

Andover Controls



Merlin Gerin
Square D
Telemecanique

Schneider Electric strengthens its positions in Building Automation while expanding in Security

Paris, May 19, 2004

Schneider
 **Electric**
Building a New Electric World

Our acquisition strategy

Andover Controls

⇒ A targeted acquisitions strategy

- Industrial automation
- Building automation
- Residential market
- Secured power
- Sensors for machines
- Value-added services



⇒ Rigorous execution over the past 18 months

- ☑ Digital: December 2002
- ☑ TAC: June 2003
- Andover Controls: May 2004**
- ☑ Clipsal: August 2003
- ☑ MGE UPS: December 2003
- ☑ Kavlico: March 2004
- ☑ TAC, MGE UPS

**Andover Controls, a highly successful player
in Building Automation and in Security**

A major step to becoming a leader in Building
Automation while expanding in Security

The transaction

A mission statement:
We're Building Smart®

Andover Controls

Andover Controls: committed to customers

«Smart people working tirelessly for our customers to provide the most innovative, powerful and flexible products to ensure that their buildings are secure, comfortable and efficient »



Key 2003 figures

⇒ Sales \$169 million

⇒ Operating margin (EBITA) 16.7%

⇒ Employees 690

⇒ 2 complementary businesses

- Building Automation (60%)
- Security (40%)

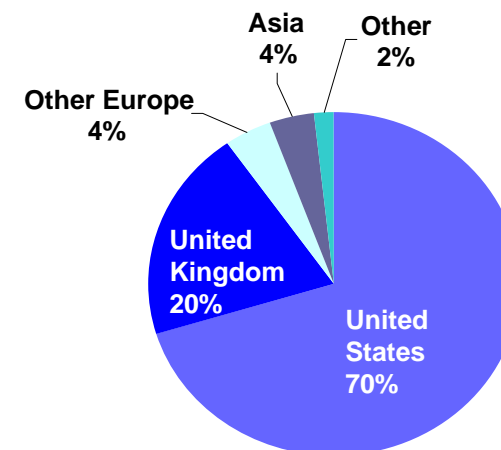
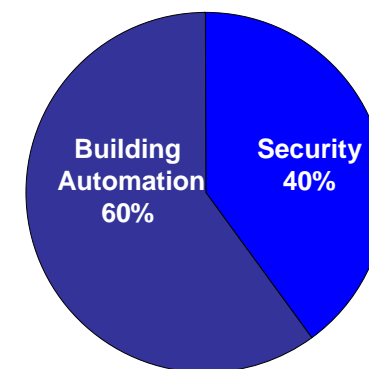
⇒ 2 main geographical markets

- US: \$117 million
- UK: \$31 million

⇒ Main sites:

- Headquarters in Andover, MA USA
- European Division in Birmingham, UK
- Security Division in Indianapolis, IN USA
- Manufacturing facilities in Andover and Indianapolis

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Differentiation factors

Andover Controls

- ➔ **Initially a player in HVAC control with a track record of innovations**
- ➔ **Strengthened capabilities in Security by the acquisition of strong brands (Integral Technologies, Security International)**
- ➔ **An offering integrating HVAC and Security**
 - HVAC control products: controllers, software
 - Electronic Security products: digital video recorders, access control systems
- ➔ **A powerful global distribution network combined with a direct approach**
 - Distributes products globally through partners, mainly systems integrators (55% of sales)
 - Solidifies long-standing relationships with end-users and notably global accounts by a direct approach (45% of sales)
 - Large installed customer base results in stable stream of recurring revenue

Solutions based on a wide offer of products, software, services



Andover Controls

- ➔ **Complete offering in building automation, access control, CCTV *, from large systems to stand-alone programmable controllers**



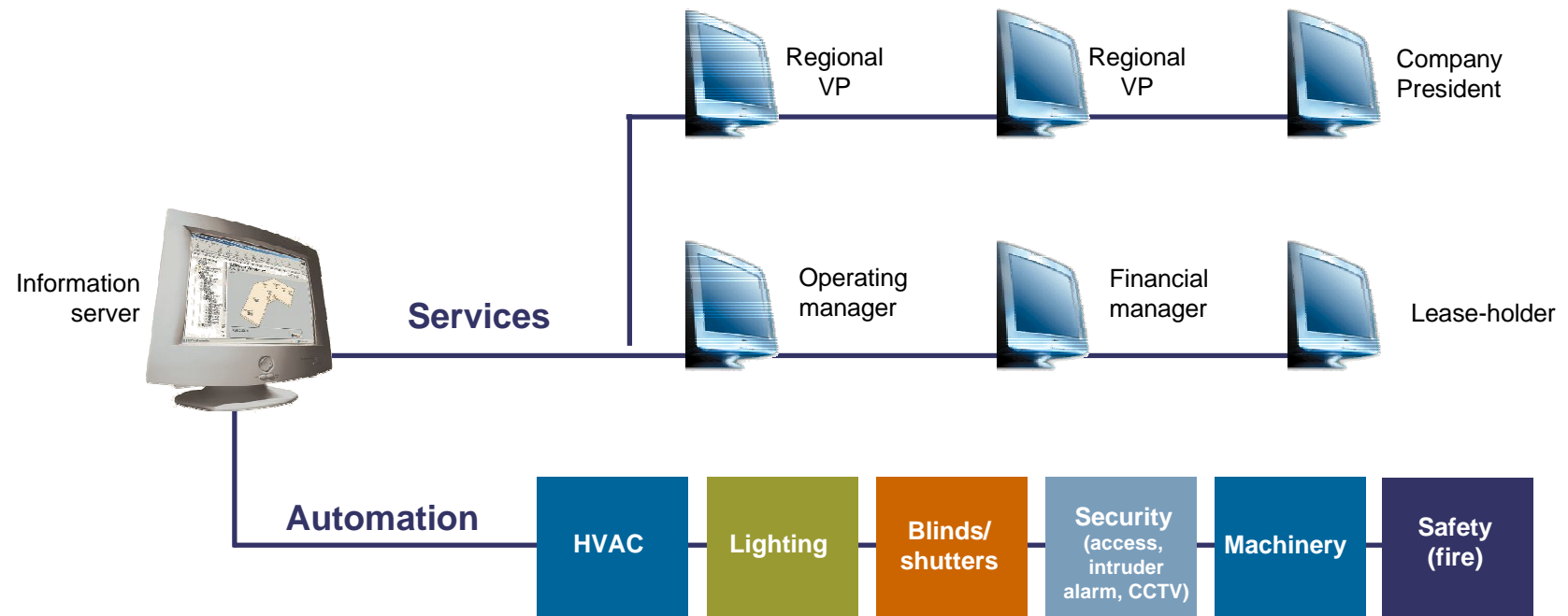
- ➔ **Advanced LAN/WAN communications and IT based solutions**

* Closed Circuit TeleVision

Integrated systems for Smart Buildings

Andover Controls

- ➔ **Andover Controls delivers integrated systems adapted to specific customer needs**

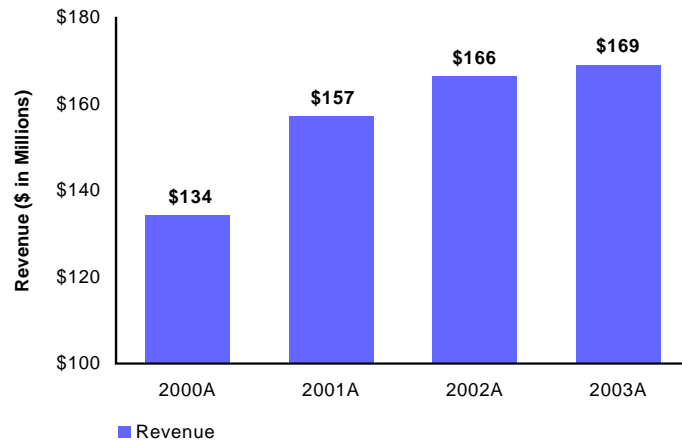


Best in class financial track record

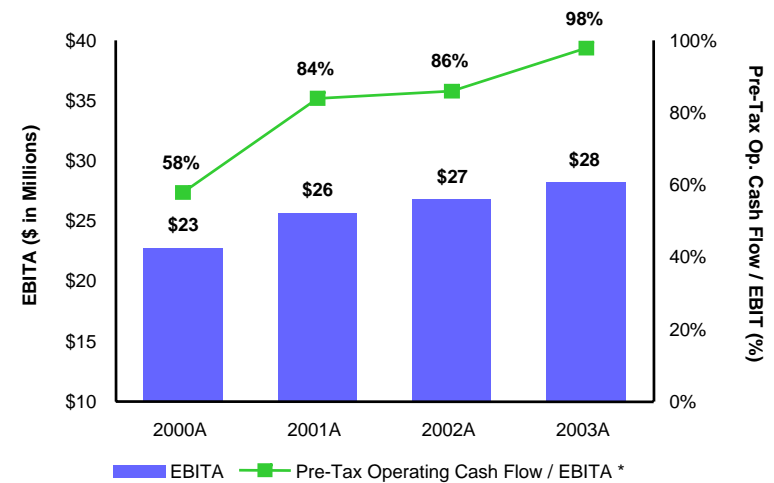
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- ➔ Sustained revenue growth with CAGR 2000-2003: 8%
- ➔ Consistently high operating margin above 16%
- ➔ Not capital intensive with powerful cash conversion

2000-2003 Revenue



2000-2003 EBITA



* Pre-tax Operating Cash Flow is defined as EBIT, plus depreciation, less capital expenditures and plus/minus changes in net working capital (excluding effects of interest and taxes).

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What Andover Controls brings us



Andover Controls

- ➔ **Strengthens our positions in Building Automation**
 - In the US: market share, customers base, partner network
 - In integrated systems
- ➔ **Meets our strategy of expanding Security capabilities**
 - Management team
 - Offering
 - Installed base
 - Partner network



With the combined competencies of TAC and Andover Controls, we will be able to offer a valuable alternative to the largest competitors by being the leader in open and integrated systems

Building Automation offers attractive growth potential



Andover Controls

- ➔ A speciality business at the convergence of electrical distribution and automation & control
- ➔ An intrinsically attractive market worth €11 billion growing by 6% a year
- ➔ A deepened presence in the building to meet the full range of increasing customer needs for comfort, security, savings and communications
- ➔ A key driver of demand for services through the installed base

Services & maintenance	27%
Retrofit	22%
Replacement	29%
New building	22%

We strengthen our positions in Building Automation



Andover Controls

- ➔ **TAC has enabled Schneider Electric to become a major player in Building Automation**
- ➔ **Andover Controls brings a significant presence in the US, where a strong position is a must to challenge the leaders**
 - A significant market share in the US, which represents 34% of the worldwide Building Automation market
 - A strong presence in US Northeast (NJ + MA)
 - A reinforcement with some industrial customers
 - A large installed base
- ➔ **Andover Controls allows us to double our Building Automation business in the UK**
- ➔ **Andover Controls strengthens our leadership in integrated systems**

TAC and Andover Controls have a similar strategy



Andover Controls

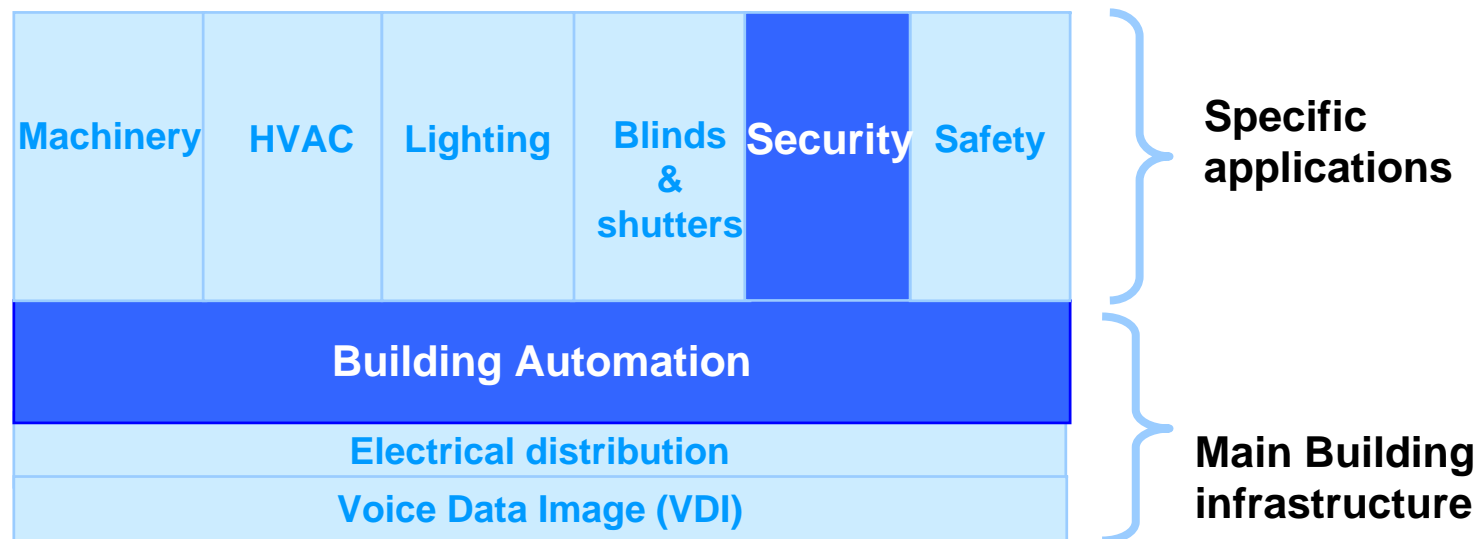
- ➔ **Build strong competitive advantage with differentiating technology**
 - Web-based, open, integrated systems
 - Better response to customer needs for flexibility
- ➔ **Leverage positions in Building Automation to further develop the Security business**
- ➔ **Use two routes to market**
 - Indirect approach through a mastered network of partners (system integrators, dealers, OEMs): range of products and systems
 - Selective direct approach to end-users: global solutions including services across the building life cycle
- ➔ **Capitalise on installed base to expand services**

Security is a key Building Automation application



Andover Controls

- ➔ **Building Automation: regulating, monitoring and controlling a building's utilities**
- ➔ **Security: access control, intruder alarms, CCTV systems**



We have decided to develop the Building Security business



Andover Controls

- ➔ **Security is one of the increasing major needs of our customers in the Buildings, which we want to address as well as comfort, communication and savings**

- ➔ **We are well positioned to meet our customer expectations:**
 - Integration of HVAC control, lighting control and Security systems is a key trend
 - Integration delivers substantial user benefits across the Buildings life cycle
 - It is today a competitive advantage to be able to provide both open Building Automation and Security systems

Andover Controls addresses attractive segments of the Security business



Andover Controls

Non residential Building Security is a €20 billion market growing by +7% a year

➔ CCTV systems:	€5 billion, +12%	Andover Controls focus
➔ Intruder alarms systems and monitoring:	€11 billion, +5%	
➔ Access control systems:	€4 billion, +9%	

~40% of installed systems are integrated systems combining at least 2 functions

We meet our strategy of expanding Security capabilities



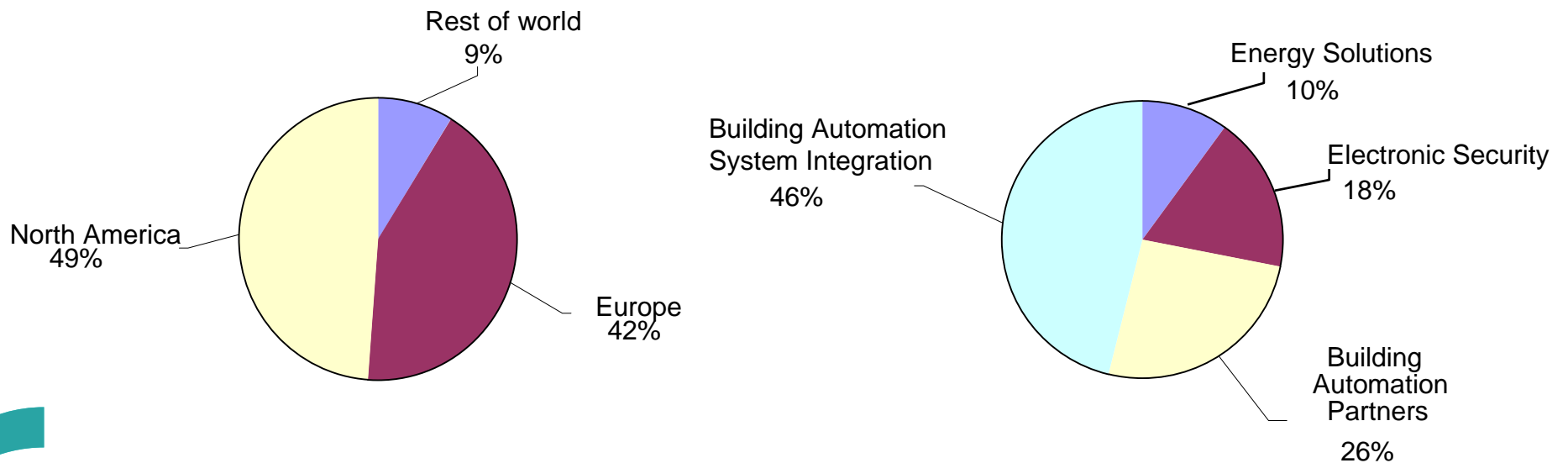
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- ➔ **We are already present in the Security business, with sales of around €50 million**
- ➔ **We want to leverage our position in Building Automation by expanding in the Security business**
- ➔ **Potential synergies exist with the existing / future end-user base and partner network of TAC products and services**
- ➔ **The Andover Controls Security platform is well suited for future expansion in the electronic Security business**

TAC and Andover Controls: a powerful combination

Andover Controls

- ➔ **Total Schneider Electric sales in Building Automation and Security will amount to ~ 600 M€ with an operating margin above 12%**



We will be the clear leader of open and integrated Building Automation and Security systems

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Description of the transaction

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- ➔ Acquisition of 100% of Andover Controls shares
- ➔ Due diligence already performed with satisfactory results
- ➔ Acquisition price of \$403 million of which enterprise value of \$335 million and US tax benefit of \$68 million (section 338 (h) (10))
- ➔ Price to be paid in cash at closing after antitrust clearances from National Authorities of notably the US
- ➔ Closing expected by July 2004

Analysis of the transaction

Andover Controls

- ➔ **The goodwill generated by the transaction is deductible under section 338 (h) (10) election for US assets resulting in an annual tax benefit of \$8 million**
- ➔ **The tax benefit is paid up front to the seller and included in the acquisition price for a net present value of \$68 million**
- ➔ **Based on an enterprise value of \$335 million, the transaction multiple on 2003 EBITA is 11.8x**

Integration

Andover Controls

- ➔ **Andover Controls will be integrated in our Strategic Deployment Division (specialists)**
- ➔ **Both product ranges will merge in a new offer platform to be developed, compatible with the existing base**
- ➔ **Sales overlap for both partners and end-users is limited**
- ➔ **Detailed implementation will be defined before closing**

⇒ Sales synergies

- Enable TAC to leverage Andover Controls complementary products
- Enable TAC to leverage Andover Controls position in the US markets
- Enable Andover Controls to leverage TAC position in the European markets
- Enable Andover Controls to leverage Schneider Electric products range

⇒ Cost synergies

- Enable Andover Controls to leverage TAC and Schneider Electric purchasing conditions

⇒ Technical synergies

- Share R&D expertise between TAC, Schneider Electric and Andover Controls

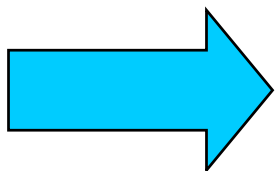


100% of synergies leveraged in 2007
Additional sales of \$22 million
Additional EBITA of \$12 million

Acquisition impact on Schneider Electric

Andover Controls

- ➔ **Expected organic growth: 6 to 8% per year**
- ➔ **Synergies fully implemented by 2007**
- ➔ **Tax benefit from deductibility of goodwill under section 338 (h) (10) election for US assets**



Acquisition criteria already met in 2006:

- **Return on capital employed covering cost of capital**
- **Accretive on net earnings after goodwill amortisation**

Building *a New Electric World*

