

High Voltage **Alliance Project**

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Project presentation

1. Purpose of an alliance in HV

2. Presentation of the joint venture

3. Strategic objectives

4. Financial data

1 - Purpose of an alliance in high voltage

- **Market trends are deeply changing**
- **The competitive landscape is shifting rapidly**
- **Schneider Electric is pursuing a general alliance strategy in the electric power market**

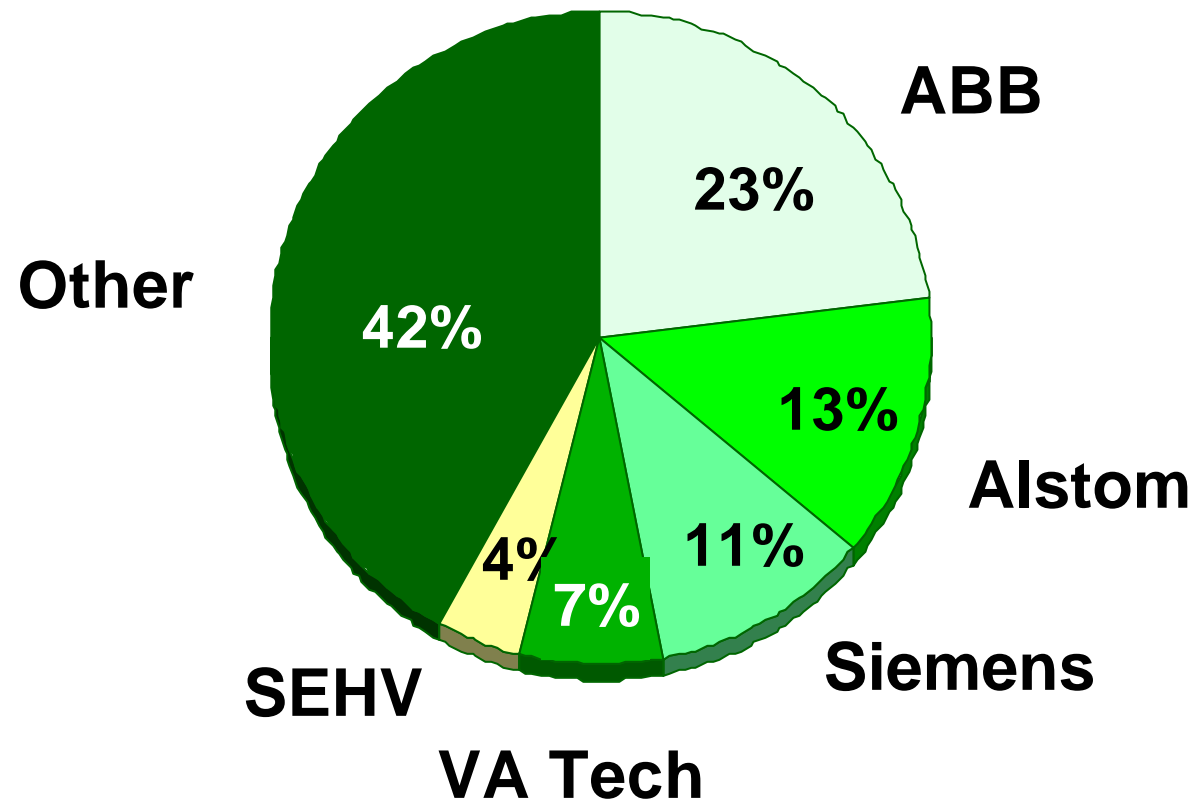
Market trends are deeply changing

The HV market is in the midst of a major shift

- **Industrialized nations are re-engineering their existing grids** - need to optimize their installations and related services
- **Newbuilding is moving towards the emerging economies**
- **Markets are being deregulated** - customer demand is shifting to complete systems
- **Overall product prices are declining**
- **The electric power markets** (particularly generation and transmission) **are increasingly sensitive to the situation in the oil market**

The competitive landscape is shifting rapidly (1/2)

HV market share - T&D



The competitive landscape is shifting rapidly(2/2)

- Alstom is focusing on infrastructure megaprojects
- ABB and certain Japanese manufacturers have announced that they intend to develop in less cyclical activities
- Siemens has yet to solve the problem of its T&D operations' positioning
- Around 50% of the market remains fragmented
- The large European and Japanese groups are acquiring emerging Asian players

Schneider Electric is pursuing a general alliance strategy in the electric power market

- **Schneider Electric has been pursuing a strategy of partnerships and alliances (e.g., Toshiba, Tatung) over the past four years to expand its lineup and enter new markets**
- **Schneider Electric is focused on four core competencies (LV, MV, industrial control and automation)**
- **Schneider Electric wants to maintain a comprehensive lineup in the electric power market through:**
 - A joint venture with another group
 - An alliance in which it is a minority partner with decision-making power

2 - Presentation of the joint venture

- **Presentation of VA TECH**

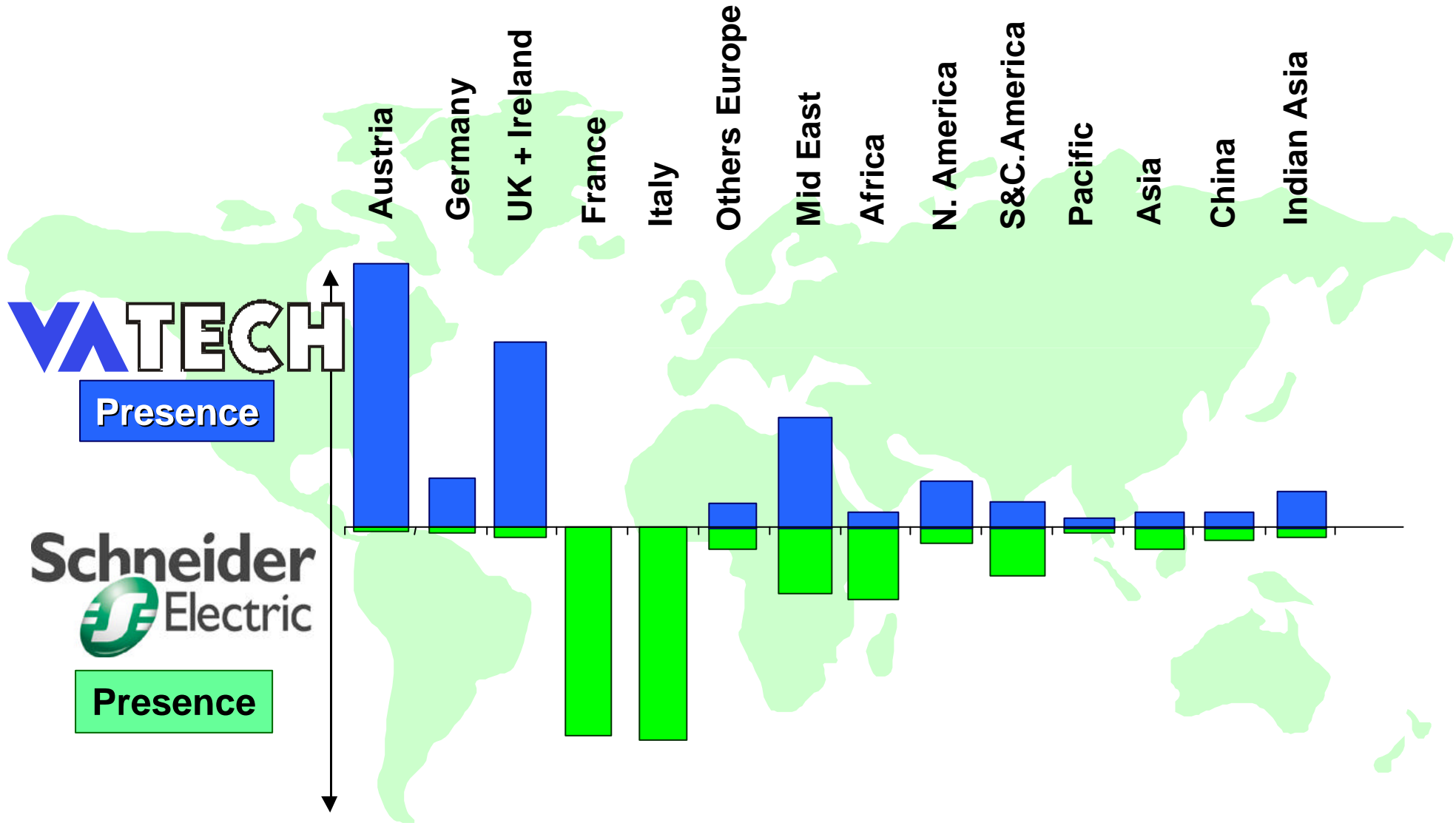
- **Scope**

- **Operations**

Presentation of  ***Strategically related and converging interests to challenge the market leaders***

- **VA TECH has strong growth momentum in infrastructure projects**
- **It does not compete with Schneider Electric in its other businesses**
- **VA TECH and SEHV offer a good strategic fit in terms of their domestic markets and their positions in growth markets**
- **Both partners are committed to challenging ABB and Alstom**

Strong geographic complementarities



VA TECH profile

Highlights

- Based in Austria
- 20,600 employees in 1999
- Sales of EUR 3.5 billion in 1999
- EBIT of EUR 130 million in 1999
- Five core businesses : Metallurgy, Hydro Power Generation, Transmission & Distribution, Water Systems, Industrial Services

VA TECH's T&D business

- 5,299 employees
- Sales of EUR 729 million* in 1999
- EBIT of EUR 37 million in 1999
- Brands: Elin, ETG, EBG Peebles, EHH, Reyrolle, SATAutomation, FPC

* Includes MV, protection and automation control and transformer components

Presentation of the joint venture

VA TECH will contribute:

- **The Transmission and Distribution Division's T&D activities** (switchgear, contracting and services). The other activities (transformers, components and protection and automation control) will remain part of the parent company
- **Its medium voltage assets.** This is a small business closely linked to services that primarily serves the UK renovation market

Schneider Electric contributions to the joint venture

Schneider Electric will contribute:

- **All of SEHV's HV operations to the joint venture**
- **Its power transformer operations to VA TECH's transformer business**
 - VA TECH (no.2) wanted to maintain full control of this business

40% Schneider Electric - 60 % VA TECH

- **The partners' stakes correspond to the value attributed to their contributions in HV**
- **The joint venture will be incorporated in Austria, with its headquarters in Vienna**
- **Each partner will have three members on the Supervisory Board and Schneider Electric will have the right to review all key decisions**
- **The alliance includes a comprehensive strategic agreement covering the entire T&D business to coordinate relations between the joint venture and the founding partners** (exclusive cross-supply of equipment and services, non-compete clauses, access to the electric power and industry markets, etc.)

3 - Strategic objectives

- **Ambition: challenge the market leaders**
- **New strengths in the marketplace**
- **Three strengthened core businesses to meet market needs even more effectively**
- **Marketing policy**
- **R&D**

Ambition: challenge the market leaders

- **The new company will immediately rank 3rd worldwide**
 - Behind ABB & Alstom
 - On a par with Siemens
 - Far ahead of the Japanese manufacturers

- **The goal is to expand in the market through organic growth and partnerships and challenge the market leaders**



Ultimately, rank 2nd worldwide

New strengths in the marketplace

- **Global coverage, thanks to joint membership in two large international enterprises**
- **A significantly larger marketing base**
 - Complementary access in Europe, where VSHV will have the best coverage with 5 core countries (Austria, France, Italy, Netherlands, UK)
 - More areas where there's a good strategic fit (Canada, Brazil, Mexico) than areas of redundancy in growth markets
- **A broader and stronger lineup thanks to the combination of the parents' businesses:** Transformers, Protection & Automation Control, Power Generation, Electrical Distribution and Industrial Control and Automation
- **Complementary experience in markets at various stages of maturity**
 - Successful experience in a highly deregulated market (UK)
 - Recognized expertise in two markets with highly technical customers (EDF, Enel)
 - Presence in the Netherlands

Three strengthened core businesses

To cover all of the market's needs

■ Complete systems, including equipment and services

- VSHV, VA TECH (Transformers, Automation Control), SE (MV, LV, etc.)
- Subsystems produced by partners (Toshiba, Nokian, etc.)

■ Products and equipment

- Sold separately
- Or in standardized/customized packages

■ Services

- Traditional (e.g., spare parts, supervision, trials)
- Extended technical support (e.g., equipment or installation upgrading)
- Operations support (e.g., preventive maintenance)

Marketing policy

- Improved access to power generation
- Cross-marketing of related products
- Broader geographic base starting immediately
- Synergy in megaprojects thanks to VA TECH's positioning in other businesses

R&D and product strategy

■ R&D challenges

- Develop the products the market wants at a cost that is compatible with market prices and provide impeccable quality from production to operation
- Product strategy objectives
- Protect the existing base in the short term
 - Maintain existing market positions
 - Honor existing commitments made under current terms and conditions
- Rationalize and extend the lineup
 - Quickly converge towards a unified lineup covering the same needs as the current ranges
 - Expand the lineup by covering new features

4 - Financial data

- **Sales**
- **Impact on Schneider Electric's earnings**

Sales

- **Schneider Electric sales contributed to the joint venture : EUR 290 million (est. 2000) (HV operations, excl. power transformers)**
- **Schneider Electric sales transferred to VA TECH: EUR 70 million (est. 2000)(power transformers)**
- **Joint venture's estimated sales for 2001: EUR 620 million**

Impact on Schneider Electric's earnings

- **The joint venture will be accounted for by the equity method in 2001:** automatically, this will have a positive impact on Schneider Electric's operating margin
- **The joint venture should record an operating profit starting in 2001**