

# 2005 Annual Results

Paris – February 16, 2006

**Merlin Gerin**

**Square D**

**Telemecanique**



**Schneider**  
 **Electric**

*Building a New Electric World*

# Disclaimer

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**All forward-looking statements are Schneider Electric management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.**



# Highlights

Operating Performance

Financial Results

# 2005 Highlights



## → Gradual **change** in the **growth profile**

- Strong organic growth throughout the year
- Increasing contribution from emerging markets
- Active development in new businesses

▶ **+7.9%**  
▶ **30% of sales**  
▶ **€5 billion**

## → Strong **improvement** in **profitability**

- Significant increase of operating margin
- Higher return on capital employed (ROCE\*)

▶ **+1.0pt**  
▶ **+0.8pt**

## → Results in line with **new<sup>2</sup>** company program targets



## → Prepared **succession** and proposed **new governance structure**

*\*ROCE = after tax operating income / shareholders' equity + net debt + provisions*

# Excellent performance in 2005

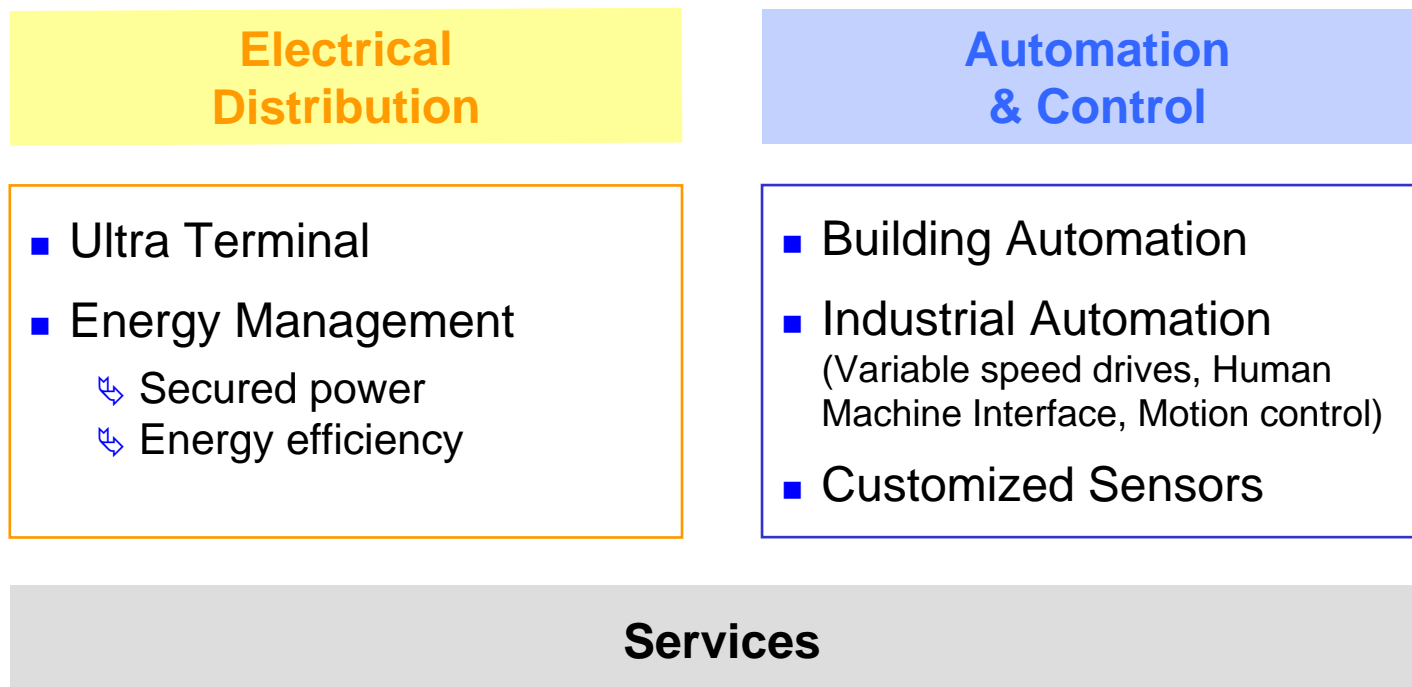


	€m	Change
<b>Sales</b>	<b>11,679</b>	<b>+13%</b>
<b>Operating Income</b>	<b>1,565</b>	<b>+22%</b>
<b>Net Income</b>	<b>994</b>	<b>+21%</b>
<b>Earnings per share (€)</b>	<b>4.56</b>	<b>+22%</b>
<b>Return on capital employed (%)</b>	<b>10.5</b>	<b>+0.8pt</b>
<b>Net dividend (€)</b>	<b>2.25</b>	<b>+25%</b>

# Increase growth potential and reduce cycle sensitivity

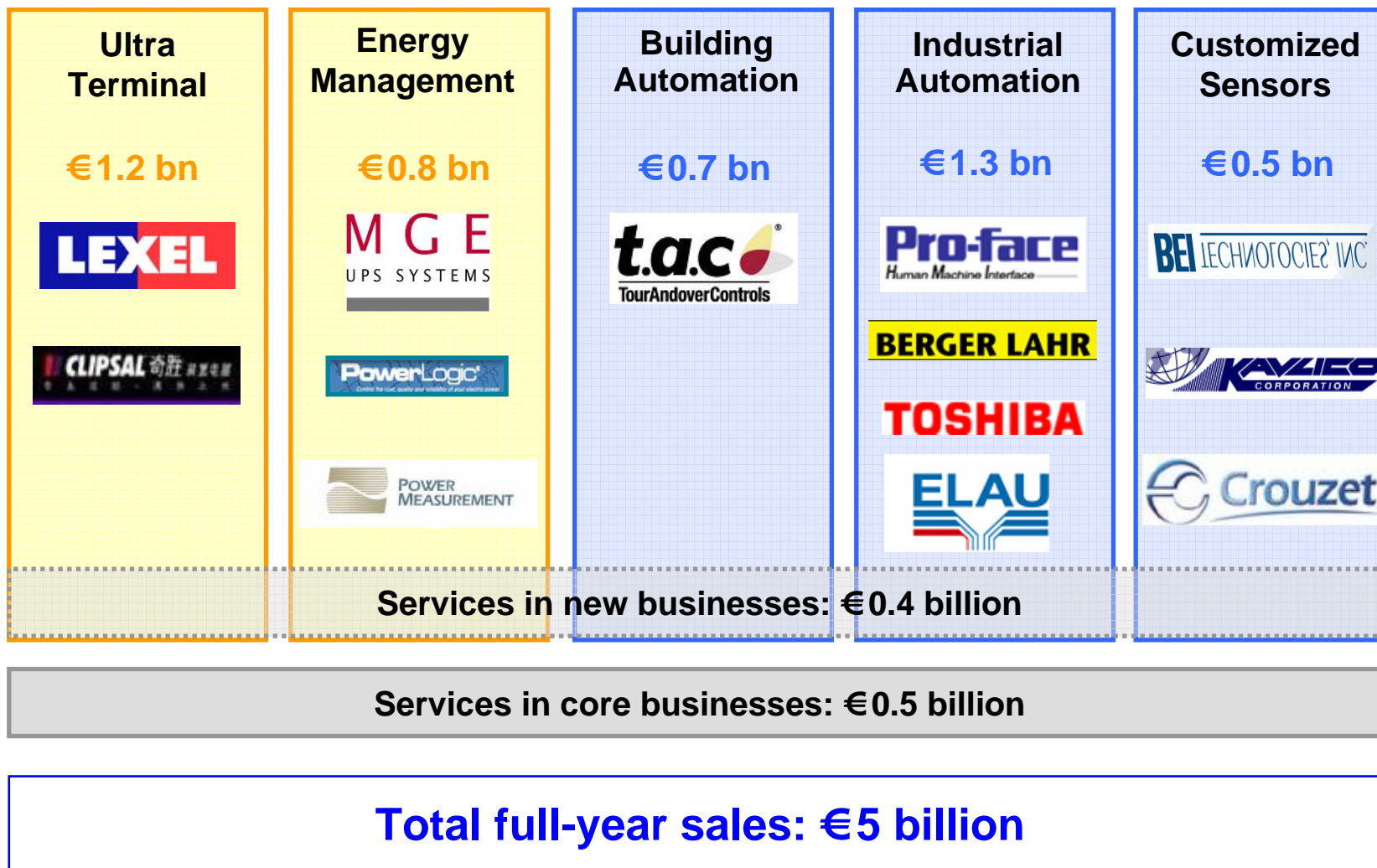


## → Develop growth engines in mature markets



## → Invest in fast growing emerging countries

# Sustained expansion in new businesses and targeted markets

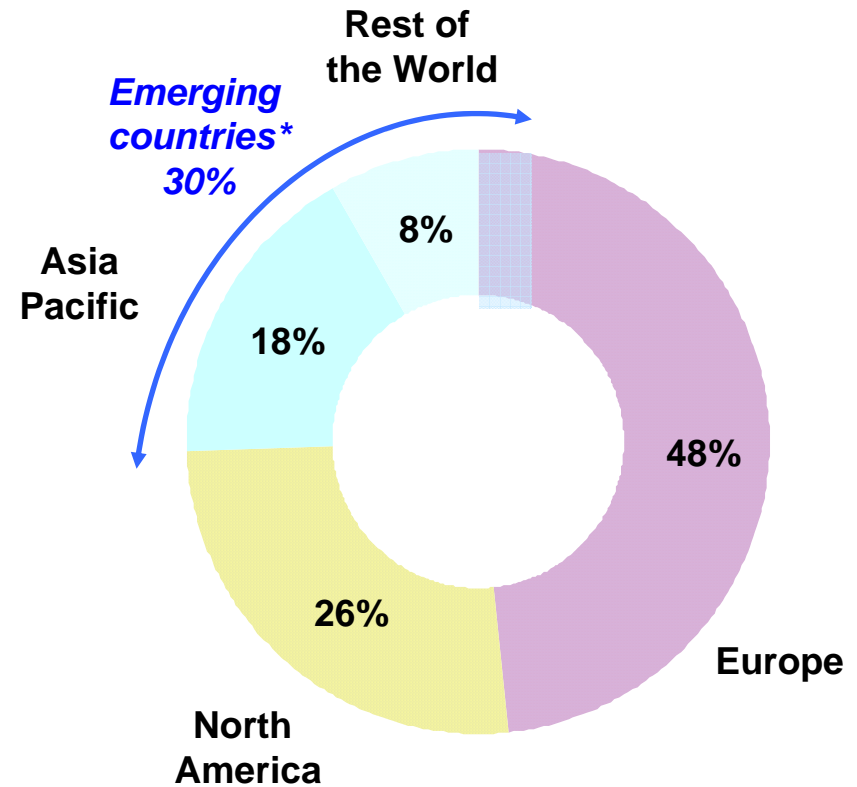
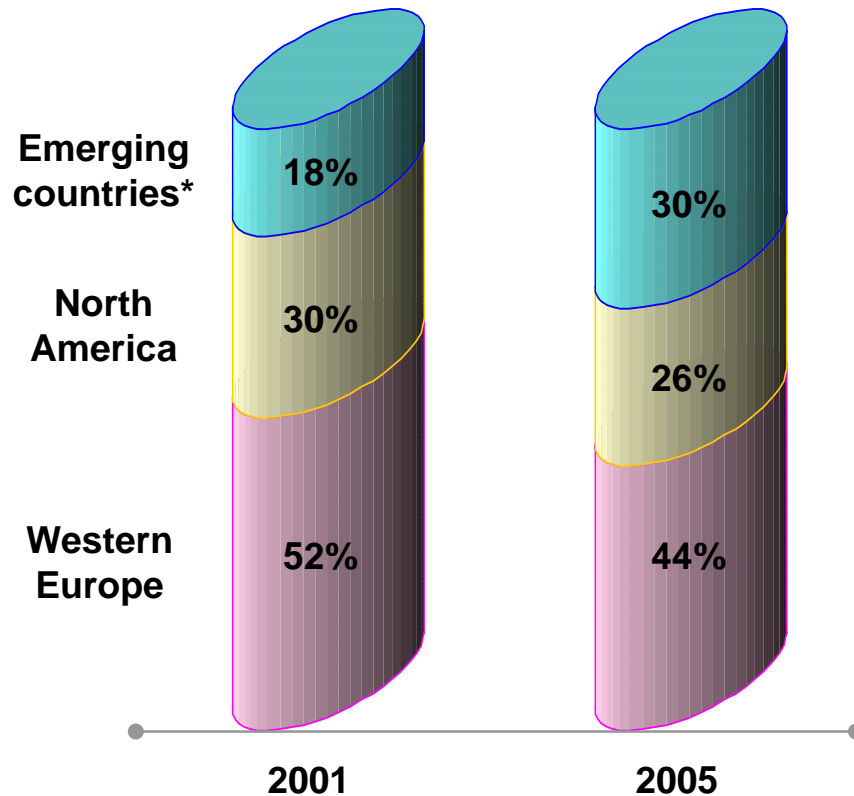


# Active geographic repositioning



Sales by region,  
change in breakdown, 2001-2005

Sales by region  
2005



\*Asia Pacific, Rest of the World and Eastern Europe

# Results in line with new<sup>2</sup> company program targets



## 2005-2008 Targets

## 2005 Results

### GROWTH

Stimulate sales organic growth  
 ≥ + 5% per year



**+7.9%**

### PROFITABILITY

Sustain high profitability  
 operating margin between 12.5% and 14.5%



**13.4%**  
**(+1.0pt)**

### ROCE

Maximize return on capital employed  
 up 2% to 4% over 4 years



**10.5%**  
**(+0.8pt)**

### ROI

Offer an attractive return on investment

- ↪ Dividend payout ratio ~50%
- ↪ Balance sheet optimization within 2 years



**50%**  
**20%\***

*\*Net debt/Equity*

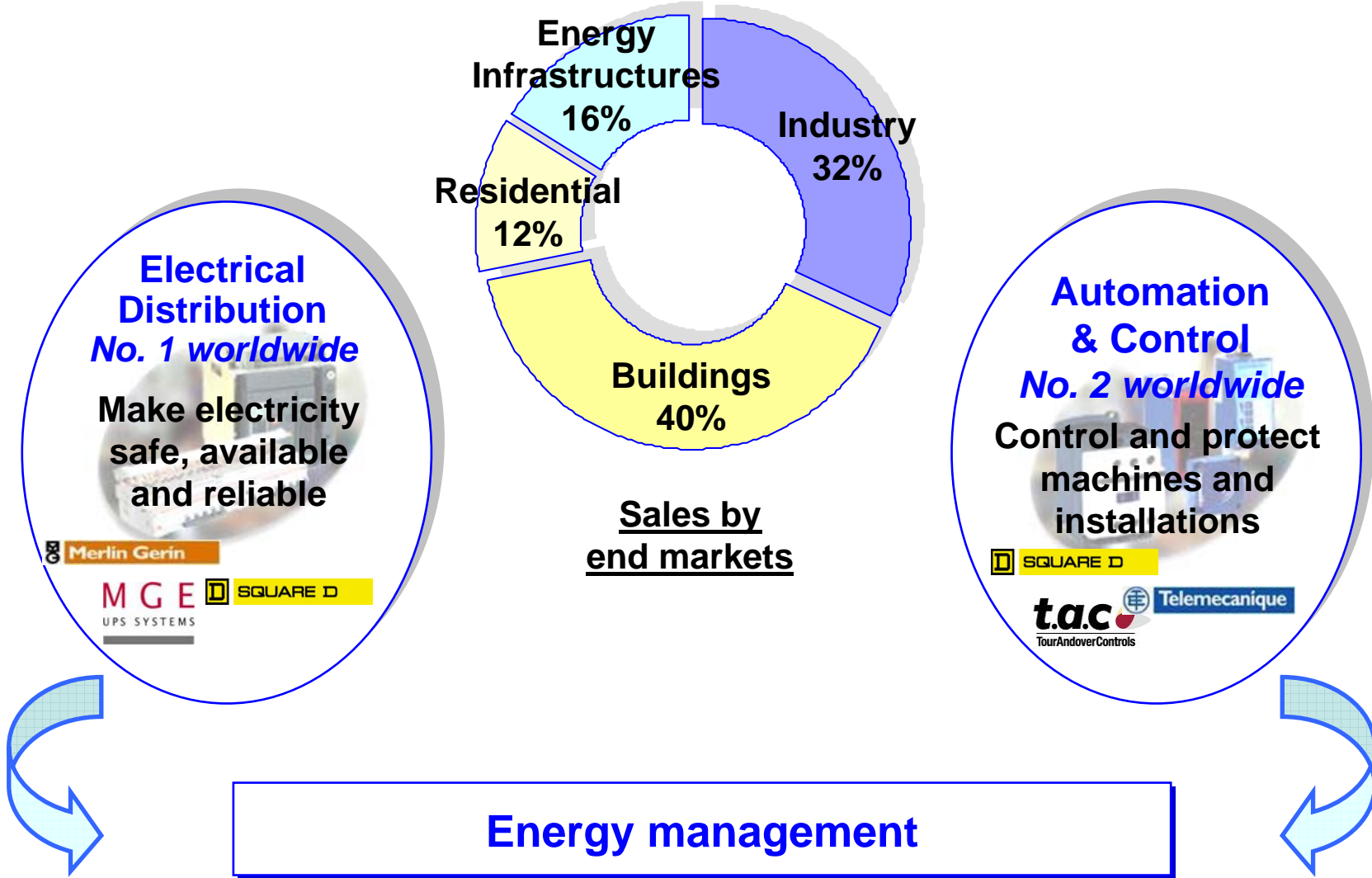


**Highlights**

**Operating Performance**

**Financial Results**

# Power & Control products, solutions and services to serve 4 end markets



# Flagship commercial achievements in 2005



## → Total building management for the Santiago Military Hospital

- Contract for electrical distribution, building automation and energy management for Chile's largest hospital



## → Electrical installation for a Middle Eastern chemical producer

- Electrical distribution contract for Cristal Arabia, with installation of control equipment



## → Co-development of air conditioning solutions

- Co-development of integrated HVAC control solutions with McQuay International, a leader in air conditioning equipment



## → Automation and control solution for a Chinese OEM

- Motor control, variable speed drives and PLCs for Gaoxiao Mesnac, a tire molding press manufacturer



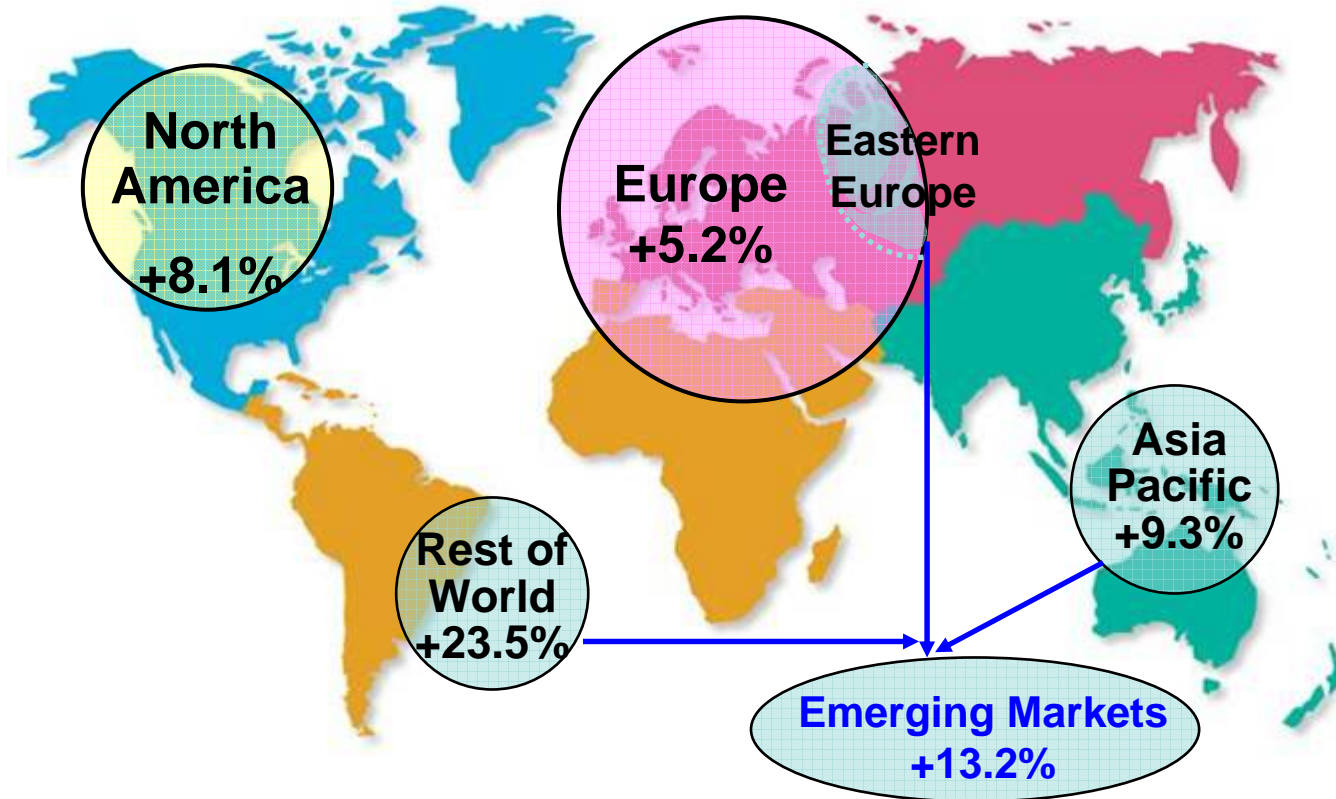
F R O S T & S U L L I V A N



Best growth strategy in Building Automation  
Best company in UPS



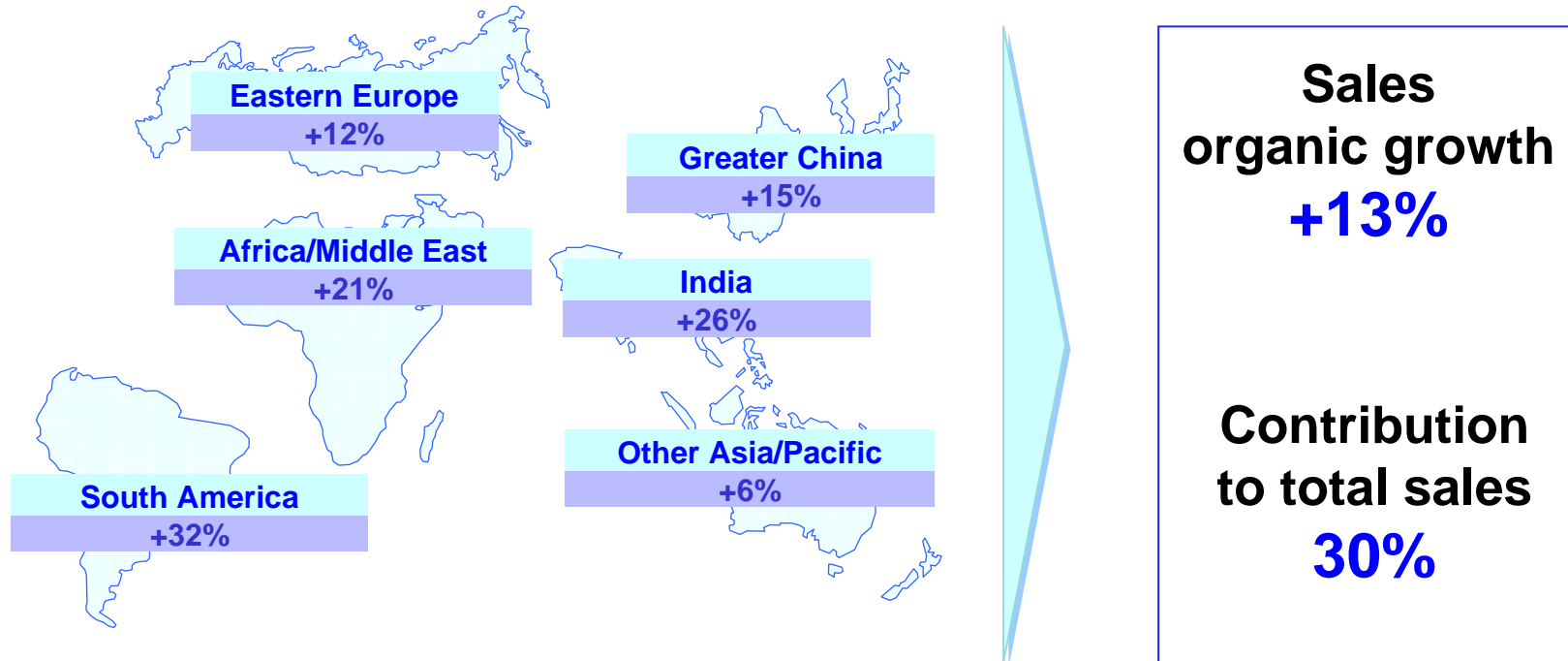
# Sustained sales organic growth in 2005 driven by geographic repositioning



**Sales organic growth**  
in 2005: **+7.9%**



# Wide exposure and leading positions in emerging markets



- ◆ Early and sustainable **presence**, despite risks/crisis
- ◆ Optimization of market coverage through **local intermediaries**
- ◆ **Powerful offering adapted** to all standards and country's maturity



# Energy Management



## → A unique range of offers for customers to optimize their energy strategy and costs

- Energy quality and availability optimization
- Management of energy consumption
- Guarantee of energy savings
- Reduction in operating costs

## → Key differentiation factors

- Integrated technology-driven solutions
- Presence across all businesses: electrical distribution, building management, lighting control, variable speed drives

**M G E**  
UPS SYSTEMS

POWER  
MEASUREMENT

**PowerLogic**  
Control the cost, quality and reliability of your electrical power.

**t.a.c.**  
TourAndoverControls

**€1.0 billion in sales up 10%**

growth

# Services



## → The **growing needs** of our customers

- Companies refocusing on their core businesses
- Performance and productivity
- Specific running of critical applications



## → Key **differentiation** factors

- Installed base
- Geographic coverage
- Embedded communication in products
- Remote analysis and control of installations software

Web-enabled Power & Control  
**Transparent**  
**Ready**<sup>TM</sup>

**€0.9 billion in sales up 14%**



# Ultra Terminal



## → Growth drivers of the market

- Growing demand for housing
- Increasing needs for comfort and safety
- Sophistication of technology and regulation

## → Key differentiation factors

- Anticipating of lifestyles changes
- Tailoring of products to market segments
- Training of qualified professionals



€1.2 billion in sales up 6%



# Automation everywhere



- **Open and standard systems**
- **Embedded intelligence in products**
- **Plug & Play**
- **Seamless connected systems**

- **Comfort**
- **Performance**
- **Efficiency**

## Buildings



**Comfort**  
**Safety**  
**Energy Efficiency**

## Industry



**Performance**  
**Productivity**  
**Communication**

## Energy & Infrastructures



**Remote Control**  
**Energy Efficiency**

## Residential



**Home Automation**  
**Data Com**

# Growth is innovation-driven



## → Sustained investment

- ~ 5% of sales in R&D
- Acquisition of advanced technologies: PMI, BEI Technologies

## → Deployment of resources in emerging markets

## → Strong presence in high-tech countries

## → Inauguration in 2006 of the Electropole in Grenoble

Concentration of French electromechanical research



1,000 people  
33,500 sq. m, 8 hectares  
Investment: €60m



# Higher industrial productivity gains offset raw materials price increases



(in €m)	2004	2005
Purchasing	133	130
Lean Manufacturing	65	61
Rebalancing	29	66
Other plans	3	47
<b>Gross productivity as % of cost of sales</b>	<b>230 4.5%</b>	<b>304 4.9%</b>
Increase in raw materials and payroll costs*	(125)	(182)
<b>Net productivity as % of cost of sales</b>	<b>105 2.1%</b>	<b>122 2.0%</b>

\*Of which raw materials price increases: €118m in 2005, €50m in 2004



# On-going deployment of efficiency plans



## → Rebalancing costs with sales

- Stepped-up transfer of sourcing: **+55%** in volume vs 2004
- Launch of additional plans to optimize the manufacturing base
- Transferred production costs: **€270m** to low-cost countries (**+48%**)  
of which **€125m** from euro zone to non-euro zone

## → Logistics

- Improvement in the customer service rate
- On-going rationalization of logistics centers
- Starting of inventories optimization projects
- Reduction in logistics costs

## → Lean Manufacturing

## → Quality: Six Sigma



# Control of base costs while investing in future growth



## → Limited increase in selling, general & administrative base costs

- 6.1% excluding currency and perimeter effects vs. 7.9% sales organic growth
- 24.1% of 2005 sales vs. 24.6% in 2004

## → Relative decrease in base costs in mature countries led by the impact of support functions optimization plans

## → Sustained investment in emerging countries

## → Deployment of resources in new businesses



# Action plans to develop our people



## → Develop competencies

- Three-year competencies plans and performance reviews for all employees
- Schneider Electric University: creation of two new training institutes
- Apprenticeship programs

## → Strengthen through diversity

- Implementation of a dedicated plan in each unit
- Increase in international job mobility

## → Improve safety

- Creation of corporate and local committees
- Reduce lost days due to work place injuries

Schneider Electric **“Most Admired Knowledge Enterprise”**\*  
& Jean-François Pilliard **“Best HR Manager”**

people

\*Elected by Téléos, an association focused on knowledge management sharing

# Sustainable development: Schneider Electric is part of the solution



## → Reduce **consumption** and **protect** the environment

- Eco-design: 100% of global new products
- Eco-production: 88% of plants certified ISO 14001

## → **Deliver** energy savings to customers

- Management of energy consumption
- Improvement in energy efficiency
- Support to new /renewable energies development

## → **Contribute** to development

- Access to power and water in emerging countries
- Global Compact: 280 suppliers have signed
- Contribution to international solidarity for Tsunami, Hurricane Katrina, Niger and Pakistan



**ASPI Eurozone®**



**THE GLOBAL  
COMPACT**



**Highlights**

**Operating Performance**

**Financial Results**

# 2005 financial highlights



**Sales**  
**+12.8%**

- Organic growth: **+7.9%**
- Acquisitions impact: +4.2%
- Currency effect: +0.7%

**Operating income**  
**+21.7%**

- + Effective sales growth
- + Improved industrial productivity
- + Controlled base costs
- Higher raw materials prices

**Earnings per share**  
**+22.3%**

- Increase in net income: **+20.6%**
- Decrease of shares average number: -1.2%

**ROCE**  
**+0.8pt**

- Controlled capital employed: **+13.6%**
- Increase in operating income: +21.7%

# Improvement of all key indicators in 2005



(in €m)	2004	2005	% change
<b>Sales</b>	<b>10,349</b>	<b>11,679</b>	<b>+12.8%</b>
<b>Gross margin</b>	<b>4,172</b>	<b>4,755</b>	<b>+14.0%</b>
<i>Margin %</i>	40.3%	40.7%	+0.4pt
<b>EBITDA*</b>	<b>1,605</b>	<b>1,972</b>	<b>+22.9%</b>
<i>Margin %</i>	15.5%	16.9%	+1.4pt
<b>Operating income</b>	<b>1,286</b>	<b>1,565</b>	<b>+21.7%</b>
<i>Margin %</i>	12.4%	13.4%	+1.0pt
Net financial expense	(59)	(105)	-
Income tax	(365)	(428)	-
Minority interests	(38)	(38)	-
<b>Net income</b>	<b>824</b>	<b>994</b>	<b>+20.6%</b>
<i>Earnings per share</i>	3.73	4.56	+22.3%

\* Operating income+ net depreciation and amortization

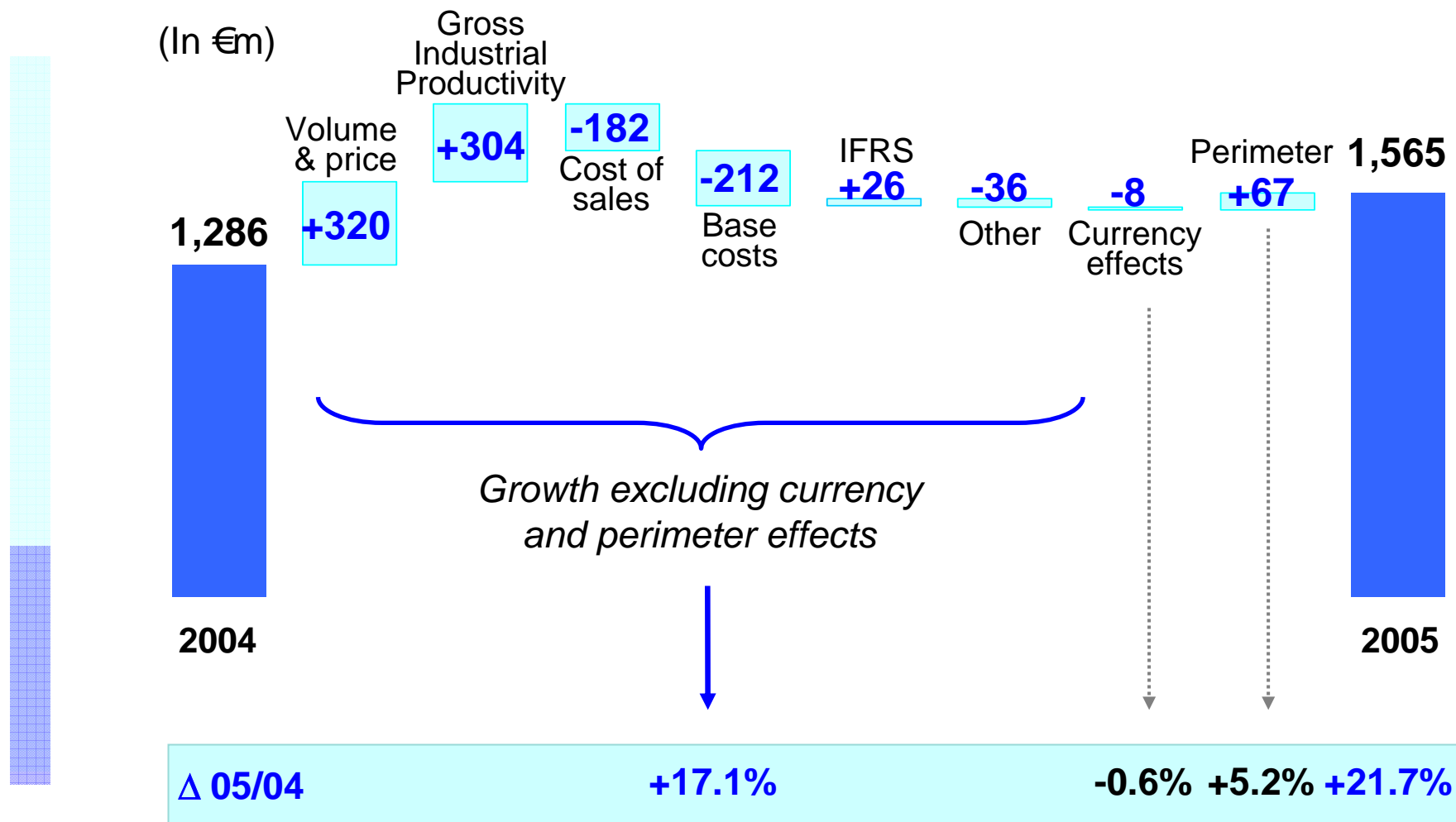
# Limited aggregate impact of IFRS standards on operating income



(in €m)	2004	2005
<b>Operating income - French GAAP</b>	<b>1,310</b>	<b>1,563</b>
Capitalized development costs	46	109
Amortization of development costs	-	(8)
<i>Net impact of development costs</i>	<i>46</i>	<i>101</i>
Restructuring costs	(96)	(107)
Impairment of goodwill	-	(8)
Cost of stock options	(9)	(17)
Other adjustments*	35	33
<b><i>Aggregate impact on operating income</i></b>	<b><i>(24)</i></b>	<b><i>2</i></b>
<b>Operating income - IFRS</b>	<b>1,286</b>	<b>1,565</b>

\*Including actuarial differences on pension: € 38m in 2004, € 39m in 2005

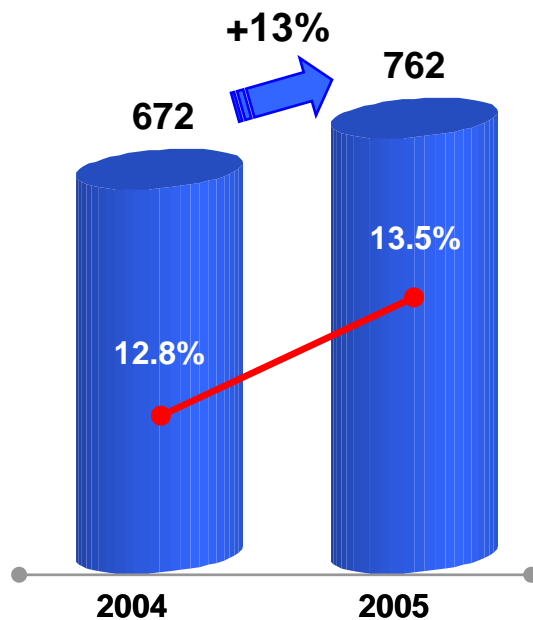
# Strong organic growth in operating income: +17.1%



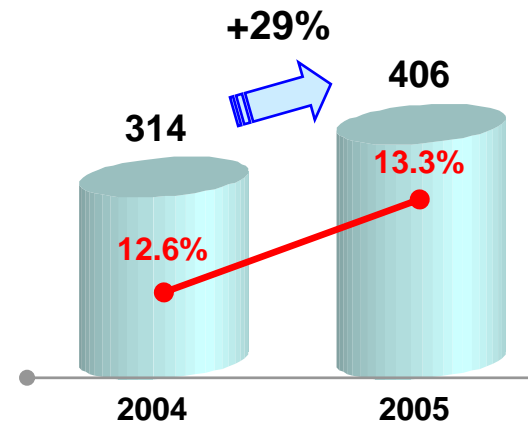
# Strong rise in operating income in all regions



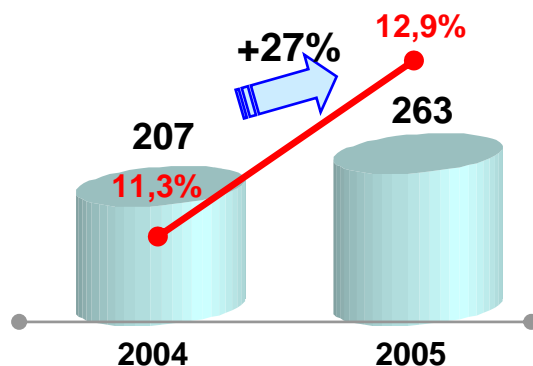
## Europe



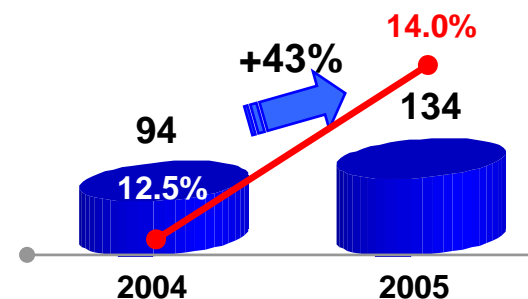
## North America



## Asia/Pacific



## Rest of the World

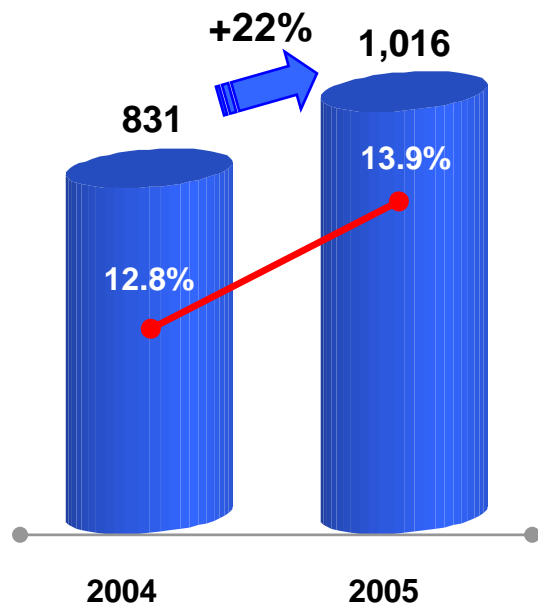


Operating income in €m, under IFRS standards / Operating margin in %

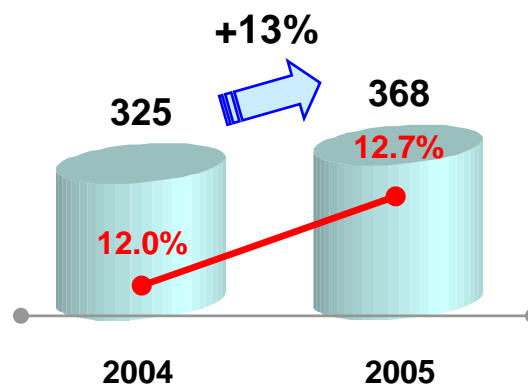
# Strong rise in operating income in all businesses



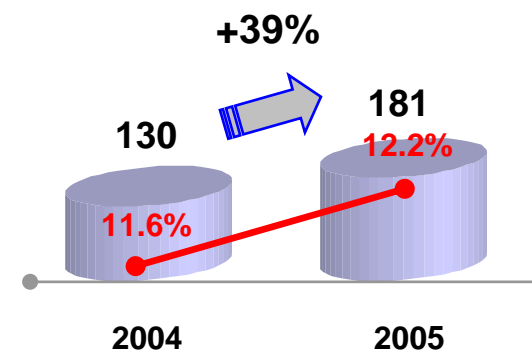
## Electrical Distribution



## Automation and Control



## Growth Platforms



Operating income in €m, under IFRS standards / Operating margin in %

# Reduction in currency exposure thanks to costs rebalancing



- Production costs rebalancing
- Acquisition in dollar zone
- Relative decrease in base costs in euro zone

## Operating margin sensitivity to a 10% increase of euro vs dollar

2004

**-0.6 pt**

2005

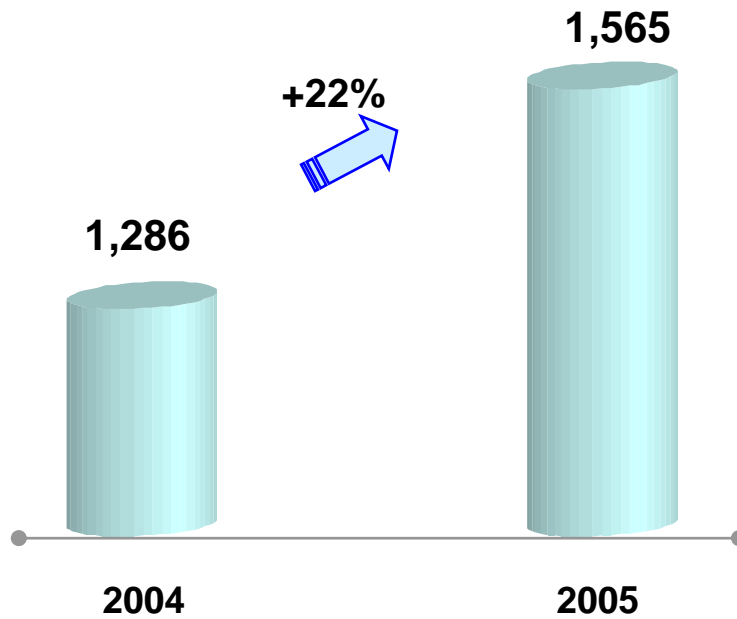
**-0.4 pt**

# Strong increase in operating cash flow



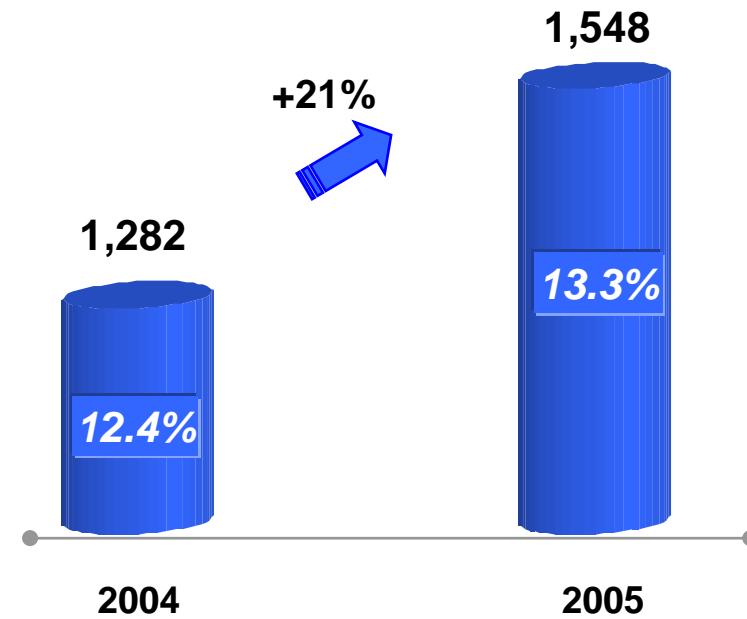
## Operating income

*in €m*



## Operating cash flow

*in €m and % of sales*



# Good cash generation



(IFRS data in €m)	2005
<b>Net debt at January 1</b>	<b>(524)</b>
<b>Operating cash flow</b>	<b>1,548</b>
Capital expenditure - net	(476)
Change in operating working capital	(104)
Change in non-operating working capital	(119) <sup>(1)</sup>
<b>Free cash flow</b>	<b>849</b>
Dividends and share buybacks	(469)
Acquisitions	(1,267)
Other	(213) <sup>(2)</sup>
<b>Increase in net debt</b>	<b>(1,100)</b>
<b>Net debt at December 31</b>	<b>(1,624)</b>

(1) Including dividend equalization tax receivable (76), (2) including currency loans conversion (101) & contribution to US pensions (49)

# Solid financial ratios

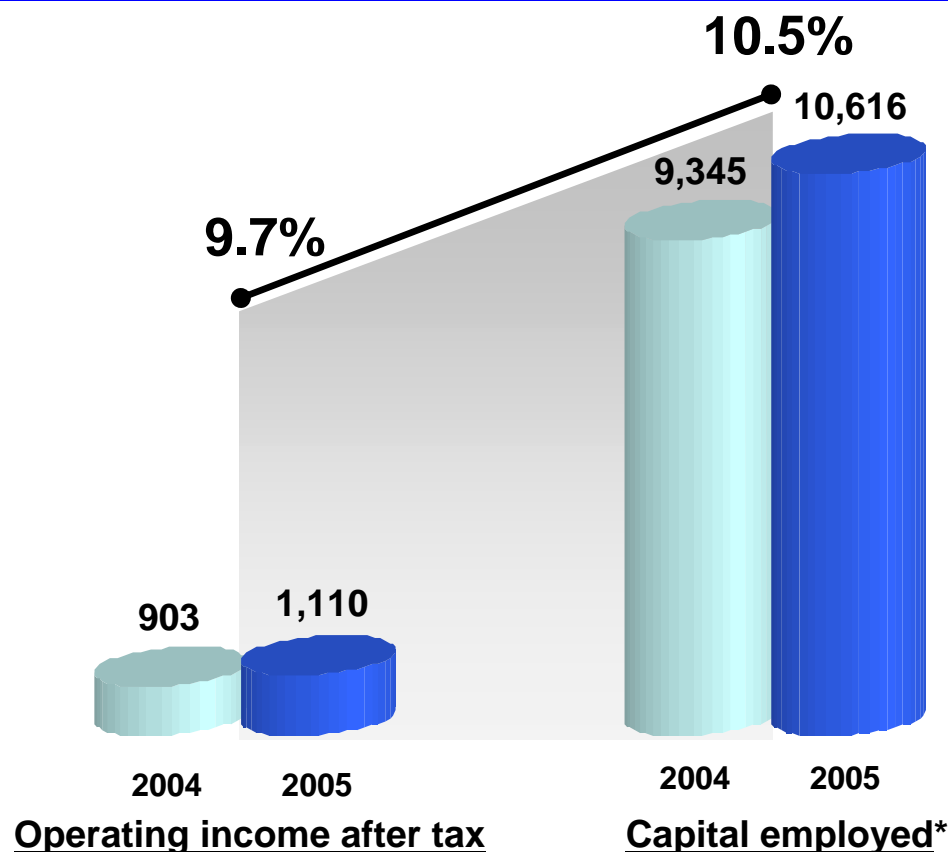


(in €m)	2004	2005
Consolidated shareholders' equity	7,422	8,338
Net debt	524	1,624
Debt-to-equity ratio (%)	7%	20%
Interest coverage*	25x	19x
Operating cash flow/net debt	245%	95%

- Continued balance sheet optimization
- S&P confirmed “A *stable outlook*” rating during the €1.5 billion bond issue in July 2005

\*EBITDA/Cost of debt

# A significant improvement in return on capital employed: **+0.8 pt**



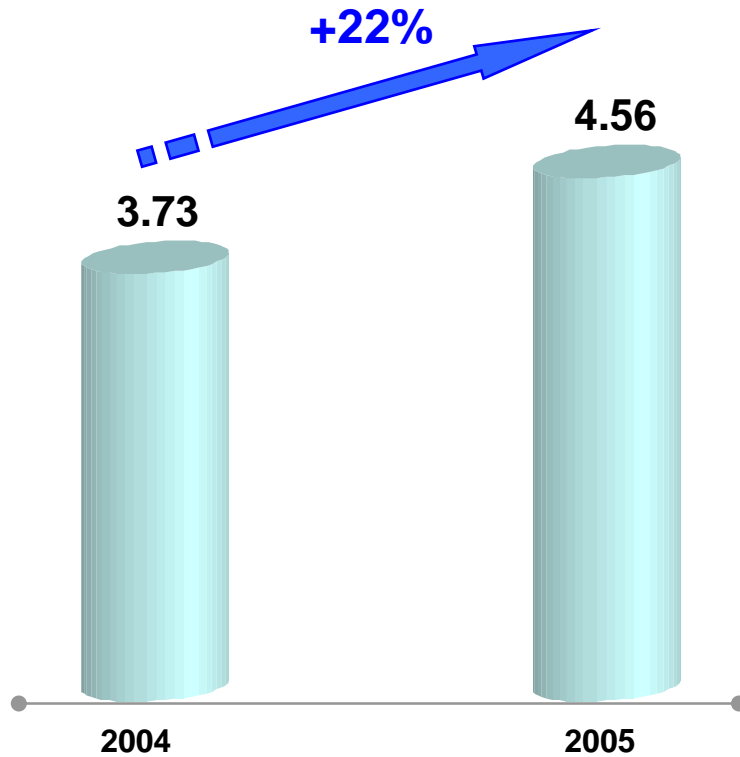
**Increase in return on operating capital employed excluding acquisitions: **+1.3 pt****

\*Capital employed = shareholders' equity + net debt + provisions

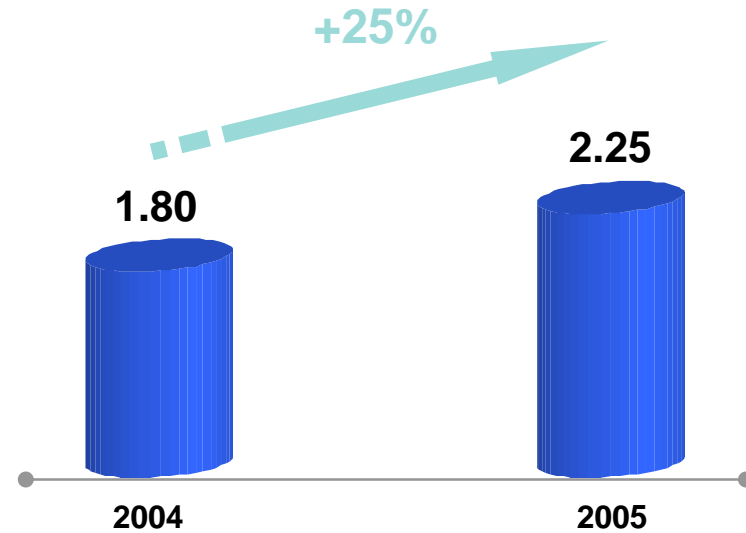
# A strong increase in earnings per share and proposed dividend



Earnings per share (€)



Dividend per share (€)\*



*\*Subject to shareholder approval, payable in cash on May 9, 2006*

# Prepared succession and proposed new governance structure



## → Implementation of a **Supervisory Board** and a **Management Board**

- Decision of the Board of Directors on January 6, 2006
- Subject to shareholder approval at the May 3, 2006 Annual Meeting

## → Proposed members of the **Supervisory Board**

- Members: from current Board of Directors members
- Chairman: Henri Lachmann

## → Proposed members of the **Management Board**

- Members: Jean-Pascal Tricoire, Pierre Bouchut
- Chairman: Jean-Pascal Tricoire

# Schneider Electric's key strengths in the industry



- Young, international **management**
- Successful **business model**
- Sustained investment in **innovation**
- Ability to grow through **acquisitions**
- **World wide presence** closer to customers
- Strong **resonance of new<sup>2</sup>** company program with **employees**

**Schneider Electric is well positioned  
to leverage worldwide economic growth**

# Outlook



**Assuming current economic and currency conditions,  
Schneider Electric anticipates for 2006  
an other increase of sales and operating income,  
in line with growth and efficiency targets  
of its new<sup>2</sup> company program**

# Contacts and Calendar



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April 28	1 <sup>st</sup> Quarter 2006 Sales	9:00 Conference Call
May 3	Annual Shareholders' Meeting	Palais des Congrès
July 28	Half-Year Results	9:00 Conference Call
October 20	3 <sup>rd</sup> Quarter 2006 Sales	9:00 Conference Call

# Building a New Electric World

