

Annual Results

February 27, 2002

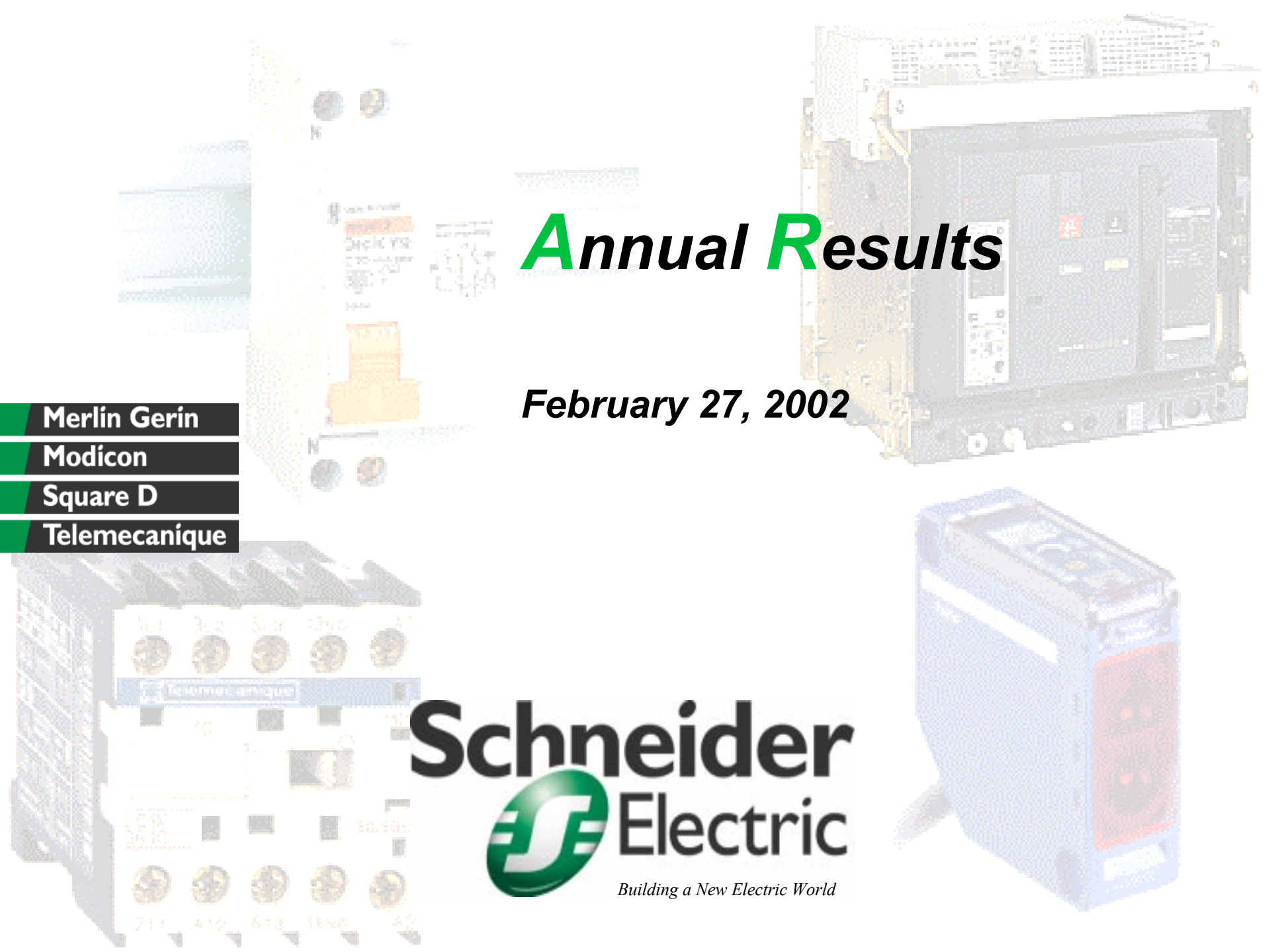
Merlin Gerin

Modicon

Square D

Telemecanique

Schneider
 **Electric**
Building a New Electric World



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Strategic outlook: NEW2004

A difficult and exceptional year

- **Global economic downturn**
- **Decline in capital spending**
- **Financial crisis** in Turkey, Argentina and Japan
- **Legrand merger vetoed by the European Commission**

Solid operating performance

Sales	EUR 9.8 bn	up 1.4%
Ebita	EUR 1.1 bn	11.4% of sales
Cash flow	EUR 1.0 bn	9.8% of sales

2001 net income affected by an exceptional provision

- **Net income before goodwill** (excl. provision for Legrand shares):
EUR583million
- **Exceptional expense** (provision for Legrand shares):
EUR - 1.4billion
- **Proposed dividend to Shareholders meeting:**
EUR1.3 per share

A mixed situation in our markets

North America

- Over-investment in capital equipment in 1999 and 2000 and inventory drawdowns by distributors
- Contraction in the industry and non-residential building markets in 2001

Europe (excl. France)

- Slowdown in the industry markets and reduced demand from machine manufacturers
- Sustained strong growth in the Iberian peninsula and Central and Eastern Europe

International

- Strong growth in China, Brazil, the Arabian peninsula and the Asia/Pacific zone
- Slowdown in the other regions

France

- Inventory drawdowns by distributors
- Noticeable decline in demand (machine manufacturers, building market)

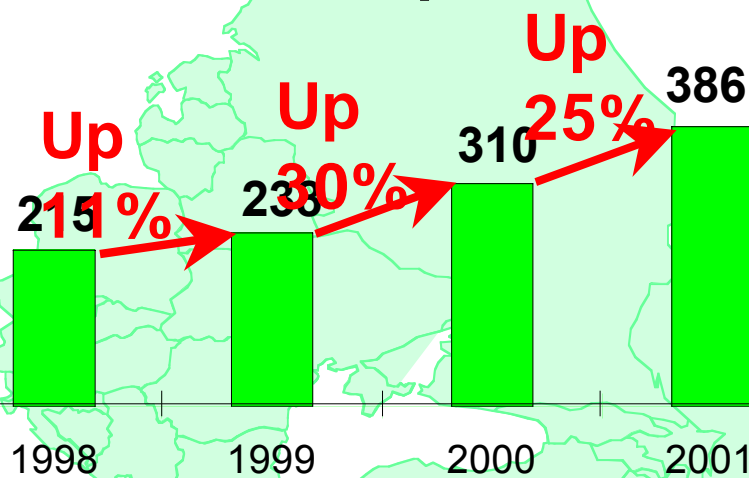
Uneven sales growth by region

(organic growth in %)	<u>2001</u>	<u>2000</u>
North America	down 10.3%	up 8.9%
Europe (excl. France)	up 2.8%	up 8.0%
International	up 13.2%	up 15.6%
France	down 1.7%	up 1.5%
Total	down 0.4%	up 8.3%

Strong growth regions in Europe and the International Division

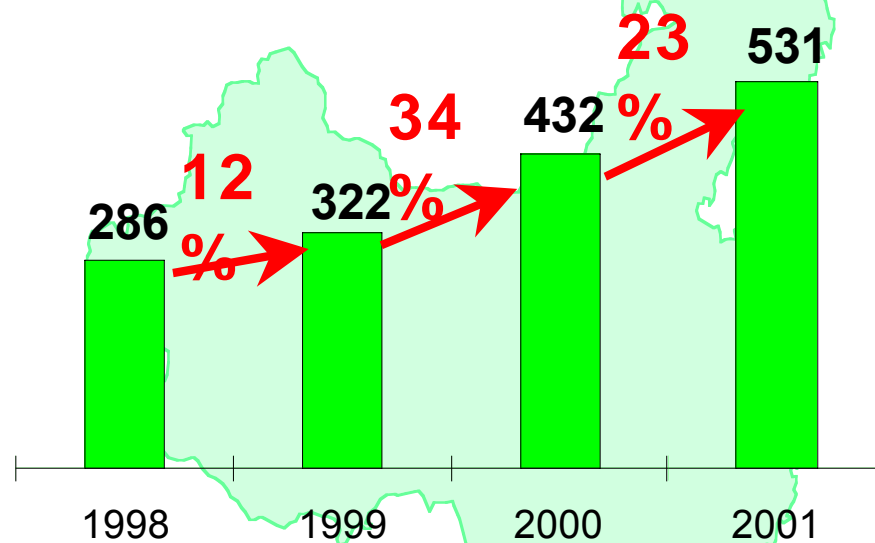
(Sales in EUR billion)

Central and Eastern Europe



**10 plants,
50 sales agencies,
1,000 distributors, 2,900 employees**

Greater China



**11 plants,
25 sales agencies,
400 distributors, 2,800 employees**

Strong measures to improve productivity

- **Targeted price increases in several regions** (US, South America, Europe)
- **Optimization of resources - continued industrial rationalization**
 - **Ongoing strategy to rightsize the workforce** (- 6000 people in the group workforce in 2001, 7% of the total workforce)
 - North America : - 3,200
 - Europe : - 2,100 (incl. France - 1 400)
 - International : - 700
 - **Localized production in target markets:**
Mexico, Eastern European countries (Poland, Bulgaria)

Strong measures to improve productivity

(cont'd)

■ Reduction of base costs

- 39.5% of sales versus 43.2% in 1998, making for aggregate savings of EUR373 million (exceeds Schneider 2000+ target of EUR 305 million)

■ Programs to control free cash flow deployed at all levels of the Company

- Control of capex
- Control of working capital (inventory reductions)

Enhanced partnerships to support growth

■ Expanding alliances with:

- **Manufacturers**, to speed new product development: Easyplug (powerline carrier technologies), Schneider Toshiba Inverter, Sensitive (France Télécom)
- **Suppliers**
 - "Global Supplier Group", KeyMRO
 - Development of dedicated extranets to help simplify processes, reduce processing time and improve performance

Enhanced partnerships to support growth (cont'd)

- **Strengthening alliances with customers**
 - **Global Strategic Accounts**
 - Development of global agreements (new partners include Mannesman Dematic, Emerson and ACE Airwell)
 - Executive tracking of Global Strategic Accounts

- **Development of customer service centers** (technical support and online training) **to make service quality a competitive advantage**

- **Development of cooperation agreements:** support customers in deploying value-creating solutions (auditing - industrial productivity improvement - energy saving - industrial organisation)

Schneider Electric has continued to invest to prepare the future

■ Innovation, a key success factor

- 5.2% of sales devoted to **R&D** (vs 4.5% average for the sector)
- **"Transparent Ready"**: continued development of new web-enabled solutions (optimization of building utilities, improved power distribution, energy savings, automation of manufacturing customers' processes)
- Schneider Electric Ventures: six investments in 2001



Ipsil
Micro components for Internet connectivity



ORDINAL
Industrial IT software



Bowman
POWER
The New Wave In Energy
Compact gas turbines



TRACETEL
RFID readers, tracking and micro-electronic solutions



TRONIC'S
MICROSYSTEMS
Technologies MEMS
(sensors, micro-mirrors)



connectBlue
Bluetooth technology

VDI : An Ambitious Global Growth Initiative for Worldwide Leadership in 2005

- **VDI : Electrical Transmission Systems for Voice, Data, & Image**

- **A high growth market for which Schneider Electric enjoys enormous potential means and resources:**
 - Updated technology with Lexel, Infra+, and EasyPlug
 - Deep knowledge of the building market
 - Complete and efficient access to the Electrical Contractor's channel
 - A newly created dedicated organization structure

- **2005 Objective: A targeted turnover above 500 Million Euros** (through organic growth, alliances, and acquisitions)

A new organization

- **Smaller and younger Executive Committee**
- **Stronger central functions for Development-
Manufacturing** (purchasing, quality and industrial organization)
and Strategy-Markets (e-Business, services)
- **Simplified geographic operations**
 - North American, European and International Divisions

Divestment of Legrand

Legrand: a vetoed operation

- **An excellent opportunity in strategic terms**
- **A setback following the European Commission's negative decision**
- **A project that has nevertheless allowed Schneider Electric to identify areas of improvement:**
 - Procurement
 - Front/Back Office organization
 - Development of the VDI and ultraterminal low voltage markets
 - Lexel integration
 - New Organization

Divestment timetable

- **European Commission decision: January 30, 2002**

- **Good progress has been made in preparing for the divestment**
 - **De-merger:** approval from tax authorities, de-merger agreement prepared
 - **IPO :** under review
 - **Divestment:** initial offers from potential buyers reviewed

- **Implementation expected in H2 2002**

Valuation of Legrand in Schneider Electric's accounts

- **The 98% interest acquired by Schneider Electric represented an investment of EUR5.4 billion, of which EUR390 million was paid for in cash and the remainder was paid through the issue of 84 million new shares in August 2001**
- **The price paid for Legrand included a premium for control of the company, which was justified by the substantial synergy created by the merger**
- **The accounting principles applied to value the interest at December 31, 2001 take into account:**
 - The decline in stock prices since the exchange offer was launched
 - Legrand's intrinsic performance, as known at December 31, 2001
 - The simultaneous pursuit of three divestment strategies (sale, IPO or de-merger)

Valuation of Legrand in Schneider Electric's accounts (cont'd)

- **In light of this data, the recommended value is EUR4.0 billion, giving rise to a related provision of EUR1.4 billion**

- **The provision in the 2001 financial statements does not affect Schneider Electric's financial soundness**
 - It has no impact on cash flow, cash or debt
 - Consolidated shareholders' equity, although reduced, remains high at EUR8.5 billion (debt-to-equity ratio is 27%)

Financial results

2001 highlights

- **Lower operating profitability, primarily in North America**
- **Strong cash flow generation**
- **Tight control of capex and working capital**
- **A strong profitability and a solid balance sheet**

Simplified income statement excluding Legrand provision

(in EUR million)

	<u>2001</u>	<u>2000</u>	<u>Δ 01/00</u>
Sales	9,828	9,695	+1.4%
EBITDA <i>as % of sales</i>	1,453 14.8 %	1,551 16 %	
Operating income	1,116	1,298	- 14%
<i>as % of sales</i>	11.4 %	13.4 %	
Interest expense - net	(121)	(96)	
Income from continuing operations before tax	995	1,202	- 17%
<i>as % of sales</i>	10.1 %	12.4 %	

Simplified income statement excluding Legrand provision (cont'd)

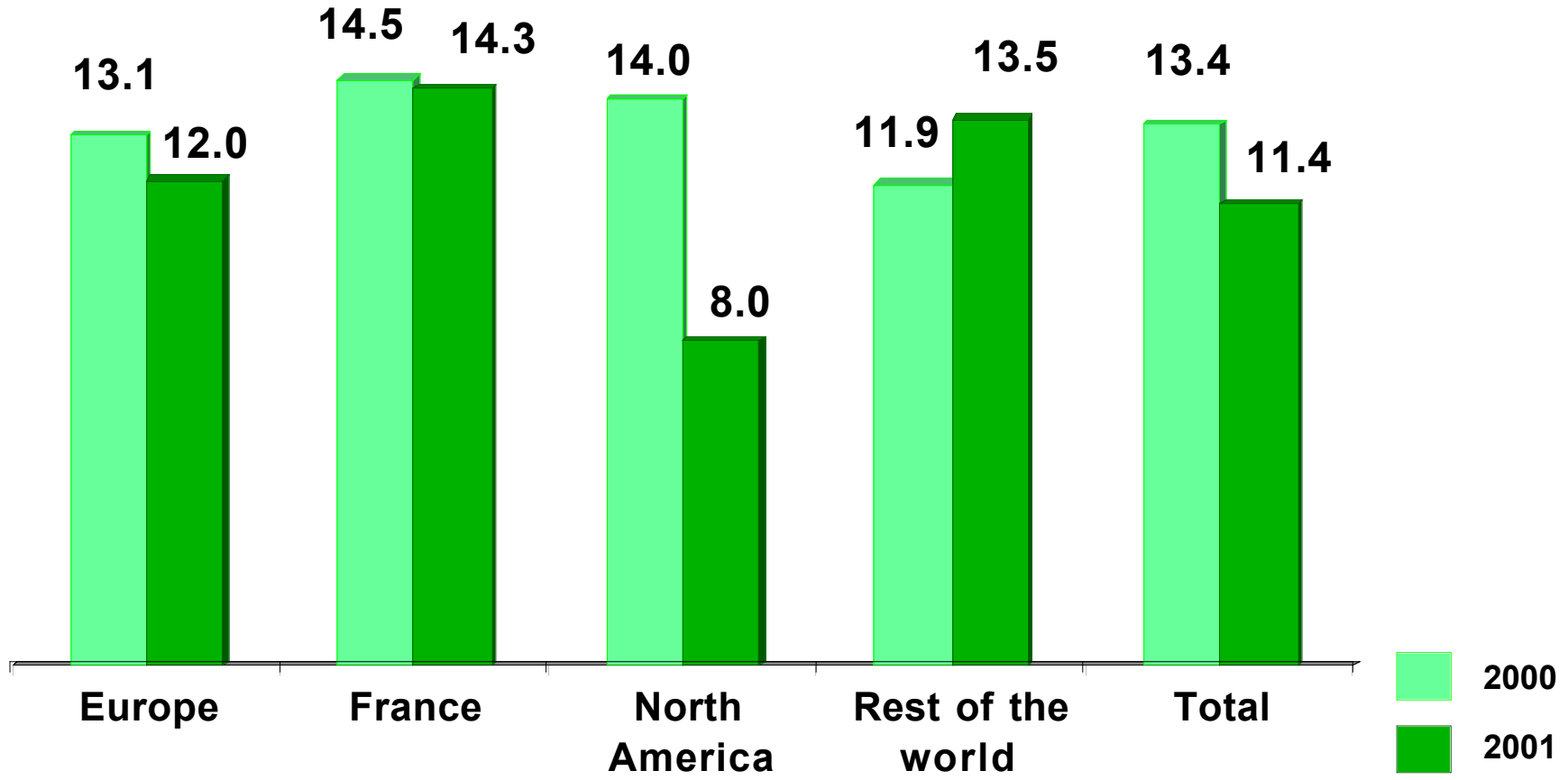
(in EUR million)

	<u>2001</u>	<u>2000</u>	<u>Δ 01/00</u>
Income from continuing operations before tax	995	1,202	-17%
Non-recurring items	(130)	(38)	
Income taxes (1)	(240)	(370)	
Other (minority interests, affiliates)	(42)	(26)	
Net income before amortization of goodwill	583	768	- 24%
Amortization of goodwill	(169)	(143)	
Net income	414	625	-34%

(1) Excl. Exceptional tax income

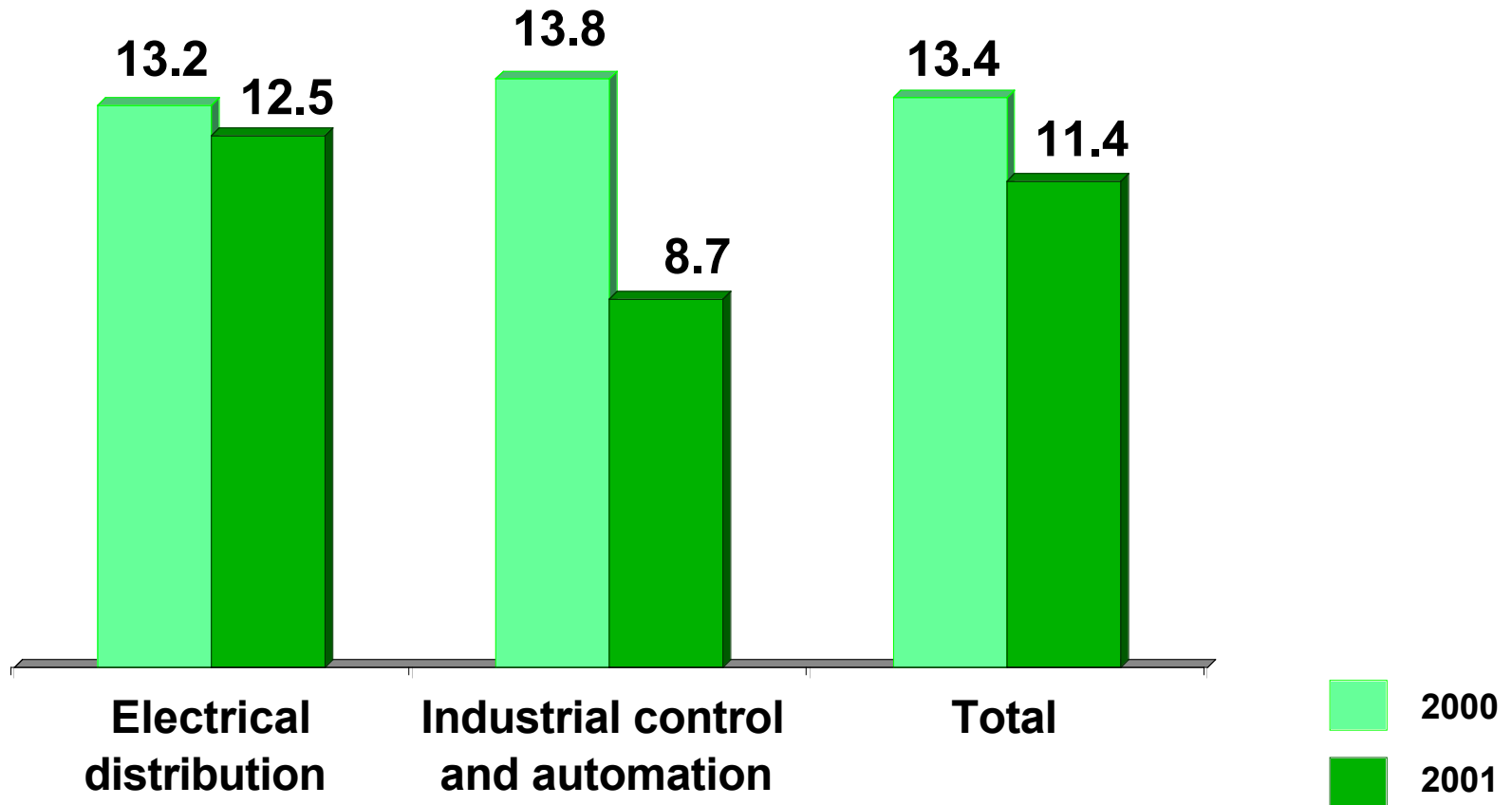
Ebit margin by geography

(Ebit as a % of sales)



Ebit margin by activity

(Ebit as a % of sales)



Breakdown of non-recurring items

(excl. Legrand provision)

(in EUR million)

Restructuring (US, Europe)	(60)
Provision for impairment of value	(49)
Provision for Argentina	(9)
Other exceptional expenses	(12)
Total	(130)

Situation at MGE-UPS

- Schneider Electric has a 32% stake in MGE-UPS

- Performance

<i>(EUR million)</i>	<u>09/30/01</u>	<u>09/30/00</u>	<u>Δ 01/00</u>
Sales	782	640	up 22%
EBIT	72	66	up 9%

- Large UPS sales up a very strong 32% and services up 18%
- Slower demand from April 2001: cost-cutting program launched
- Including restructuring and interest expense, MGE-UPS contributed a loss of EUR12.8 million for 2001

Situation at Va Tech Schneider HV (VAS)

- **Schneider Electric has a 40% stake in the VAS joint venture**
- **Performance**
 - **Strong business** thanks to favorable market reaction to the joint venture
 - **2001 orders 9% above budget at EUR755 million**
 - **2001 sales of EUR636 million** - strong growth expected in 2002
- **Continued industrial rationalization to improve productivity:** Holec plant in the Netherlands to be closed and business restructuring in other countries
- **Including restructuring expense, VAS contributed a loss of EUR5.1 million for 2001**

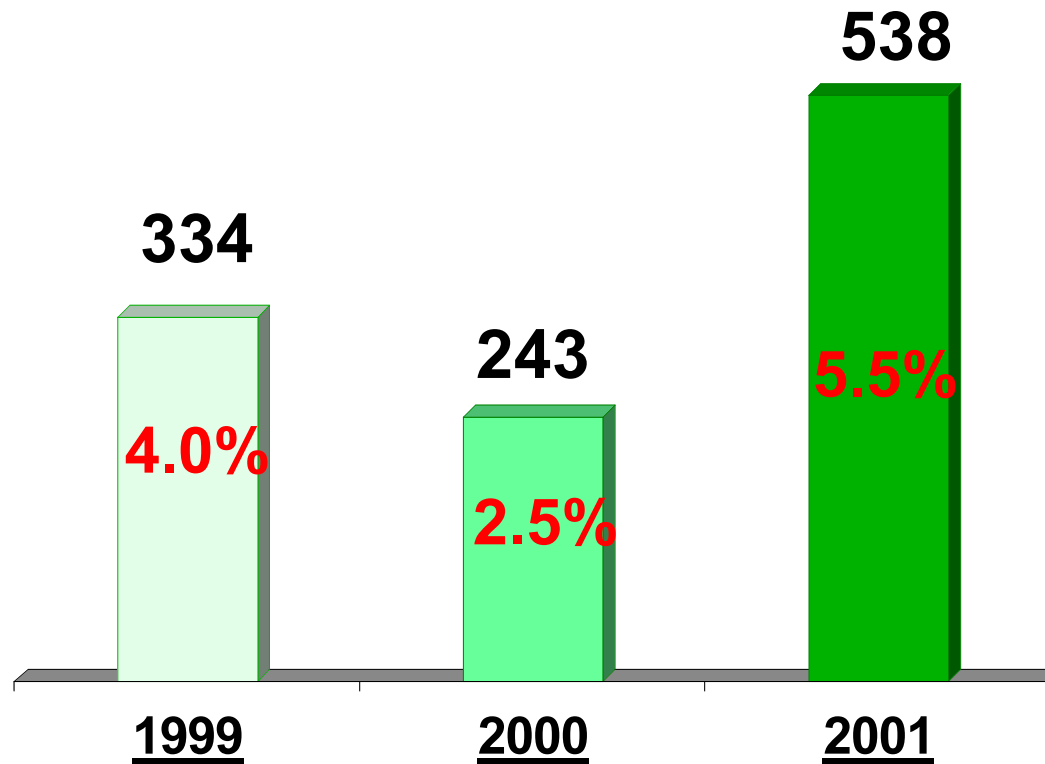
Strong ability to generate free cash flow

(in EUR million)

	<u>2001</u>	<u>2000</u>
Net cash provided by operating activities	961	991
Net capital expenditure	(405)	(468)
Change in working capital	(18)	(280)
Free cash flow	538	243

Strong ability to generate free cash flow (cont'd)

(in EUR million and as % of sales)



A solid balance sheet

	<u>2001</u>	<u>2000</u>
Consolidated shareholders equity (EUR bn)	8.5	4.6
Net debt (EURbn)	2.3	2.1
Debt to equity	27%	46%
Interest coverage (EBITDA/net interest expense)	12.0 x	16.1 x

Proposed dividend for 2001

- **Dividend proposed to the General Shareholders' meeting of May 27, 2002, in the form of a share premium reimbursement**
- **Net payment of EUR1.3 per share**
- **The repayment does not give rise to a tax credit, but it is not considered as taxable income** (companies and individuals)
- **To be paid in cash on May 31, 2002**

Strategic outlook: NEW2004

Outlook and action plans for 2002

- **Results in 2002 should reflect stable business levels in slightly contracting markets**

- **Measures to rightsize resources are being taken in:**
 - The US and Europe
 - Industrial control and automation

- **Launching of NEW2004 program:**
 - Priority is given to Gross Margin increase (value analysis, procurement, location strategy, industrial productivity, logistics)
 - Quality (Six Sigma)
 - Continued control of capex

New Electric World: the NEW2004 program

- **The future is looking more and more electric**
- **Today, a new era is dawning where electricity, automation and communication technologies will converge**
- **Electricity—flexible, safe and clean—plays an essential role in our daily lives and is critical to the production of virtually every product and service we use**

NEW 2004: strategy and outlook

- **Our mission** is to give the best of the new electric world to everyone, everywhere, at any time
- **Our ambition is to become the worldwide leader in Power & Control by pushing back the limits in all aspects of our business:** markets, geographic spread, technology, behavior and corporate citizenship
- **We want to be the benchmark for delivering comprehensive Power & Control solutions worldwide**
- **To develop growth opportunities, we intend to expand our potential market in 2004 from EUR100 billion to EUR210 billion by selling more to our customers in the following markets:** final low voltage, building control, secure power supply and direct current, motion control, sensors, vision control, connection systems and services

Financial objectives for 2004: growth and efficiency

■ Sales

- Achieve average annual growth two points higher than the market
- EUR1 bn from acquisitions

■ Increase gross margin by three points

■ Achieve an operating margin of 14% in 2004

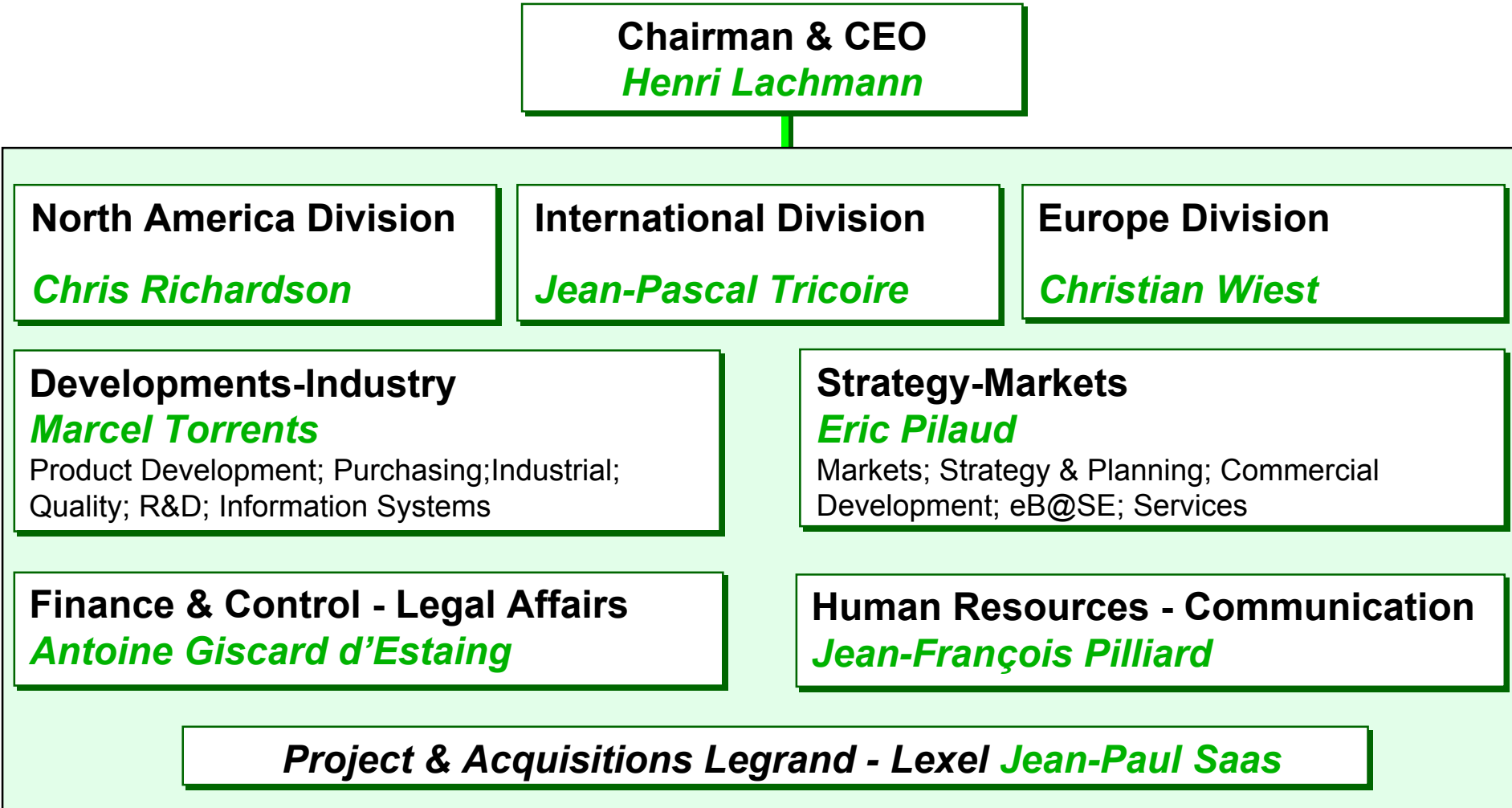
■ An ambitious EPS growth target will be set once the method for divesting Legrand has been decided

Appendices

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- **Sales breakdown**
- **Sales by region**
- **Change in the number of outstanding shares**
- **Change in shareholders' equity**
- **Simplified balance sheet at December 31, 2001**

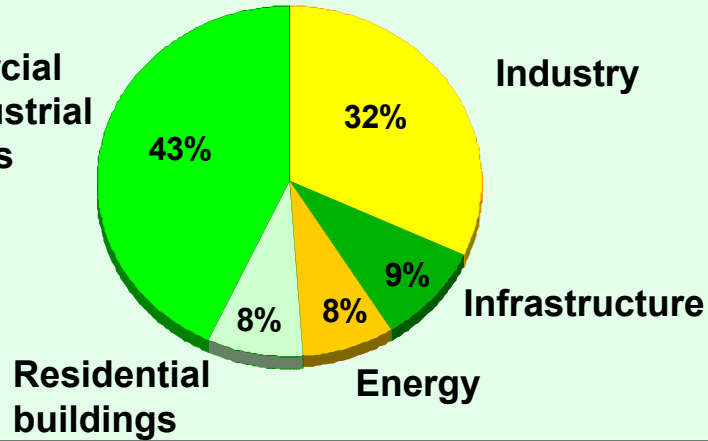
A new management organisation to be more reactive and customer-focused



Sales breakdown

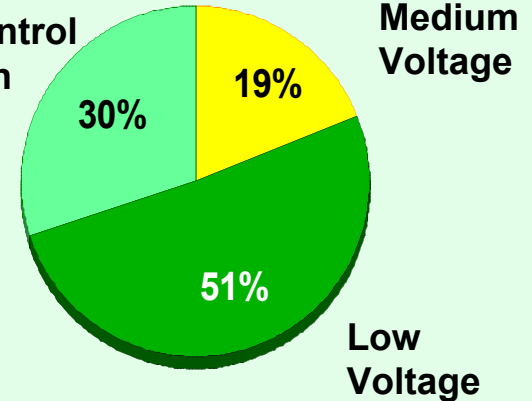
By market

Commercial and industrial buildings



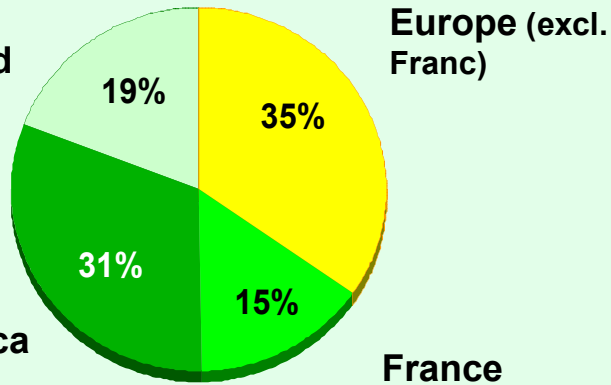
By business

Industrial control & automation



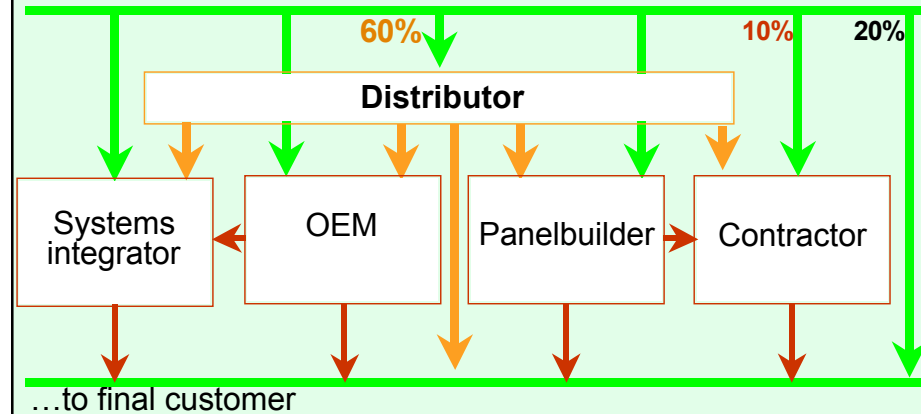
By region

Rest of world



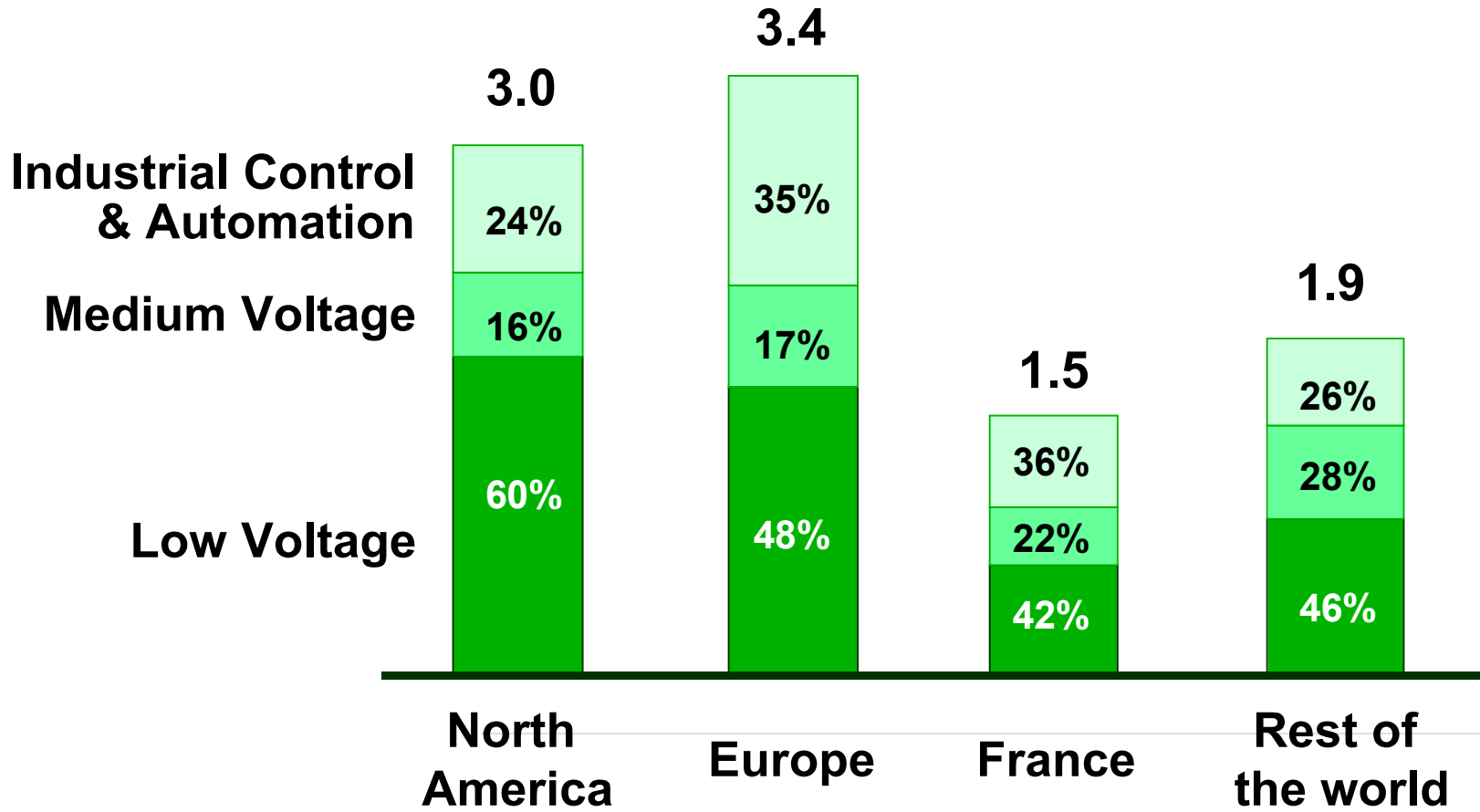
By distribution channel

From Schneider Electric...



Sales by region

(in EUR billion)



Change in the number of outstanding shares

(in million)

	<u>2001</u> incl. Legrand	<u>2000</u>
Avg. no. of shares outstanding (FAS 128)	183.8	149.3
Avg. no. of fully diluted shares outstanding	185.3	151.2
No. of shares at Dec. 31	240.1	155.8

Change in shareholders' equity including minority interests

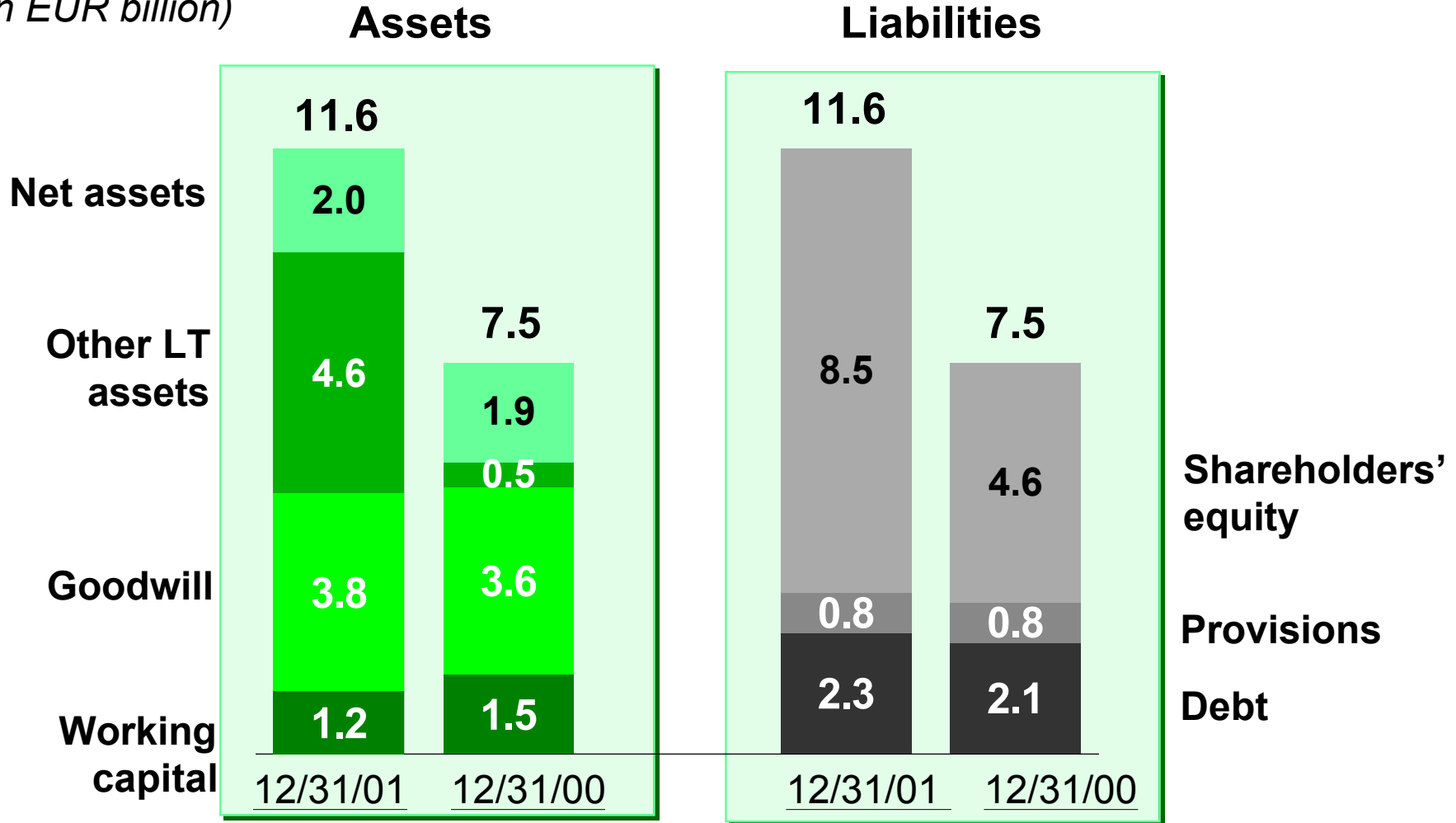
(in EUR billion)

<u>Dec. 31, 2000</u>	<u>4.61</u>
Capital increase (1)	5.03
Dividends	(0.32)
Shares buyback	(0.07)
Translation adjustment	0.16
Net income	(0.99)
Other	0.04
<u>Dec. 31, 2001</u>	<u>8.46</u>

(1) Public offer to exchange shares

Simplified balance sheet at Dec. 31, 2001

(in EUR billion)



Statement of cash flow

(in EUR million)

Uses of funds

Legrand (*)	5,415
Other financial investments	60
Dividends (incl.withholding tax)	315
	5,790

Sources of funds

Capital increase	5,028
Free cash flow	538
Change in debt	139
Change in cash	54
Other (incl. currency effect)	31
	5,790

(*) Of which EUR387 million actually paid