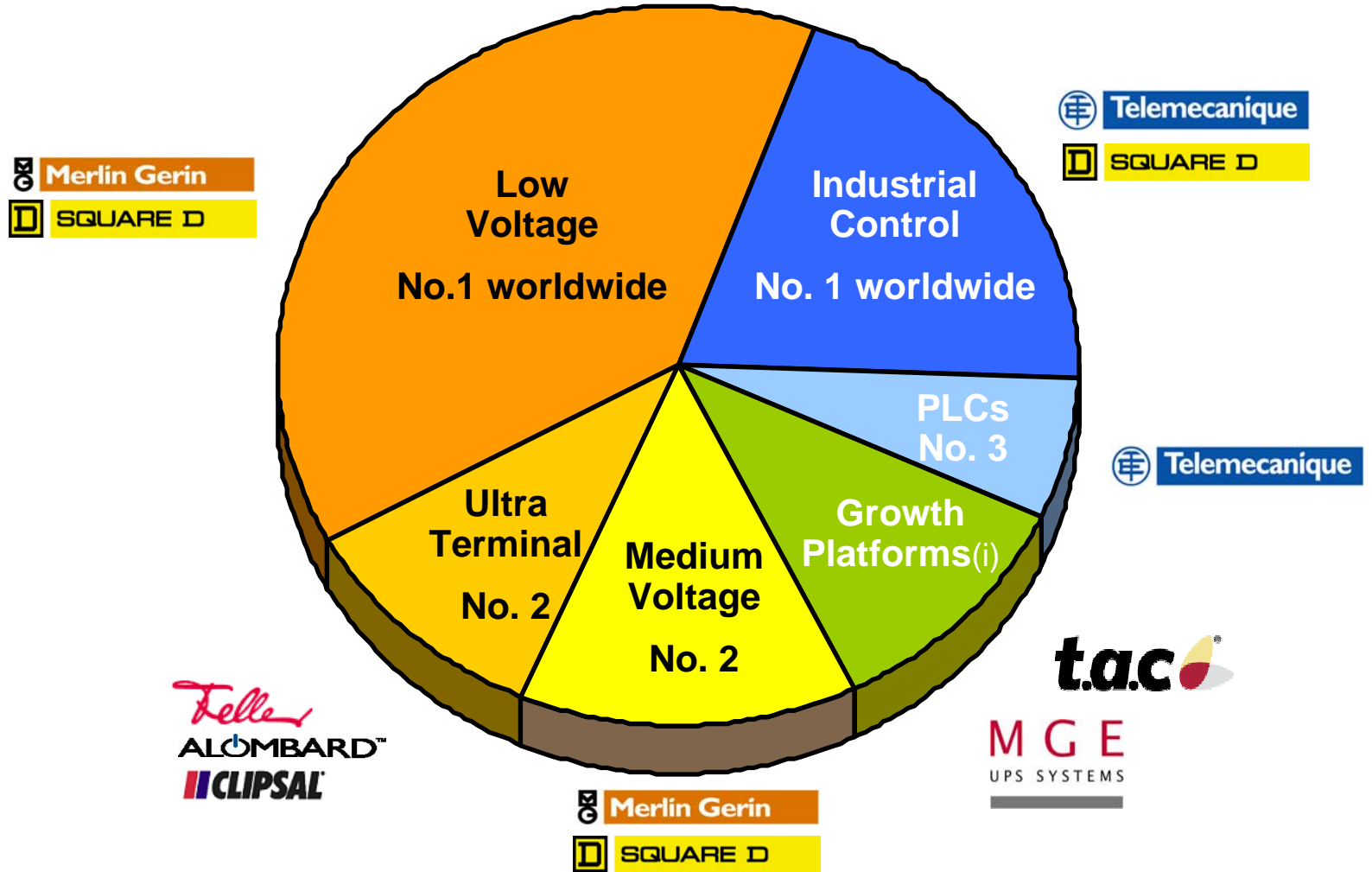


> 2004 *Annual Results*

Paris – February 17, 2005

We are the worldwide leader in Power & Control



Our ambition



Reach a new
excellence

> Highlights

An excellent performance in 2004: strong growth in every indicator

	€ millions	% Change
→ Sales	10,365	+ 18%
→ Operating income	1,311	+ 30%
→ Net income before goodwill	782	+ 25%
→ Operating cash flow	1,260	+ 34%
→ Net dividend (€)	1.80	+ 64%

> Highlights

- > Operating Action Plans
- > Financial Results
- > Outlook

Sales: **Up 18%**

-
- Highest organic growth in 10 years, exceeding 2000 performance **+ 8.5%**
 - Sustained momentum in North America and upturn in Western Europe
 - Growth amplified by our growth initiatives
 - Excellent performance in emerging countries
 - Significant contribution from acquisitions: TAC, Andover Controls, MGE UPS, Clipsal, Kavlico **€1.2 bn**

> **Highlights**

- > Operating Action Plans
- > Financial Results
- > Outlook

Ability to drive strong growth and significantly outperform our markets

Operating income: **Up 30%**

- Strong growth in sales **+ 18%**
- Sustained industrial productivity, offsetting higher raw materials prices
- Control over base costs, while investing in fast growing countries
- Still unfavorable currency effect **- 0.6 pts**
- Significant improvement in operating margin **+ 1.1 pts**

> **Highlights**

- > Operating Action Plans
- > Financial Results
- > Outlook

**Ability to improve profitability,
as productivity gains offset adverse effects**

A commitment to investing in high potential businesses ...

> Highlights

> Operating Action Plans

> Financial Results

> Outlook

Targeted businesses

- Human-Machine Interface
- Building Automation and Security
- Ultra-Terminal
- Secured Power

- Sensors for machines

Companies acquired

- Digital Electronics

- TAC
→ Andover Controls
- Clipsal
- MGE UPS Systems

- Kavlico

Growth

- + 17%

- + 6%

- + 5%
- + 10%

- + 22%

... while offering to our shareholders an attractive return on investment thanks to our ability to generate high cash flow

> *The* Operating Action Plans

growth

Strong organic growth, higher than our markets

- > Highlights
- > **The Operational Action Plans**
- > Financial Results
- > Outlook

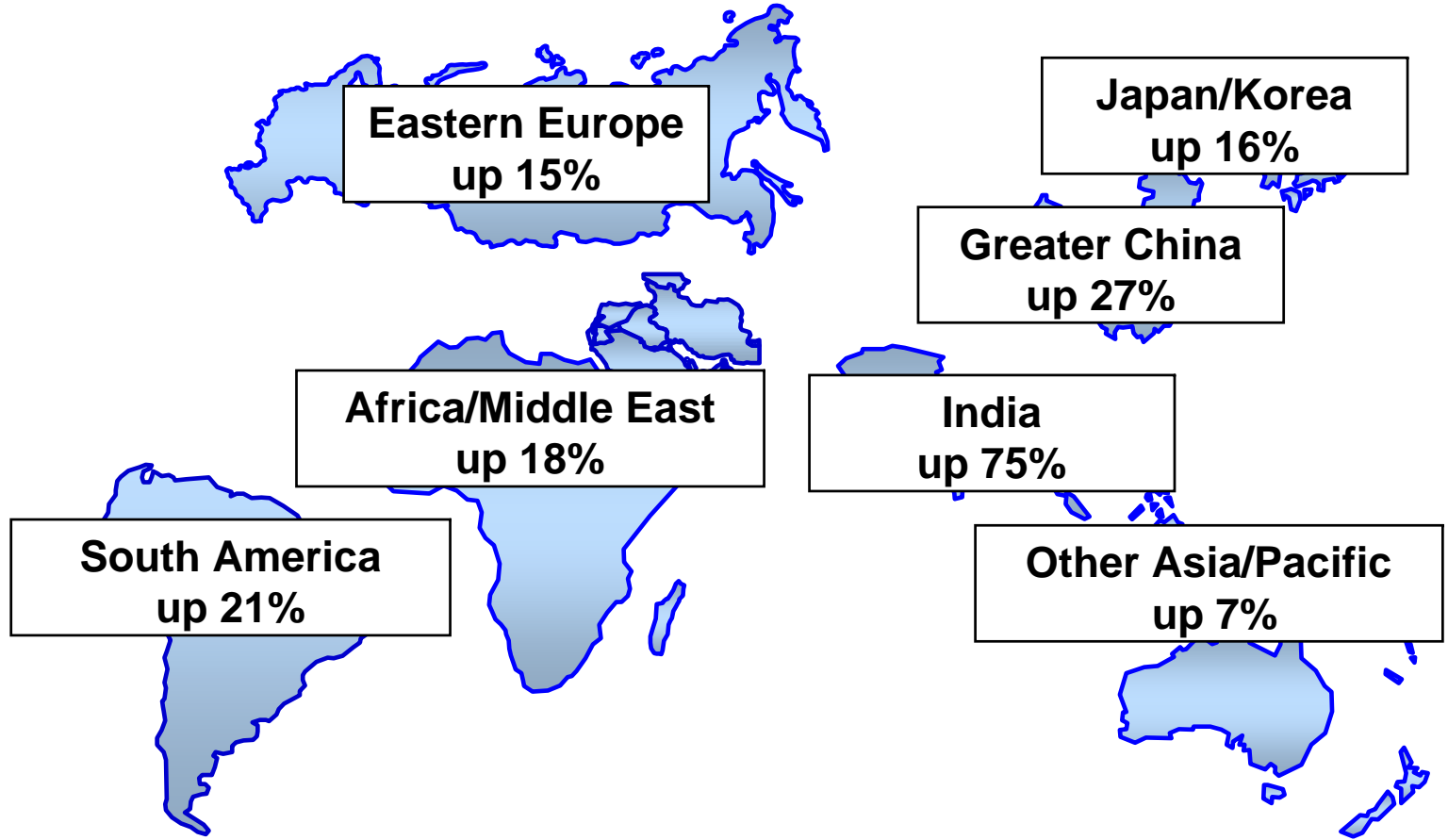
- Organic growth of **8.5%** in 2004,
much higher than growth in our markets
- Profound geographic and business **repositioning**,
creating a new growth **profile**
- **27%** of sales in **emerging countries**
 - Solid leadership positions
 - Effective business model
- **36%** of sales from **new businesses**
 - Industrial and Building Automation
 - Secured Power
 - Ultra Terminal
 - Services

growth

Position in high-growth emerging countries

Up 20%

- > Highlights
- > **The Operational Action Plans**
- > Financial Results
- > Outlook



27% of sales in 2004 versus 20% in 2001

growth

Position in businesses with high growth potential

Up 10%

→ Secured Power €530 million

- MGE UPS Systems



→ Building Automation €470 million

- TAC & Andover Controls

→ *Tour Andover Controls*



→ Machine Sensors €270 million

- Crouzet & Kavlico

Total growth platforms: € 1.3 billion

> Highlights

> **The Operational Action Plans**

> Financial Results

> Outlook

growth

Ultra Terminal: **x2** growth in Europe and Rest of the World

- **10%** of total sales, or **€1.1 billion**
- **No. 2** worldwide and growing steadily
- A plan to offer a global lineup by mutually enriching the catalogs and leveraging:
 - Acquired companies' Ultra Terminal lineups
 - Schneider Electric's global presence
- A growth **2x** faster than the core businesses in Europe and Rest of the World
- A very good performance of Clipsal in its first year with growth **>15%** in Asia

> Highlights

> **The Operational
Action Plans**

> Financial Results

> Outlook

growth

Services: growth of 14%

→ Steady expansion over the past three years with growth in excess of 15% and a doubling of the workforce

→ 8% of sales today

→ Significant growth factors

- Energy quality
- Energy savings
- Industrial productivity
- Technical content of installations

Support services for the installed base and enhancing performance

→ Focus on consultancy, diagnostics and simulation

→ Sales **up 14%** in 2004

> Highlights

> **The Operational Action Plans**

> Financial Results

> Outlook

growth

Automation: a strong growth booster

> Highlights

> **The Operational
Action Plans**



> Financial Results

> Outlook

→ Launch of strategic new products ...

- **PLC's:** - Unity platform V2, completing the renewal of the high end range
- Zelio Logic range in low end control
- **Drives:** - ATV 31, mid-range compact AC inverter
... with first results above expectations

→ Successful double channel and brand strategy in **HMI**

- Schneider Electric with  **Telemecanique**
- Digital acquisition with  **Pro-face**
Human Machine Interface

→ Opening of the China Automation Center in Shanghai

→ **15%** growth in Electrical Distribution Automation

growth

Continued innovation through technical excellence

> Highlights

> **The Operational Action Plans**

> Financial Results

> Outlook

- Implementation of a **unified** project management process and information system

- Efficient **consolidation** of R&D centers in mature countries
 - Science & Technology center } Grenoble
 - Power Protection & Control center } (France)
 - Ultra Terminal leadership sites in Europe

- Fast **development** of R&D centers in emerging countries
 - Shanghai (China), Bangalore (India) & Monterrey (Mexico)

- Leverage of technological **partnerships**
 - Toshiba, IBM, Fuji, Tata

growth

Our new products



MV Vacuum
Circuit Breaker
Evolis 24 kV



Intelligent relay
Zelio Logic



High End
Wiring Devices
Unica range



AC Inverter
ATV 31



Molded Case
Circuit Breaker
Up to 250 A
EasyPact 250



Power Circuit-Breaker
Technical Upgrade
Masterpact NT



Small PLC
Twido extension



High End Control
Unity V2

Sustained industrial productivity

(in € millions)

<u>2004</u> <u>Actual</u>	<u>End-2004</u> <u>Cumulated</u>	<u>NEW2004</u> <u>Target</u>
------------------------------	-------------------------------------	---------------------------------

Purchasing	133	333	170
'Lean Manufacturing'	65	168	110
Other plans	32	56	45
Gross productivity	230	557	
Increase in raw material and payroll costs (i)	(125)	(189)	
Net productivity	105	368	325

> Highlights

> **The Operational Action Plans**

> Financial Results

> Outlook

(i) Of which €50 million in raw material price increases in 2004

Launching of costs re-balancing plans

→ **Doubling** of the re-balancing **speed** in 2004

→ Purchasing

- **Localisation** plans in progress for China, India, Mexico & Eastern Europe
- **International** sourcing teams set up in Shanghai, Bangalore & Budapest

→ Manufacturing

- Continuing transfer to emerging countries in 2004 with **5** new plants in China & **3** in the rest of Asia
- Over the last 3 years, addition of **23** plants in emerging countries & closure of **34** plants in mature countries

→ Support functions

> Highlights

> **The Operational Action Plans**

> Financial Results

> Outlook

efficiency

Successful industrial productivity plans

- > Highlights
- > **The Operational Action Plans**
- > Financial Results
- > Outlook

- Lean Manufacturing
 - Quality & Value Engineering
 - Six Sigma
 - Industrial sites rationalisation
 - Purchasing
 - Globalisation
 - Acceleration of supplier consultations & changes
 - Internationalisation
- } Acceleration of deployment



efficiency

Starting of logistics optimisation

- > Highlights
- > **The Operational Action Plans**
- > Financial Results
- > Outlook

- ➔ Constant improvement in the customer service rate over the last 3 years
- ➔ First effects of the simplification with a reduction in the number of logistics centers
- ➔ Opening of a distribution center in Hong-Kong for the Asia-Pacific zone
- ➔ Elaboration of a roadmap at Group and operations level

Control of base costs in mature countries

-
- ➔ Limited increase in total base costs:
 - **5.5%** excluding currency and perimeter effects
 - **8.5%** organic growth in sales

 - ➔ Decrease of base costs as a % of sales:
 - **30.8%** in 2003
 - **29.9%** in 2004
 } **- 0.9 pts**

 - ➔ Slight decrease in base costs in mature countries on a constant structure and exchange rate basis

 - ➔ Increase in base costs in emerging countries due to commercial investments

- > Highlights
- > **The Operational Action Plans**
- > Financial Results
- > Outlook



efficiency

Investment in fast growing countries

- > Highlights
- > **The Operational Action Plans**
- > Financial Results
- > Outlook

- ➔ Creation of subsidiaries in new countries
- ➔ Strengthening of the presence in growing zones
- ➔ Priority to the reinforcement of sales people
- ➔ Set up of the Asia Pacific distribution center in Hong-Kong
- ➔ Performance on track for Clipsal, Digital and Wangao acquisitions

people

Actions to develop our people

> Highlights

> **The Operational
Action Plans**

> Financial Results

> Outlook

- Strong internationalisation and diversity increase
- **60%** increase in participants to 'Schneider University' programs in 2004
- Strong regeneration plan in France
- **100%** of employees polled over the last 3 years
- **100%** of employees with a variable salary linked to performance
- 18 000 managers benefiting from a global database
- **4%** of employees shareholding

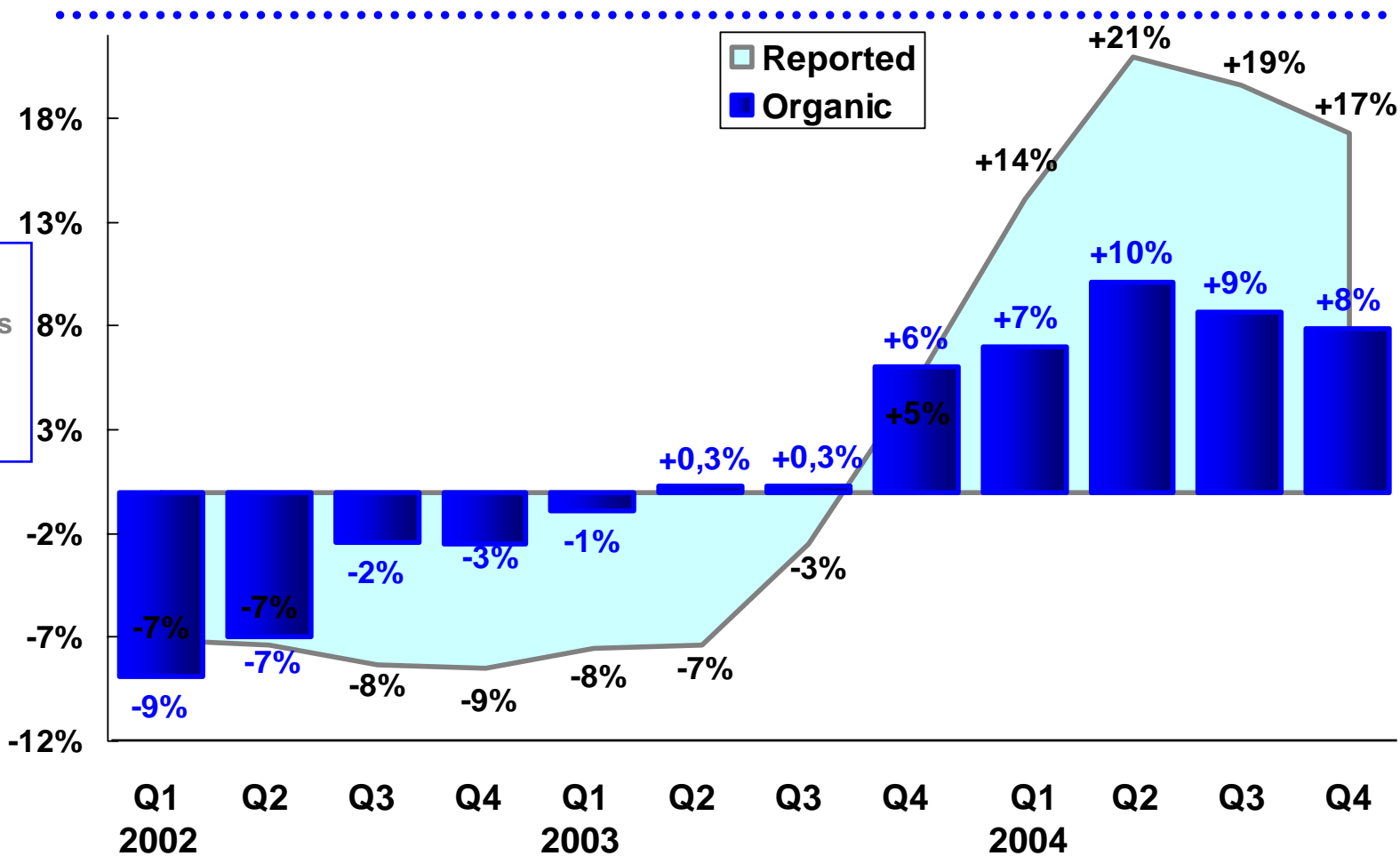
> Financial Results

Financial highlights

- > Highlights
- > Operating Action Plans
- > **Financial Results**
- > Outlook

- Strong growth in sales **+ 18%**
 - Robust organic growth: **+ 8.5%**
 - Contribution from acquisitions: **€1.2 bn**
- Sharp improvement in operating income & and net income before goodwill **+ 30%**
+ 25%
- Significant improvement in operating margin **up 1.1 pts**
 - Unfavorable currency effect and higher raw materials prices absorbed
 - Sustained industrial productivity
 - Base costs under control
- Operating cash flow up **34%** and free cash flow representing **8%** of sales (€ 0.8 bn)

A powerful sales dynamic



- > Highlights
- > Operating Action Plans
- > **Financial Results**
- > Outlook

(QoQ sales growth)

Strong growth in operating income and income from continuing operations

(in € millions)

2004

2003

% Change

- > Highlights
- > Operating Action Plans
- > **Financial Results**
- > Outlook

Sales	10,365	8,780	+ 18%
Gross margin	4,400	3,717	
<i>As a % of sales</i>	42.5%	42.3%	+ 0.2 pts
Operating income	1,311	1,007	+ 30%
<i>As a % of sales</i>	12.6%	11.5%	+ 1.1 pts
Financial expense, net	(66)	(53)	
Income from continuing operations	1,245	954	+ 30%
<i>As a % of sales</i>	12.0%	10.9%	+ 1.1 pts

Strong organic growth in operating income

Up 25%

(in € millions)

Net industrial
productivity

2003
1,007

+314
Volume
& price

+105

-164
Base
costs

-103
Currency
effects

+152
Perimeter

2004
1,311

*Growth excluding currency
and perimeter effects*

Change	+ 25%	- 10%	+ 15%	+ 30%
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- > Highlights
- > Operating Action Plans
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Margins improved in the 2nd half despite the impact of raw materials prices

(in € millions)

1H 2004 % Sales 2H 2004 % Sales

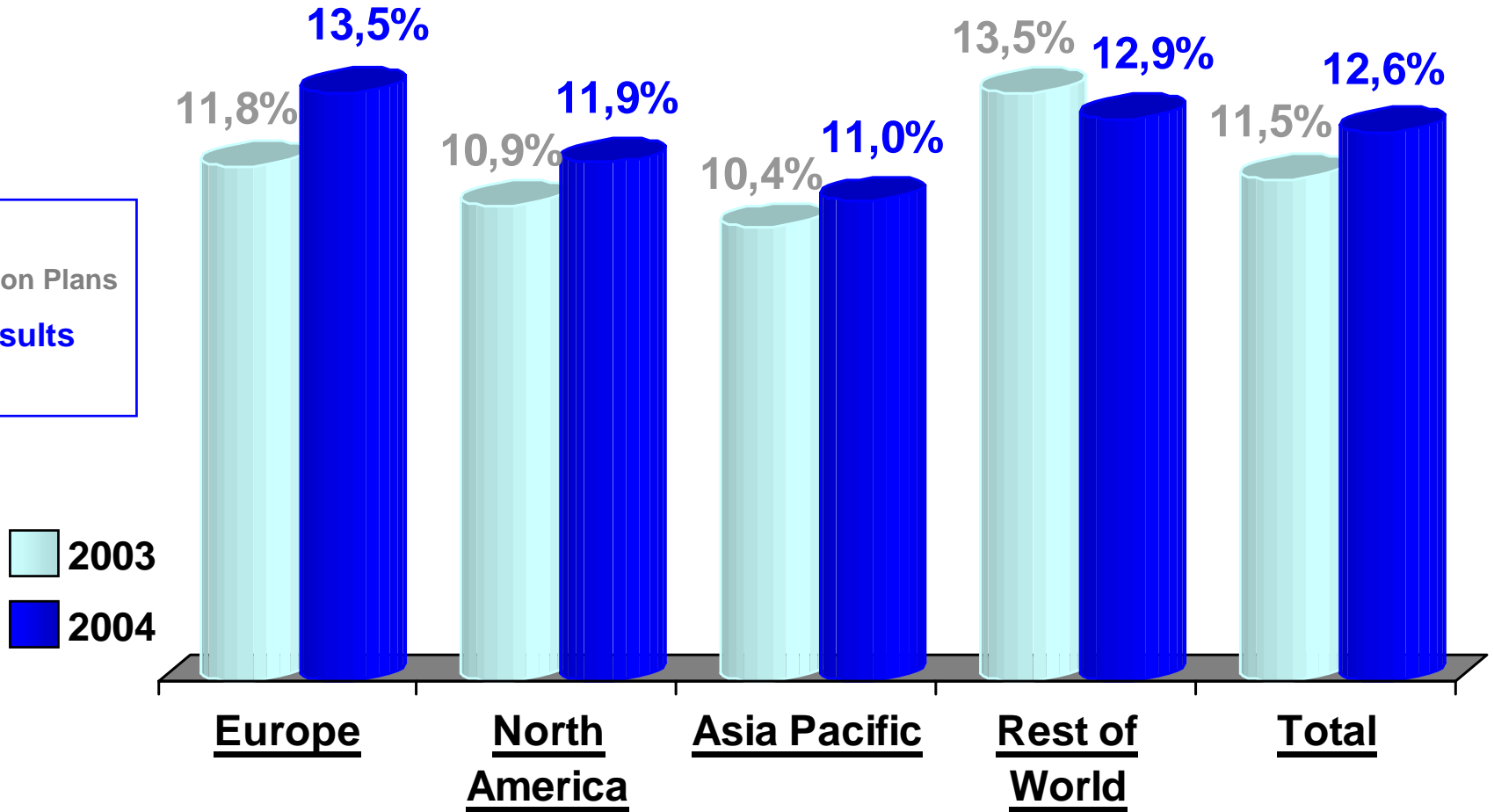
	1H 2004	% Sales	2H 2004	% Sales
Sales	4,984		5,381	
Gross margin	2,130	42.7%	2,270	42.2%
Base costs	(1,559)	- 31.2%	(1,530)	- 28.5%
Operating income	571	11.5%	740	13.7%

- > Highlights
- > Operating Action Plans
- > **Financial Results**
- > Outlook

- ➔ Significant increase in sales in the 2nd half, led by upwardly trending business and seasonal impact
- ➔ Gross margin impacted by higher raw materials prices
- ➔ Base costs under control, with a decrease in euro terms

Operating margin by geographical region

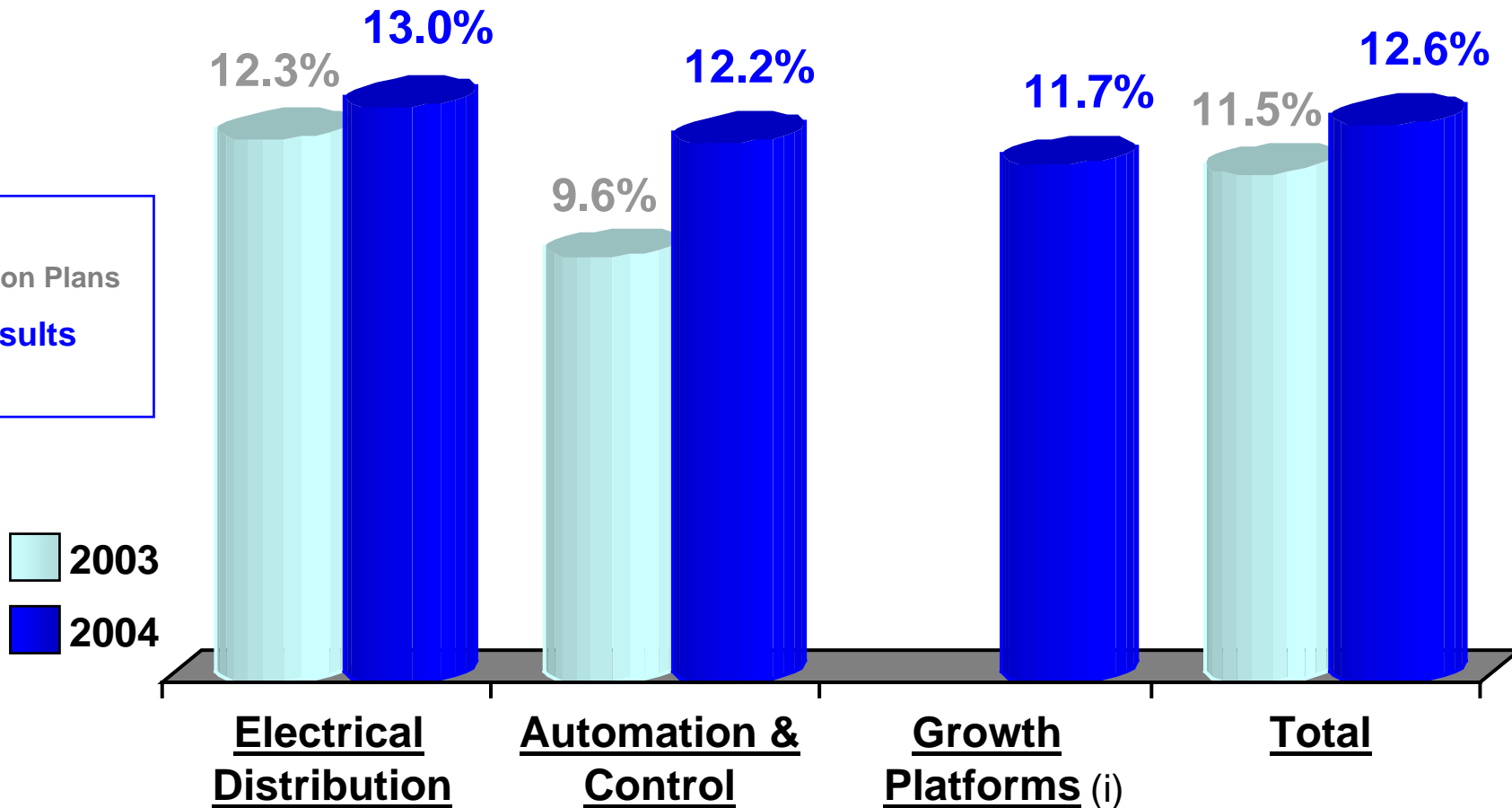
- > Highlights
- > Operating Action Plans
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(With Growth Platforms broken down by geographical region)

Operating margin by business

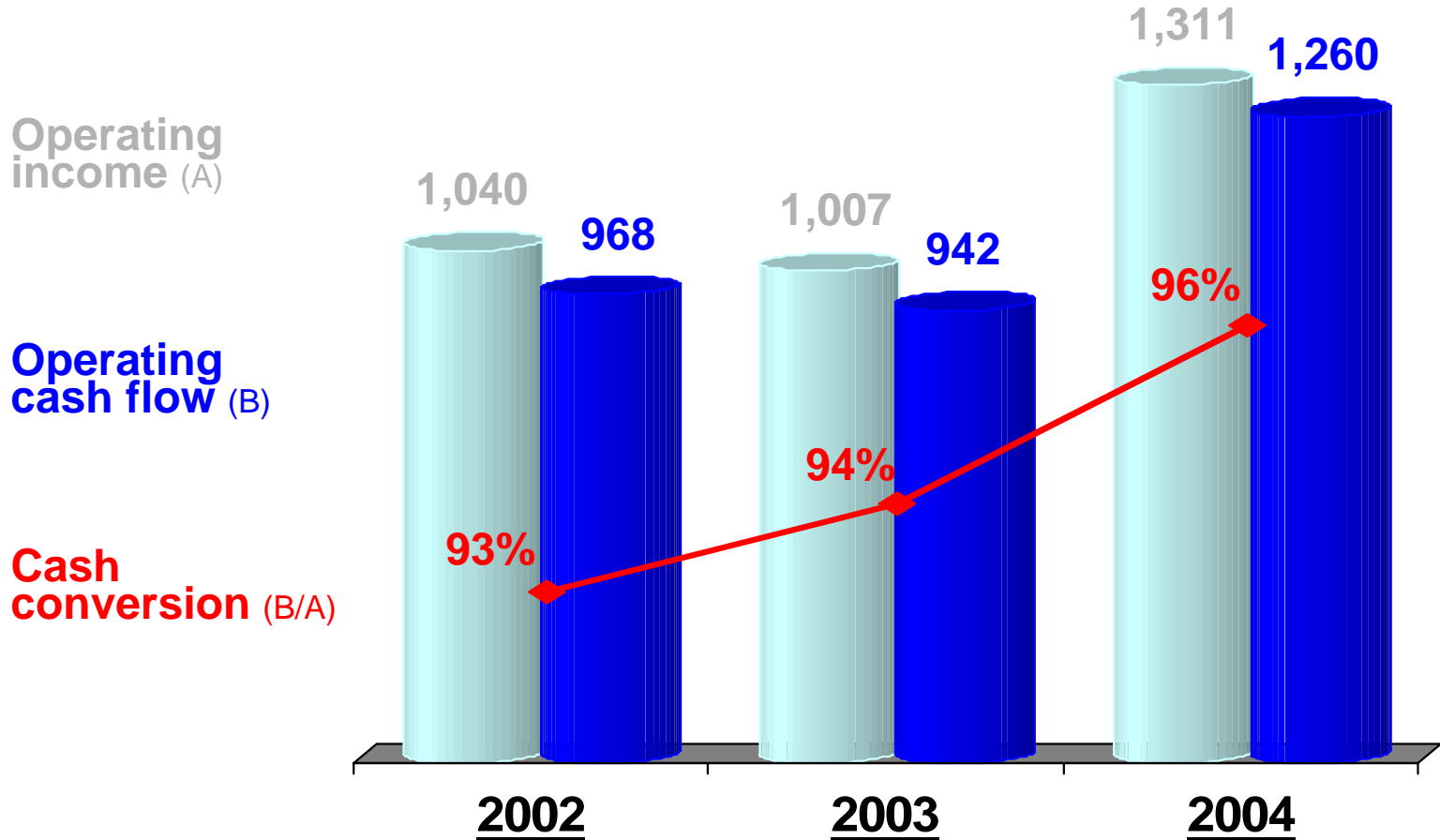
- > Highlights
- > Operating Action Plans
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(i) Building Automation, Secured Power and Sensors for Machines

High conversion of operating income into cash flow

- > Highlights
- > Operating Action Plans
- > **Financial Results**
- > Outlook



Cash flow as a % of sales	2002	2003	2004
	10.7%	10.7%	12.2%

Strong growth in net income before and after goodwill

(in € millions)

2004

2003

% Change

- > Highlights
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Income from continuing operations	1,245	954	+ 30%
Exceptional items	(96)	(164)	
Income taxes	(333)	(127)	
Other	(34)	(39)	
Net income before goodwill	782	624	+ 25%
Goodwill amortization	(217)	(191)	
Net income after goodwill	565	433	+ 30%

Sharp increase in earnings per share and proposed dividend

(in €)

	<u>2004</u>	<u>2003</u>	<u>Change</u>
Average shares (millions)	220.9	223.1	- 1%
EPS before goodwill	3.54	2.79	+ 27%
EPS after goodwill	2.56	1.94	+ 32%
Net dividend per share (i)	1.80	1.10	+ 64%

(i) Subject to shareholder approval, payable in cash on May 17, 2005

- > Highlights
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Strong cash flow generation and healthy financials

(in € millions)

2004

2003

- > Highlights
- > Operating Action Plans
- > **Financial Results**
- > Outlook

Operating cash flow

1,260

942

Capital expenditure - net

(284)

(265)

Change in working capital

(137)

312

Free cash flow (before dividends)

839

989

Consolidated shareholders' equity

7,644

7,734

Net financial debt

485

(399)

Debt rating (Standard & Poors)

A

A

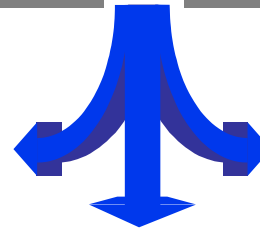
We are investing in growth and offering shareholders an attractive return

(Main sources of cash, in € millions)

- > Highlights
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**Free cash flow
(from operating activities)**
839

Change in net cash
884



Remunerate our shareholders
(Dividends 334
Share buybacks 278)
612

Carry out acquisitions
(o/w MGE UPS, Kavlico
and Andover Controls)
1,129

In 2004, we bought back 5.4 million shares and canceled 7 million

A significant improvement in ROCE

Up 2.4 pts

(in € millions)

	<u>2004</u>	<u>2003</u>	% Change
Average capital employed	9,300	8,617	+ 8%
Operating income	1,311	1,007	+ 30%
ROCE (before tax)	14.1%	11.7%	+ 2.4 pts

- > Highlights
- > Operating Action Plans
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- ➔ Controlled growth in capital employed, in a year when sales gained a strong 18%
- ➔ Limited increase in capital expenditure: 7%

(i) Capital employed = total shareholders' equity + net financial debt
- accumulated goodwill amortisation

IFRS accounts close to French GAAP accounts ...

	French GAAP	IFRS	Change
→ Operating income <i>Operating margin</i>	1,311 12.6%	1,287 12.4%	- 0.2 pts
→ Net income before goodwill	782	824	+ 5%
→ Opening shareholders' equity	7,734	7,230	- 7%
→ Net debt	485	490	+ 1%

... as expected, thanks to the application of conservative accounting policies

- > Highlights
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Operating margin similar under IFRS

(in € millions)

**2004
Impact**

Margin

- > Highlights
- > Operating Action Plans
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	2004 Impact	Margin
Operating income - French GAAP	1,311	12.6%
Capitalized development costs	46	<p style="color: red; font-weight: bold;">0.2 pts</p>
Actuarial differences on pensions	38	
Cost of stock options	(9)	
Other adjustments	5	
Restructuring costs	(96)	
Other reclassifications	(8)	
Operating income - IFRS	1,287	

Positive impact on net income under IFRS

(in € millions)

**2004
Impact**

- > Highlights
- > Operating Action Plans
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Net income before goodwill - French	782	 + 5%
Adjustments to operating income	80	
Other	(6)	
Tax effect of adjustments	(32)	
Net income - IFRS	824	

> Outlook

Ambitious financial targets as part of our **new²** program

➔ **Schneider Electric has set ambitious financial targets for the 2005-2008 period:**

- > Highlights
- > Operating Action Plans
- > Financial Results
- > **Outlook**

- Organic growth \geq **5%**
- Operating margin (under IFRS) between **12.5%** and **14.5%**
- ROCE up **2%** to **4%**
- Shareholders' return on investment:
Dividend payout ratio \sim **50%**
& Balance sheet re-leveraging within **2 years**

Outlook for 2005

➔ Assuming current economic conditions, we have set the following objectives for 2005:

- Organic sales growth of **5%** to **6%**
- Operating income increase (under IFRS) of **10%**

- > Highlights
- > Operating Action Plans
- > Financial Results
- > **Outlook**

Building

a *New Electric World*

