

# *Interim Results*

*July 31, 2003*



Merlin Gerin

Square D

Telemecanique

**Schneider**  
 **Electric**

*Building a New Electric World*

# *Our vision of the future: "Building a New Electric World"*

## ➔ **The future is looking more and more electric**

- Powered by growing demand
- New types of generation
- Fresh applications
- Increasingly networked systems

## ➔ **A new era is dawning**

- Electrical, automation and communication technologies are converging
- Web-enabled remote control of installations in homes, buildings, factories and infrastructure will soon be an everyday reality
- Electrical networks will be used to carry data, sound and images

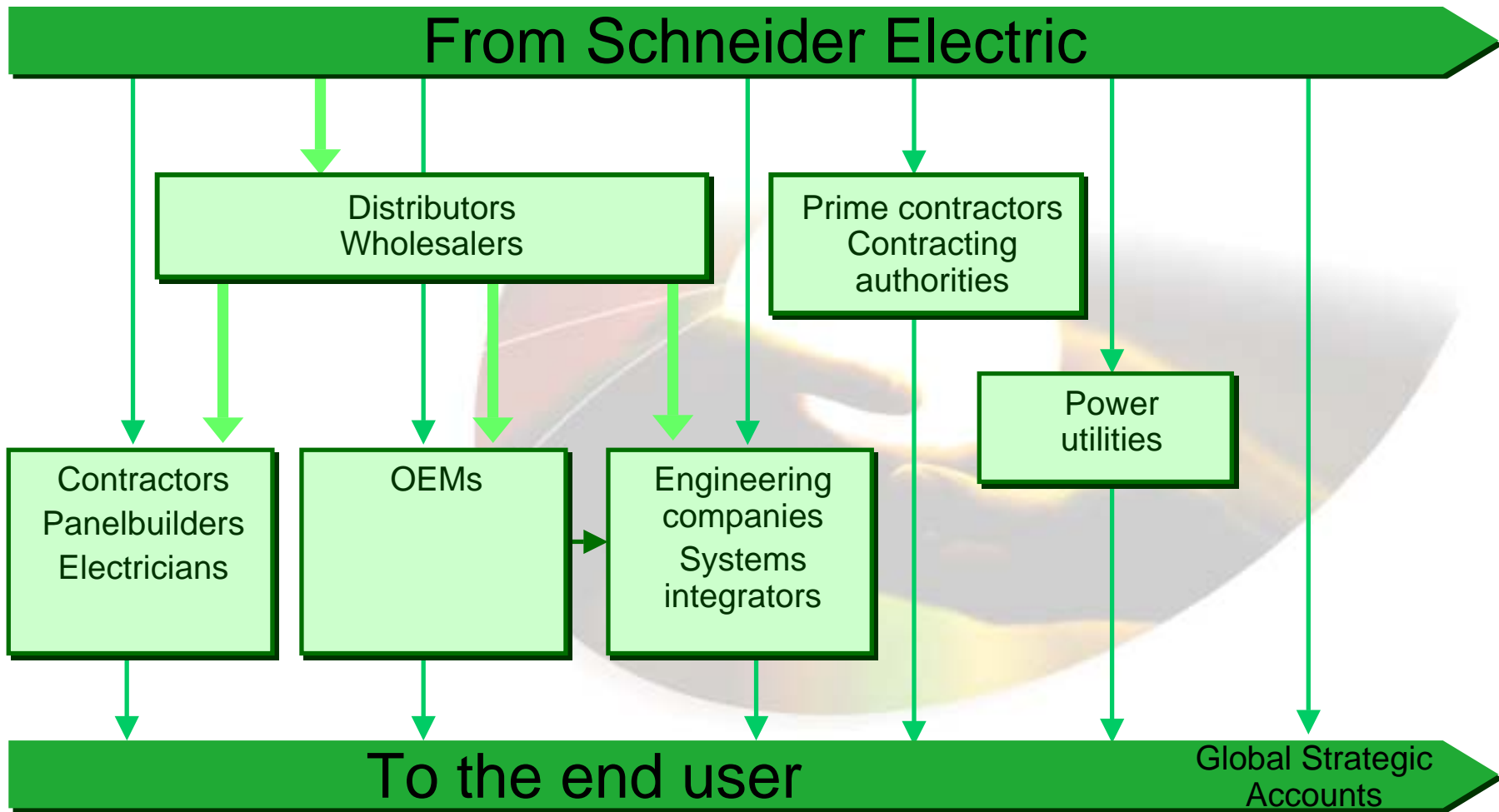
# *Our mission: deliver the best of the “New Electric World”*

- ➔ **We want to give our customers around the world more performance, more comfort and more safety**
  
- ➔ **Our Ambition: “to be the worldwide leader in Power & Control”**
  - By pushing back our limits in all aspects of our business
  - By delivering differentiated, innovative, end-to-end solutions to meet needs in all our markets

# *Our strengths*

- ➔ **Our business model and ability to form partnerships**
- ➔ **Our portfolio of products and brands**
- ➔ **A global presence in more than 130 countries**
- ➔ **A constantly expanded lineup to meet market needs**
- ➔ **Our ability and commitment to innovate to drive growth**
- ➔ **Our commitment to corporate responsibility**
- ➔ **The skills and dedication of our teams**
- ➔ **Our operating performance and sound financials**

# *Our strengths: our business model and ability to form partnerships*



# Our strengths: our portfolio of products and brands

**We market a unique lineup of products and solutions with recognized global brands and strong local brands**

## ➔ Electrical distribution

*Supplying electrical power reliably and with complete safety*

- Final low voltage
- Medium and low voltage



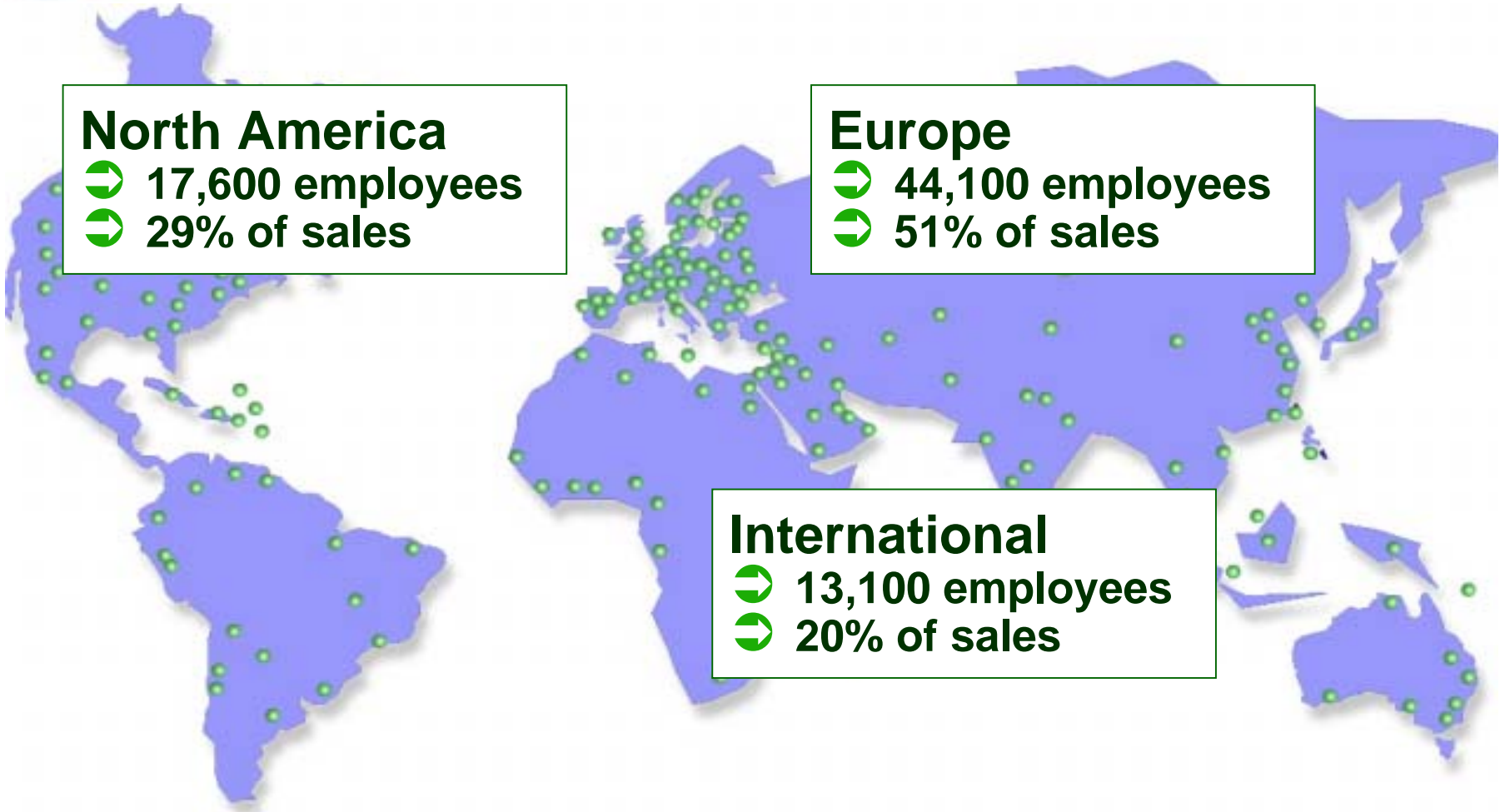
## ➔ Industrial automation

*Controlling, monitoring and protecting machines and equipment*

- Industrial control
- PLCs



# *Our strengths: a global presence in more than 130 countries*



# *Our strengths: a constantly expanded lineup to meet market needs*

***We are committed to satisfying customer expectations with increasingly comprehensive, innovative and differentiated solutions in all applications***

➔ **We are present in four markets, to optimize:**



## **Residential**

- ➔ Safety
- ➔ Comfort
- ➔ VDI access



## **Buildings**

- ➔ Safety
- ➔ Communication
- ➔ Operating costs



## **Industry**

- ➔ Productivity
- ➔ Flexibility
- ➔ Safety
- ➔ Traceability



## **Energy & Infrastructure**

- ➔ Availability
- ➔ Safety
- ➔ Distribution of electricity

# *Our strengths: our commitment to corporate responsibility*

- ➔ **Smarter, more cost-effective products, designed to**
  - Protect people and equipment
  - Optimize energy consumption, the use of natural resources and the productivity of industrial processes
  
- ➔ **Principles of responsibility**
  - Defining our commitments in relationships with partners
  - Integrated into our shared corporate culture
  - With environmentally compliant manufacturing facilities, certified to ISO 14001 standards
  
- ➔ **Social and employee-relations commitments**
  - Contributing to the development of host regions around the world
  - Enhancing our ability to capitalize on our cultural diversity



## *Highlights*

*Review of operations*

*First half results*

*Strategy and outlook*

# Highlights of first half 2003

- ➔ Resilient operating margin (10.4%) despite a major currency effect (-1.6 points)
- ➔ Increase in net income (+8%) and high cash flow
- ➔ Group's business remained firm in a contrasted geographic environment (-0.3% on a constant basis)
- ➔ Strong growth in emerging markets: Asia, Middle East and Eastern Europe
- ➔ 'Growth & Efficiency' action plans pursued as part of the **new 2004** program
- ➔ Acceleration of adjustment plans in Western Europe and the United States

# Highlights of first half 2003

	<u>1H 2003</u>		<u>1H 2002</u>
	EUR m	% of sales	% of sales

➔ Sales	4,236		
➔ Gross margin	1,776	41.9%	40.9%
➔ Operating income	440	10.4%	10.8%
➔ Operating cash flow (i)	458	10.8%	9.6%
➔ Net income after goodwill amortization	190	4.5%	3.9%



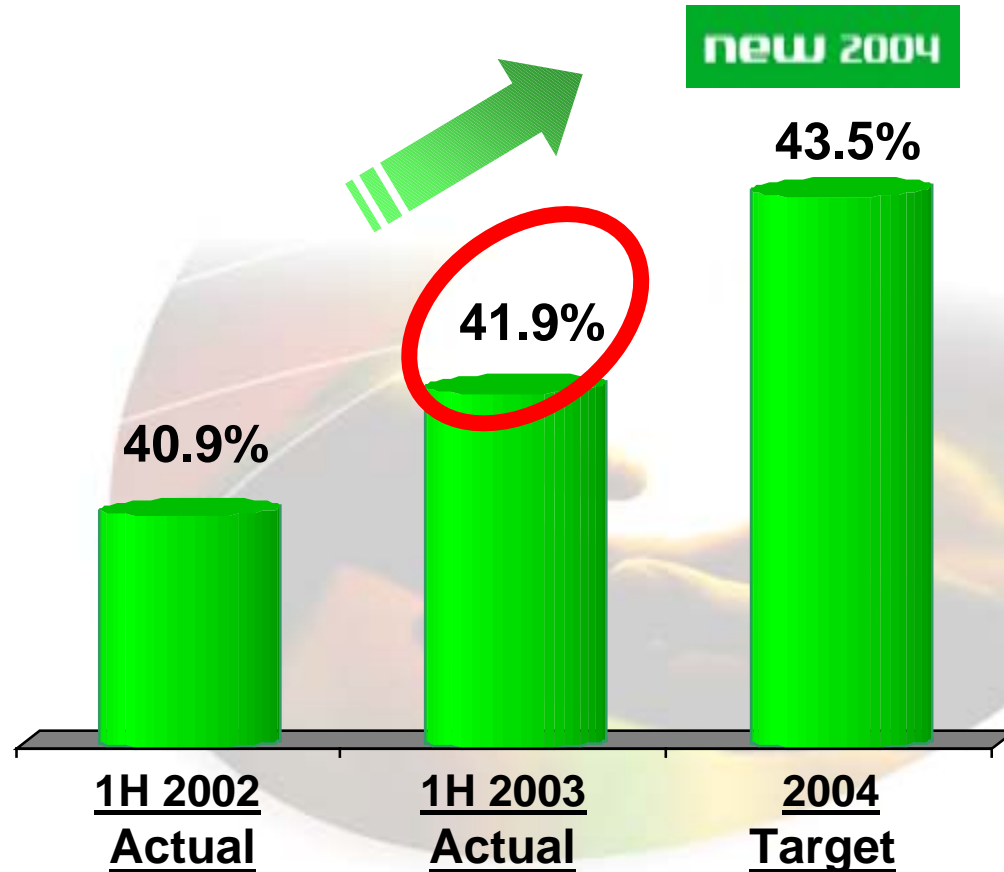
*Strong performance*

(i) Net cash provided by operations before change in operating assets and liabilities

# *Business remained firm thanks to balanced worldwide market positions*

- ➔ **Markets still shaped by persistently weak investments in developed countries**
- ➔ **The Group benefited from strong growth in emerging countries thanks to solid local operations**
- ➔ **Balanced worldwide market positions enabled the Group to achieve stable sales on a constant structural and currency basis (-0.3%)**
- ➔ **On a current basis, due to a very significant adverse currency effect in the first half (-8.9%), sales continued to decline (-7.4%)**

# Improvement in gross margin remains in line with the target



Gross margin = sales less cost of sales (including manufacturing base costs)

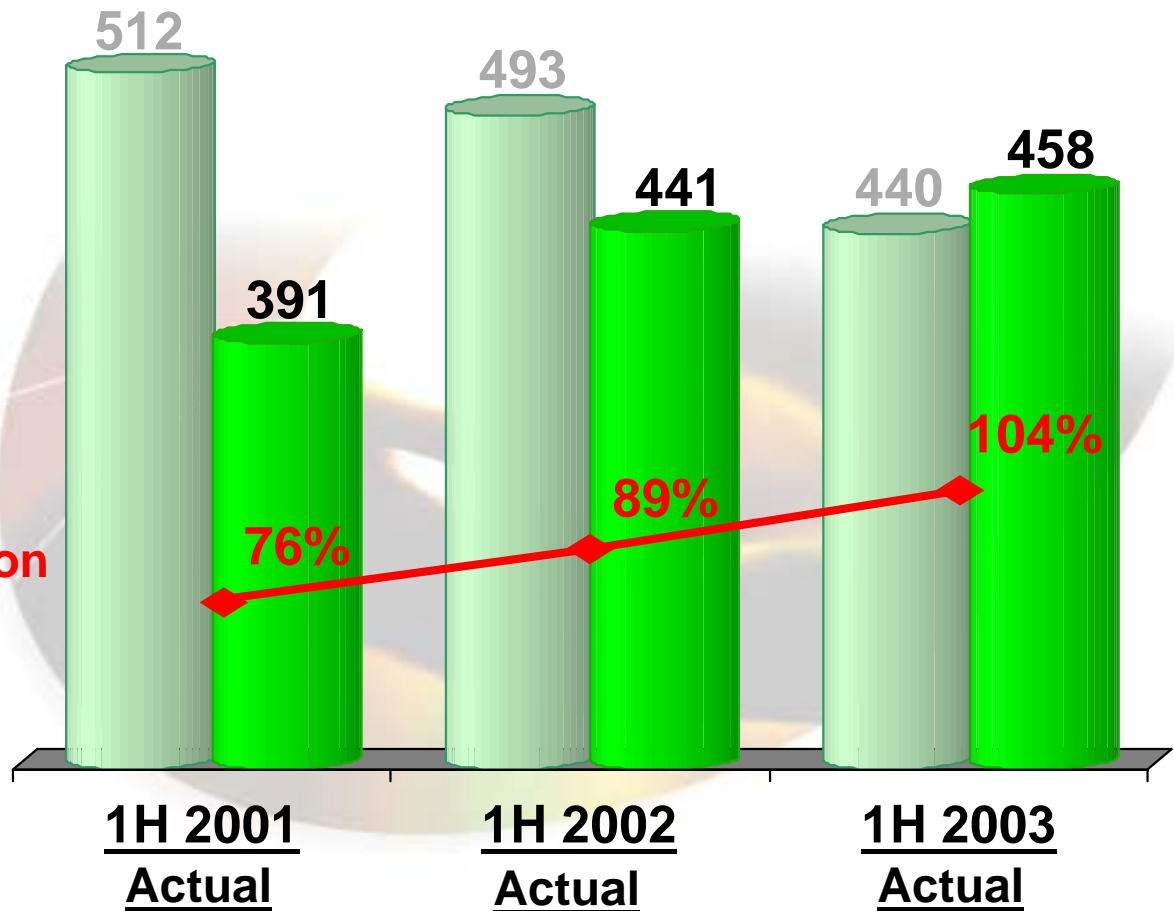
# The Group generates high operating cash flow

(in EUR m)

Operating income (A)

Operating cash flow (i) (B)

Cash conversion (B/A)



(i) Net cash provided by operations before change in operating assets and liabilities

# *Our strategy: 'Growth & Efficiency'*

- ➔ **Leverage the growth potential in emerging countries**
- ➔ **Gain market share in developed countries**
- ➔ **Push back the limits of our markets thanks to acquisitions already made: Digital Electronics, T.A.C, etc and a portfolio of attractive targets**
- ➔ **Adapt to the change in demand, markets and currencies**
  - Develop global sourcing
  - Redeploy manufacturing base
  - Realign the currency profiles of the cost structure and sales and rationalize base costs



*Highlights*

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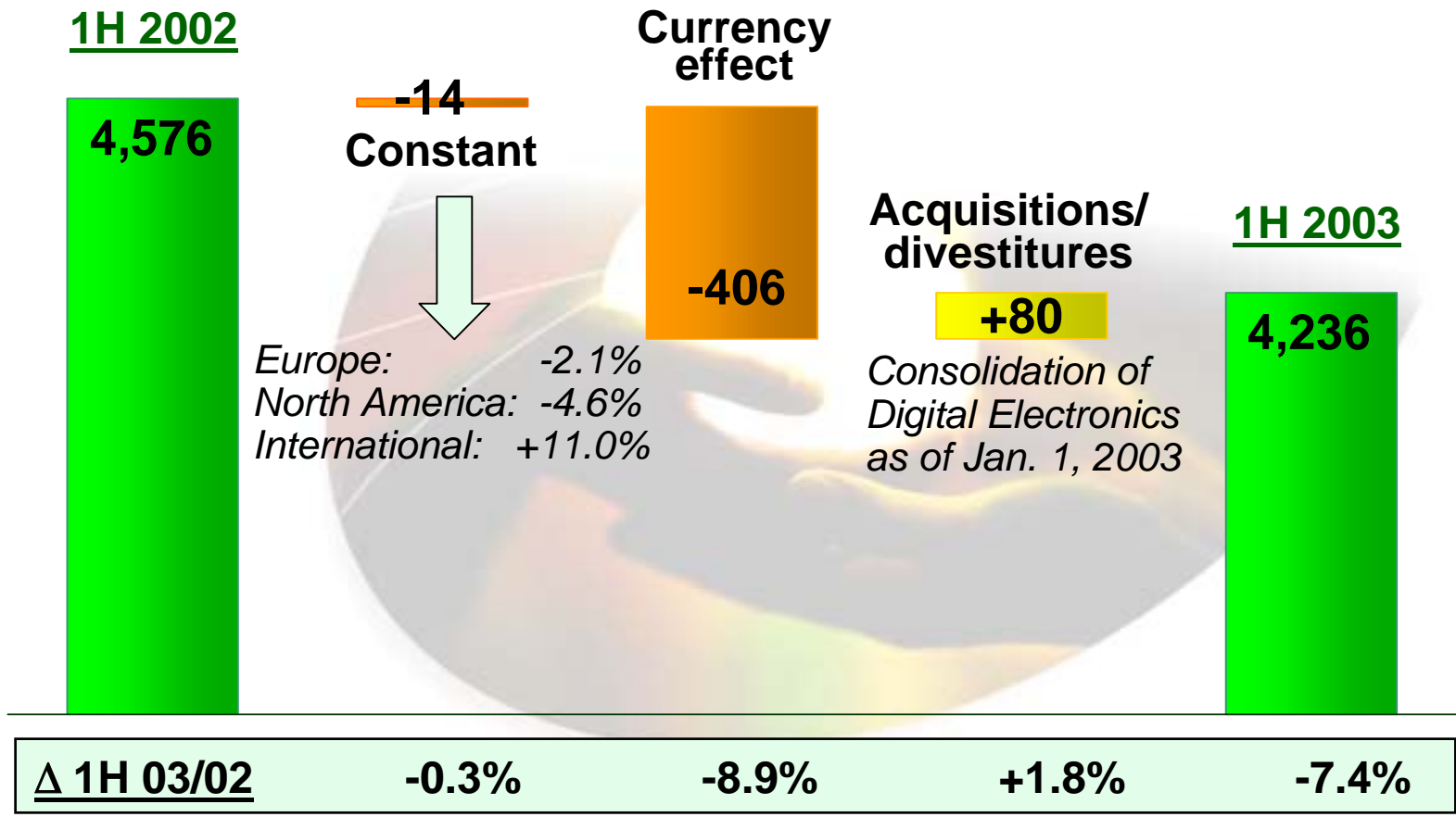
# Review of first half 2003 operations

- ➔ **First half 2003 sales: EUR 4,236 million, of which EUR 2,157 million in Q2 2003**
- ➔ **Constant trend in sales improved in Q2 2003 at +0.3% (-0.9% in Q1 2003)**
  - ➔ *for the first half, sales were down -0.3%*
- ➔ **Order intake exceeded sales**
- ➔ **Major currency effect, which reduced sales by EUR -406 million in the first half (-8.9%)**
- ➔ **Q2 sales volume was close to Q1 (seasonally adjusted)**



# Analysis of change in first half 2003 sales

(in EUR m)

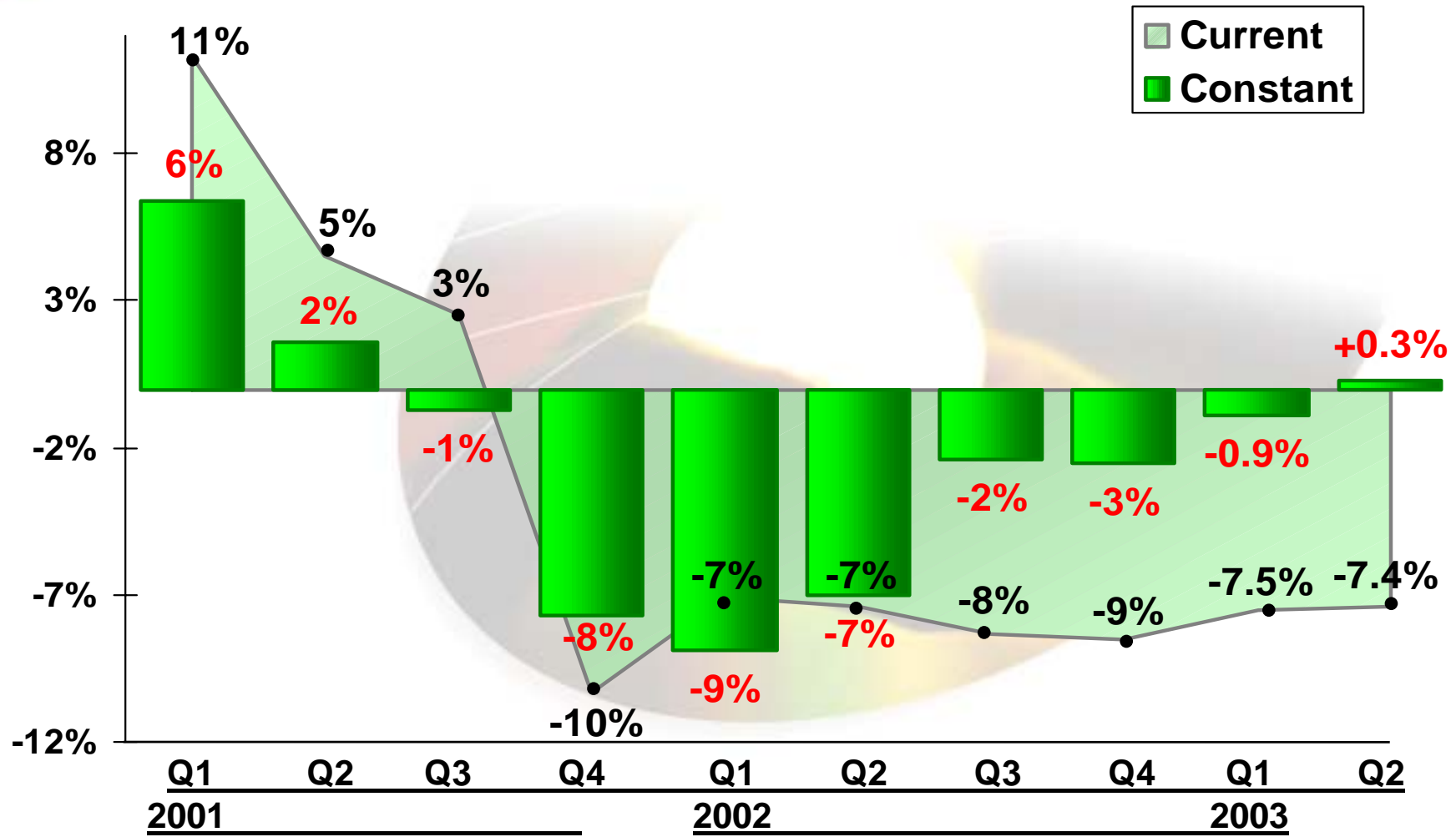


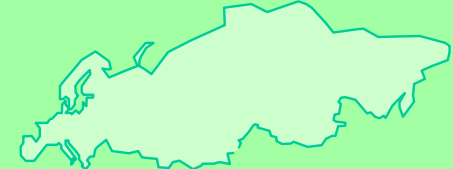
Average EUR/\$ rate: 1.10 (0.90 in 1H 2002)



# Stabilization of sales on a constant basis

(Quarterly sales change compared to the same quarter last year)





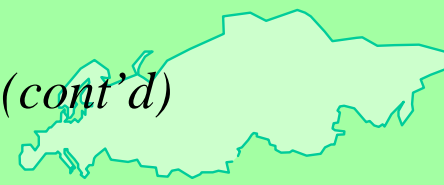
## ➔ Change in sales (constant basis)

Q1 2003	Δ 03/02	Q2 2003	Δ 03/02	1H 2003	Δ 03/02
1,127	-2.8%	1,134	-1.3%	2,261	-2.1%

- Sustained growth in Spain and Eastern Europe, stabilized demand at a low level in the other countries
- Non-residential Building and Industry markets weak except in Eastern Europe
- Good resistance in the Energy and Infrastructure markets in Spain and the United Kingdom

## ➔ Growth action plans

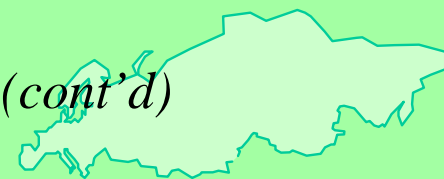
- Increase coverage of the Residential market: dedicated product ranges, broader distribution network
- Strengthen our presence in the Industry market with the support of the Application Centers
- Increase differentiation by capitalizing on the technology of our specialty companies Crouzet, Motion, Ensys - Enclosure Systems



## ➔ Productivity action plans

- **Purchasing**      Increase proportion of sourcing from low-cost countries  
Reduce the number of suppliers
- **Manufacturing Excellence**      Continue program deployment with a target of 67 plants in Europe
- **Manufacturing**      Increase the size of the production sites and reduce their number  
Localize production closest to demand
- **IT**      Reduce substantially the costs

## ➔ Continued adjustment of resources, reduction of staff by 400 people in first half 2003



## ➔ Acceleration of adaptation plans in several large countries

- **France**      New organization: Schneider Electric France  
Optimization of some production sites: numerical control, public distribution, medium voltage  
Reduction of administrative and marketing structures
  - **UK**            Rationalization of the manufacturing base
  - **Italy**            Adjustment of back and front offices
  - **Corporate**    Optimization of R&D and marketing functions
- ➔ **These projects will concern around 2,000 people in Europe and will be implemented in 2003-2004**



# Review of operations in North America



## ➔ Change in sales (constant basis)

Q1 2003	Δ 03/02	Q2 2003	Δ 03/02	1H 2003	Δ 03/02
533	-4.6%	553	-4.7%	1,086	-4.6%

- Weakness of non-residential construction, especially offices and industrial buildings
- Stabilization of demand in industrial automation

## ➔ Growth action plans

- Continue commercial initiatives aiming at targeting the most profitable segments and diversifying distribution channels: dedicated plans for systems integrators and installers
- Implement dedicated action plans in industrial automation to reinforce our market access and strengthen our application skills: automotive, conveyance, ...



## ➔ Productivity action plans

- Increase purchasing productivity by applying the Group new policy
  - Potential full year savings of USD 50 m
- Deploy Lean Manufacturing in 10 plants in 2003
  - Potential full year savings of USD 20 m
- Continue to optimize plants and transfer production to Mexico

➔ **Continued adjustment of resources with the closure underway of two plants - Raleigh and Ballinasloe (430 people) - and the reduction of staff by 220 people in the first half 2003**

➔ **Continuation of base costs alignment with business volumes**

## ➔ Change in sales (constant basis)

Q1 2003	Δ 03/02	Q2 2003	Δ 03/02	1H 2003	Δ 03/02
419	+10.1%	470	+11.8%	889	+11.0%

- Sustained growth in Asia
- Gradual recovery in South America

## ➔ Growth action plans

- Capitalize on the technology of acquired companies: Conlog (South Africa), Nu-Lec (Australia), SEOOCR (South Korea)
- Continue shifting manufacturing facilities to China: start-up of two new plants, Shilhin Suzhou Transformers and Suzhou Drives (JV with Toshiba)
- Reinforce our access to Japan, second worldwide OEM market, thanks to the integration of Digital Electronics
- Deploy Group's infrastructures in Asia to support growth and improve productivity (purchasing, manufacturing)



# The Group intensifies launch of products in 2003

MV protection relay  
**Sepam 80**



High end/low end  
power meter  
**PM 800**



Sensors, limit switches  
**Global detection**

Compact MV/LV  
substation  
**Satia**

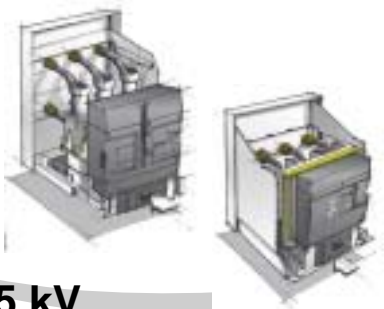


Transparent  
*Ready*



Interfaces  
**Advantys STB**

2/3-pole breakers  
& busbar  
**EasyPact**



SF6 free CB  
**Evolis 17.5 kV**

Starter controllers  
**TeSys model U**





*Highlights*

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# *First half 2003 financial highlights*

- ➔ **Sales stable overall at constant structure and currencies**
- ➔ **Major currency effect due to the rise of the euro: impact of -1.6 points on operating margin**
- ➔ **Very resilient operating margin**
  - Increase in gross margin thanks to sustained productivity gains
  - Base costs hit by specific factors
- ➔ **Good cash flow generation thanks to the operating performance and monitoring of capital expenditure**
- ➔ **Substantial increase in net income and in earnings per share**

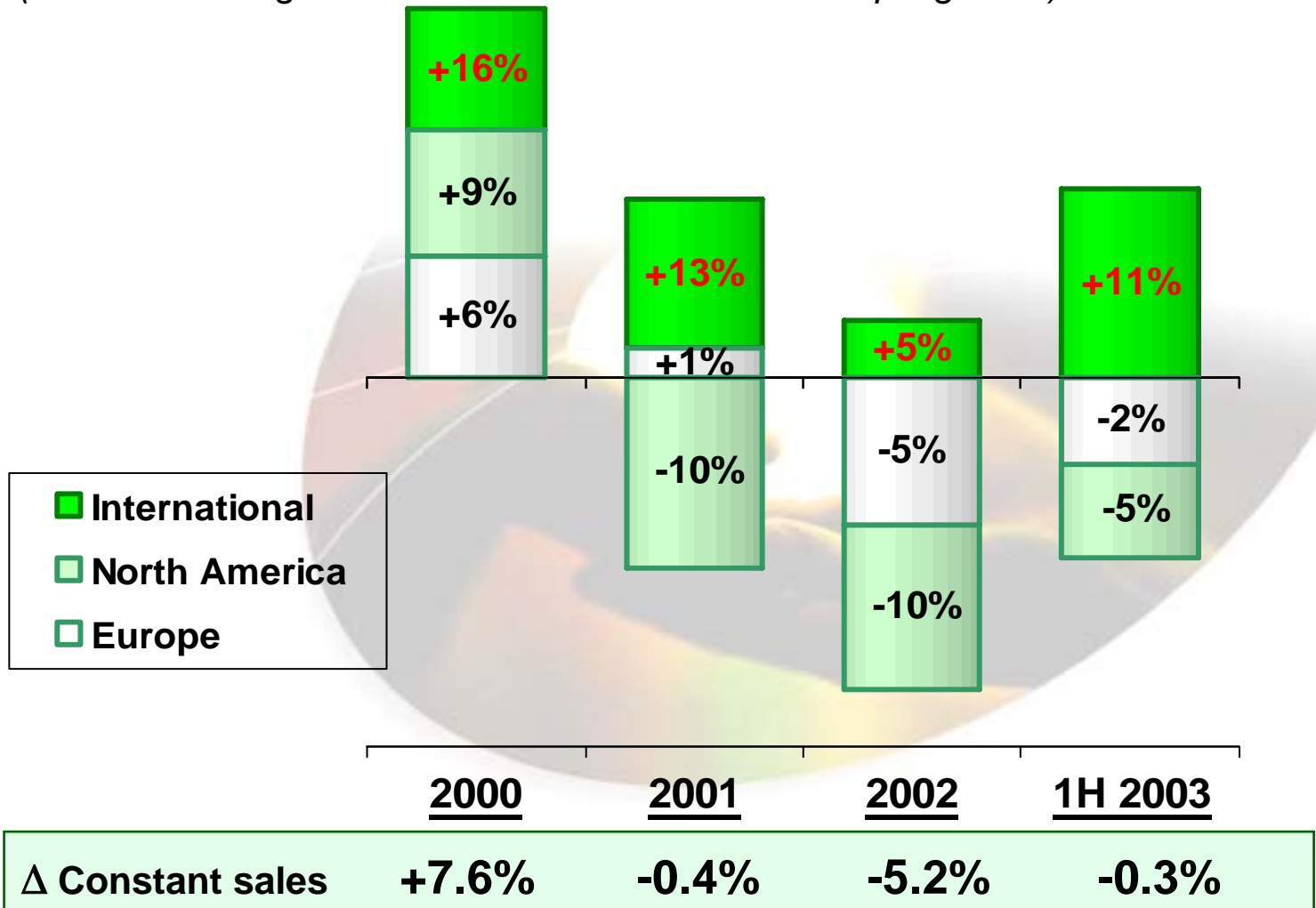
# Simplified income statement (part 1)

(in EUR m)

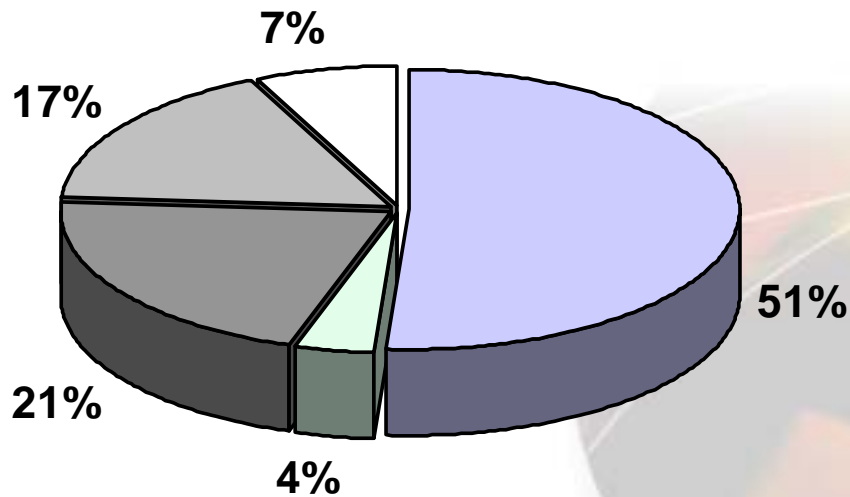
	<u>1H 2003</u>	<u>1H 2002</u>	<u>Δ 03/02</u>
<b>Sales</b>	4,236	4,576	- 7%
<b>Gross margin</b>	1,776	1,873	
<i>As a % of sales</i>	41.9%	40.9%	+1.0 pt
<b>Operating income</b>	440	493	- 11%
<i>As a % of sales</i>	10.4%	10.8%	-0.4 pt
<b>Net financial expense</b>	(21)	(62)	
<b>Income from continuing operations</b>	419	431	- 3%
<i>As a % of sales</i>	9.9%	9.4%	+0.5 pt

# An essential contribution of the International to Group's growth

(Constant change in sales and contribution to Group's growth)

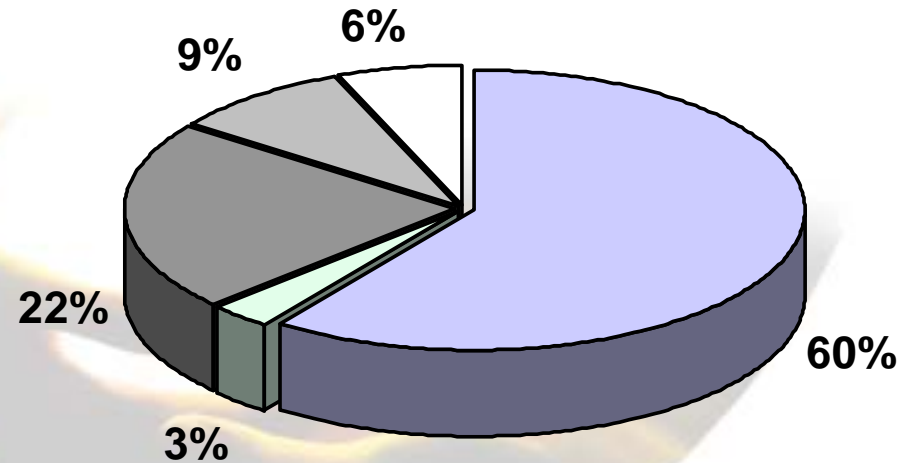


# Costs in euros exceed sales in euros



## ➔ Breakdown of sales by currency

- More than 2/3<sup>rds</sup> of International sales linked to the US Dollar
- Direct exports from Europe

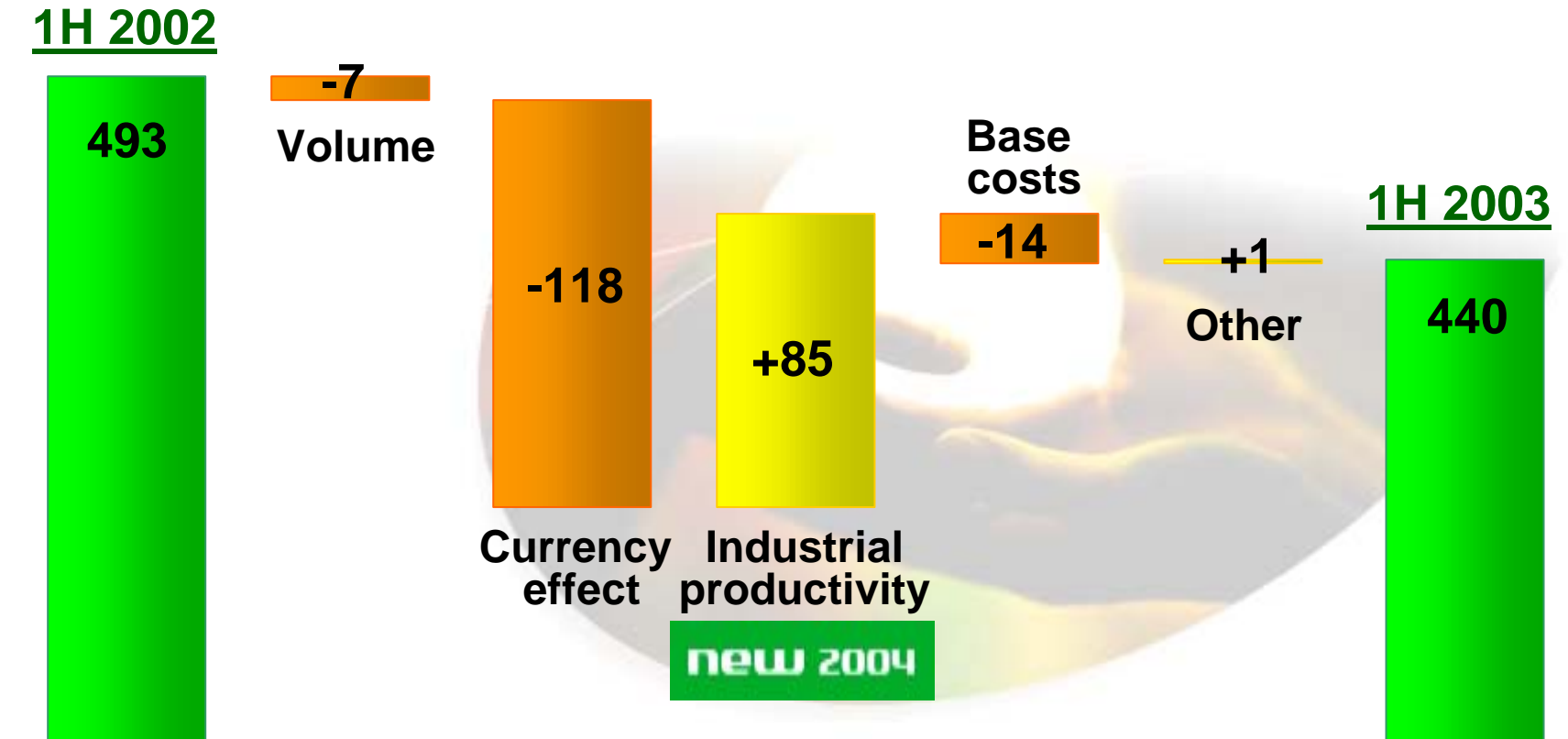


## ➔ Breakdown of costs by currency

- A significant part of manufacturing base located in Europe for historical reasons
- Most marketing and R&D functions based in Europe

# Analysis of change in operating income

(in EUR m)



# Simplified income statement (part 2)

(in EUR m)

	<u>1H 2003</u>	<u>1H 2002</u>	<u>Δ 03/02</u>
<b>Income from continuing operations</b>	<b>419</b>	<b>431</b>	<b>-3%</b>
<b>Exceptional items</b>	<b>(31)</b>	<b>(21)</b>	
<b>Income taxes</b>	<b>(106)</b>	<b>(121)</b>	
<b>Other (minorities, affiliates)</b>	<b>(13)</b>	<b>(28)</b>	
<b>Net income before goodwill amort.</b>	<b>269</b>	<b>261</b>	<b>+3%</b>
<b>Amortization of goodwill</b>	<b>(79)</b>	<b>(85)</b>	
<b>Net income after goodwill amort.</b>	<b>190</b>	<b>176</b>	<b>+8%</b>

# Substantial increase in net earnings per share

(in euros)

	1H 2003	1H 2002	<u>Δ03/02</u>
<b>EPS <u>before</u> goodwill amortization</b>	1.20	1.13	+6%
<b>EPS <u>after</u> goodwill amortization</b>	0.85	0.76	+11%
<b>Average number of shares (million)</b>	224.4	232.1	-7.7

**The Group bought back 9 million shares during the last 12 months: the accretive impact on EPS is +3%**

# Strong ability to generate cash flow

<i>(in EUR m)</i>	<u>1H 2003</u>	<u>1H 2002</u>
<b>Operating cash flow</b>	<b>458</b>	<b>441 (i)</b>
<b>Net capital expenditure</b>	<b>(129)</b>	<b>(168)</b>
<b>Change in working capital</b>	<b>(98)</b>	<b>(166)(i)</b>
<b>Free cash flow (before dividends)</b>	<b>231</b>	<b>107</b>

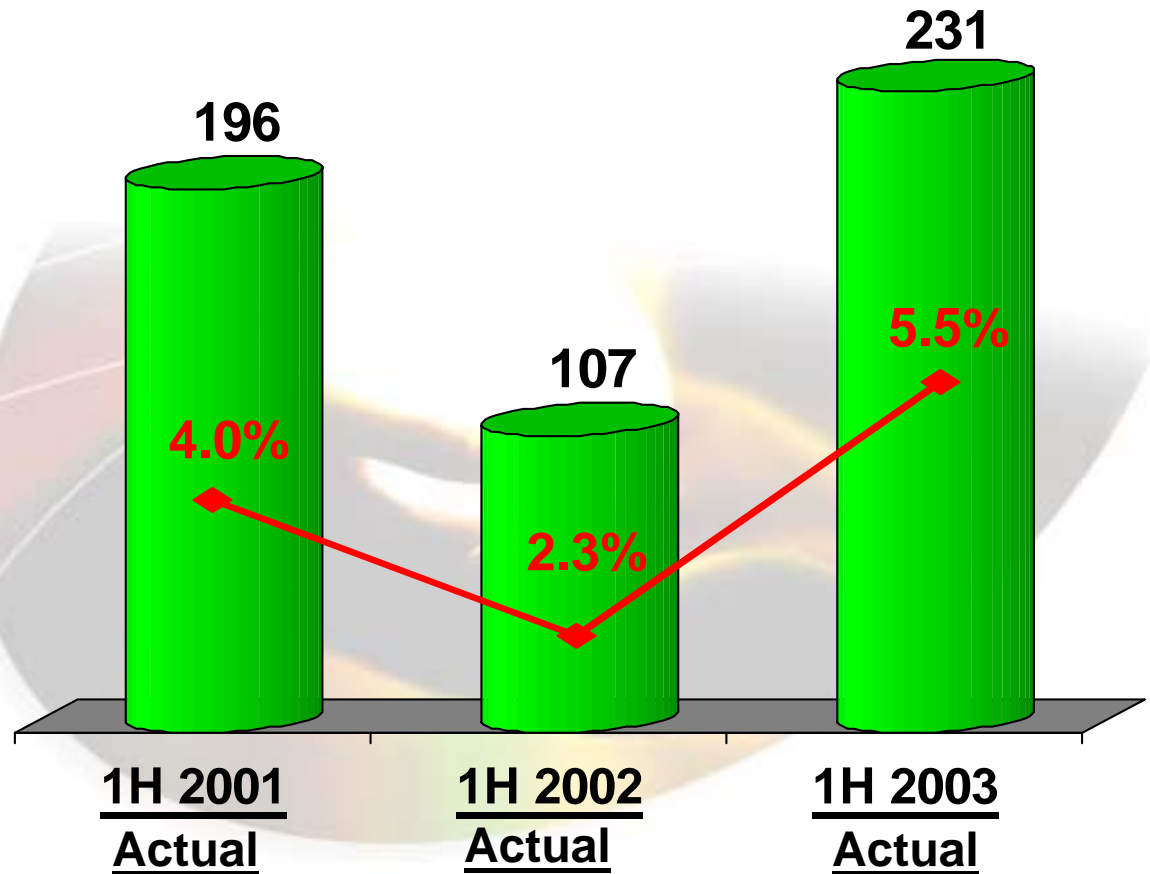
*(i) reclassification of EUR 23 m following application of IAS 7*

# Increase in free cash flow

(in EUR m and as a % of sales)

**Free cash flow**  
(before dividend)

As a % of sales



# These financial resources enabled the Company primarily to:

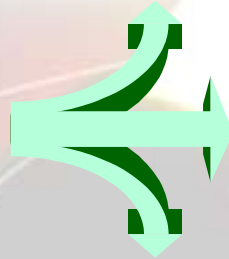
(in EUR m)

**Free cash flow  
(from operating activities)**

**231**

**Change in net cash**

**205**



**Remunerate shareholders  
(dividend 233 (i),  
share buybacks 101)**

**334**

**Contribute to Square D  
pension funds**

**79**

**Make acquisitions**

**23**

(i) excluding tax equalization (précompte) to be paid in July 2003



*Highlights*

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*Strategy and outlook*

# *Our growth strategy: broaden our accessible markets*

## ➔ **Optimize our business portfolio**

- Industry market: reinforce our presence and broaden our offer
- Building and Energy & Infrastructure markets:
  - Capitalize on new differentiation factors
  - Enhance coverage through micro-segmentation
- Residential market: expand geographically and develop the product offer

## ➔ **Invest in growing geographical areas: China, Eastern Europe, India, Brazil**

## ➔ **Develop new growth platforms through targeted acquisitions**

# Our growth priorities for the Industry and Buildings markets



## ➔ Industry

- Develop specific application skills and strengthen our presence in key OEM countries
- Broaden our offer: motion control, detection, vision, safety

## ➔ Buildings

- Capitalize on new factors of differentiation: optimized electrical architectures, flexible installation systems, networked *Transparent Building™* products
- Increase our market coverage by developing applications / architectures for specific buildings: Marine, Retail, Health



# Our growth priorities for the Energy & Infrastructure and Residential markets

## ➔ Energy & Infrastructure

- Target high growth application niches thanks to deregulation of electricity: expertise in energy quality and efficiency, micro-generation and distributed generation
- Enhance our market coverage by developing specific applications for targeted segments with high medium-term growth potential: telecoms, tunnels, ...

## ➔ Residential

- Implement a dedicated commercial organization: sales force, distribution channels, brands
- Expand geographic coverage in Ultra terminal
- Develop new high potential functions: VDI, home control



# Our acquisition strategy

## ➔ The Group has defined targeted growth platforms:

- One market : Residential
- Selected specialties:
  - Secured power
  - Building automation
  - Value-added services: energy, industrial productivity
  - Niches: high volume specialty sensors, motion control, smart metering

## ➔ Based on the following acquisition criteria:

- Strategic fit, capacity to integrate
- Well-established market position or specialized technology, along with good level of profitability
- Valuation primarily based on discounted cash flows
- No EPS dilution beyond two years

# *T.A.C acquisition: a major step forward in our strategy*

- ➔ **A specialist at the convergence between the world of electrical distribution and the world of automation**
- ➔ **An intrinsically attractive, €11 billion market, growing by 6% year and not very cyclical**
- ➔ **Enriching our presence inside buildings:**
  - Answer to global customer needs: comfort, security, efficiency, cost savings, flexibility, communication
  - Get closer to end users, to specify our products
  - Capture directly or through partners part of the service business
  - Acquire applicative competencies and skills
- ➔ **Open the door to specific specialists (HVAC, security) and complementarily channels (electrical, automation and mechanical devices)**

# T.A.C: the ideal partner

## ➔ Key figures

- Sales: EUR 346 m
- EBITA: 10.5%
- 2,100 employees

## ➔ Main offices

- Europe: Malmö, Sweden
- Americas: Dallas, United States
- Asia-Pacific: Perth, Australia

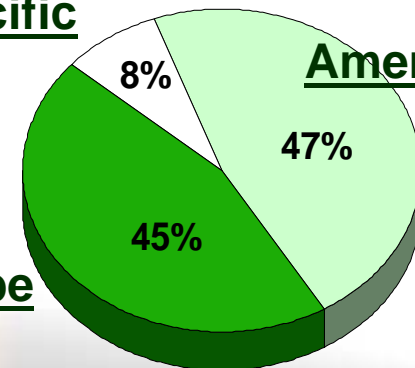
➔ A global company, with a successful track record of growth and operating performance

➔ An open system for *Building IT*<sup>®</sup> philosophy which fits well with our *Transparent Ready*<sup>™</sup> philosophy

➔ A focus on added value services

Asia-Pacific

Americas



Europe

Breakdown of sales by region



Controllers




Actuators, sensors



Supervision and design software

# 2003 Outlook

- ➔ **The non-residential Building and Industry markets are not showing signs of a recovery at this stage**
- ➔ **The Group confirms anticipating stable sales overall on a constant basis for the full year 2003**
- ➔ **Schneider Electric will accelerate the implementation of adjustment plans, notably in Europe, and will continue its industrial productivity plans**
- ➔ **Thanks to the impact of action plans, the Group expects an improvement in operating margin in the second half of 2003**



# *Appendices*

- **First half 2003 sales**
  - **Breakdown of sales**
  - **Change in shareholders' equity**
  - **Change in financial situation**
- 

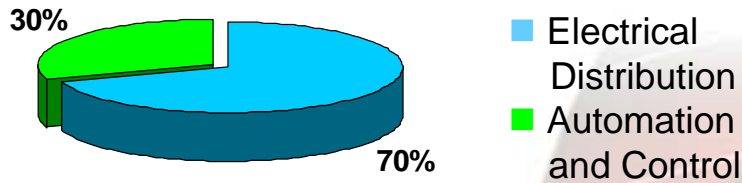
# First half 2003 sales

(in EUR m)

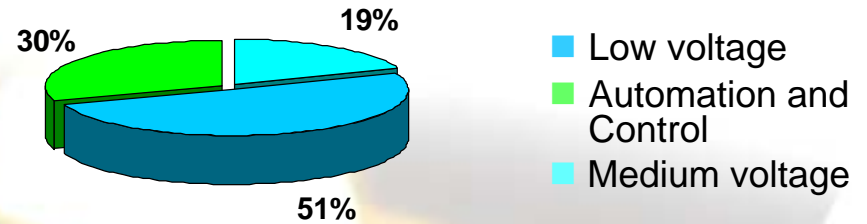
	<u>1H 2003</u>	<u>Δ 03/02</u> Current	<u>Δ 03/02</u> Constant
<b>Europe</b>	2,261	-2.8%	-2.1%
<b>North America</b>	1,086	-20.8%	-4.6%
<b>International</b>	889	+1.0%	+11.0%
<b>Total</b>	4,236	-7.4%	-0.3%

# Breakdown of sales (2002 data)

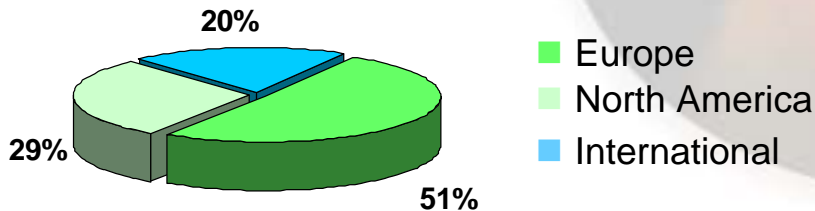
## By core business



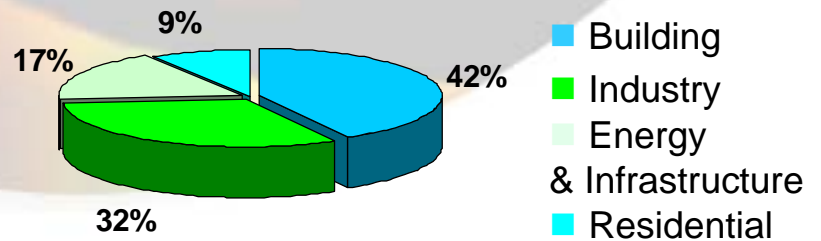
## By business segment



## By operating division



## By market



# Change in shareholders' equity including minority interests

(in EUR m)

<b><u>At December 31, 2002</u></b>	<b><u>7,861</u></b>
------------------------------------	---------------------

<b>Dividends</b>	<b>(320)</b>
<b>Translation adjustment</b>	<b>(163)</b>
<b>Net income for the year</b>	<b>200</b>
<b>Change in treasury shares</b>	<b>(100)</b>
<b>Other</b>	<b>15</b>

<b><u>At June 30, 2003</u></b>	<b><u>7,493</u></b>
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# Change in financial situation

(in EUR m)

	<u>1H 2003</u>	<u>2002</u>
<b>Consolidated shareholders' equity</b>	<b>7,493</b>	<b>7,861</b>
<b>Net cash position</b>	<b>639</b>	<b>844</b>
<b>Long-term debt rating (Standard &amp; Poors)</b>	<b>A</b>	<b>A</b>

# **Building** *a New Electric* *World*

