW2004 objectives are gradually being met through operational improvement plans deployed in our units, which may also set related local objectives. In France, for example, specific hiring targets include filling more than 4% of job vacancies through internal promotion and 2% through hiring the disabled, as well as increasing the number of student internships by 10%.

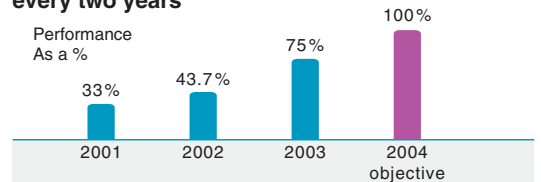
## Employees

### Indicators

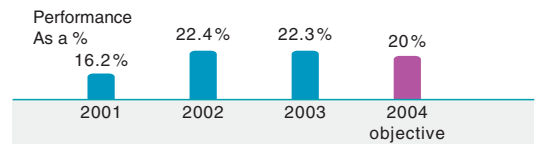
**Introduce a variable salary component linked to local and Company-wide results for all employees**



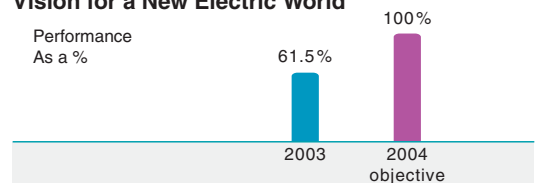
**Conduct professional satisfaction surveys for all employees every two years**



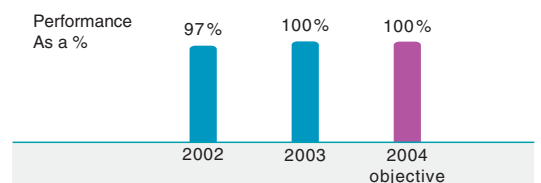
**Achieve a cross-border mobility rate of 20% for international executives**



**Familiarize all employees with Schneider Electric's fundamentals, as expressed in our Vision for a New Electric World**



**Provide basic social coverage for all employees**



### 2004 improvement plan

Complete deployment of *Our Principles of Responsibility*.

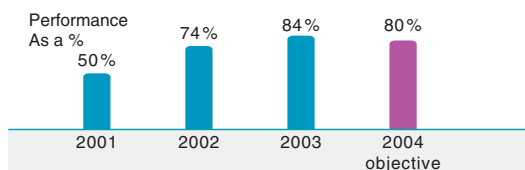
Integrate diversity concerns more fully.

Implement a workplace health and safety policy for the entire organization.

## Local communities

### Indicators

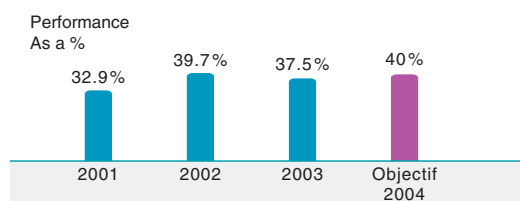
**Ensure that 80% of our sites have a long-term commitment with the Schneider Electric Foundation**



## Business partners

### Indicators

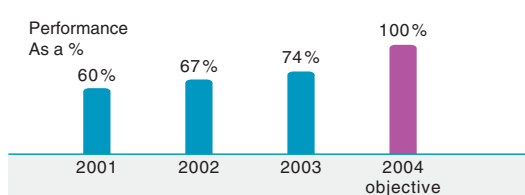
**Achieve a 40% rate of "very satisfied" customers**



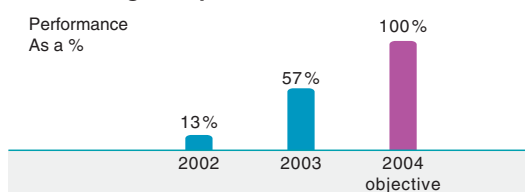
## Environment

### Indicators

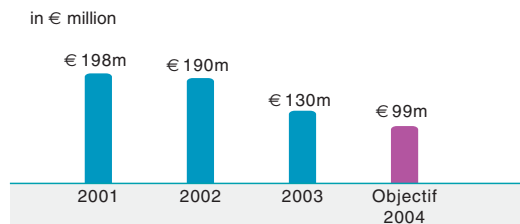
**Obtain ISO 14001 certification for all production sites and logistics centers**



**Use eco-design methodology for all new global products**



**Commit to quality by reducing the cost of non-quality by 50%**



### 2004 improvement plan

Develop our partners' community commitment, notably through the Global Compact.

Develop special lineups that make a direct impact on energy efficiency.

Upgrade product literature to systematically include the environmental features of our products, solutions and services.

### 2004 improvement plan

Improve the overall environmental impact of our production chain.

Introduce a plan for reducing consumption.

Implement a workplace health and safety policy for the entire organization.

## Corporate Governance

### 2004 improvement plan

Systematically include the various components of our sustainable development commitment in corporate audits of the units.

Assess the quality of reported social and environmental data.