

> *New* **Company** *Program*

London, January 13, 2005

Our New Company Program



> *our* **Vision**

- > **our Vision**
- > our Strategy
- > our Priorities
- > our Commitments
- > our Targets
- > our Destination

“Give the best of the New Electric World to everyone, everywhere, at any time”

➔ In the **fast expanding** New Electric World, we bring our customers...

- More safety
- More reliability
- More performance
- More comfort

... throughout the **service life** of their installations

➔ While “**Smart electricity**” and “**Smart automation**” is already our reality, we will continue

- To add intelligence and communication in our products and systems,
- Creating new opportunities for automation and electricity management

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“Give the best of the New Electric World to everyone, everywhere, at any time”

.....

→ Our **ambition** is to become **the essential reference** in our industry and the leading provider of **fully integrated solutions and services**, based on

- Our unique combination of close partnerships with our customers and integrators
- The most comprehensive range of products
- An in-depth expertise in our customers' applications

→ Our **values**...

- Commitment to customers
- Respect for people
- Performance obsession
- Team spirit
- Risk taking
- Care for the environment

... are shared by our **teams** all over the world

> *our* **Strategic
Ambition**

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NEW2004 program

Our achievements

Growth

- Excellent performance achieved in all **emerging countries**
- Additional sales of **€1.8 Billion** brought by **selective acquisitions** with a good level of profitability
- Business in **mature markets** affected in 2002 & 2003 by the aftermath of the investment bubble (especially US)

Profitability

- Extremely **resilient** over the business cycle
- Significantly **impacted** by the rise of the **Euro**: at constant currency rates, the gross and operating margin **targets** would have been **reached**

Net earnings before goodwill

- Average annual growth of **~9%** over the period 2002-2004

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Where do we stand? Growth

- Despite being hit by poor market conditions during the last 3 years, we have kept **strong, profitable market share** in historical **electromechanical business**
- We have enjoyed **fast and profitable growth** in **emerging countries**, far above our end markets, thanks to the solid positions developed in these regions
- We need to expand in **high growth** and/or **less cyclical businesses**...
 - Building Automation
 - Secured Power
 - Ultra Terminal
 - Industrial Automation
 - Services

... to further enlarge our accessible markets

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Where do we stand?

Profitability

- We have maintained a **strong profitability** compared to our competitors even in a **downturn period**
- We have improved weak areas (Variable Speed Drives, Automation, Medium Voltage) or exited (High Voltage)
- We must now enhance the **sustainability** of the profitability by:
 - Solving the unbalance of costs (Dollar versus Euro, low cost countries versus high cost countries)
 - Improving logistics
 - Optimising overhead costs (IT, organisation efficiency)

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What's going on around us?

Customers expectations

- **Energy reliability, quality** and **efficiency** are perceived as a key factor
- Customers expect suppliers to provide **complete systems** and **services**
- **Technical performance** and **quality** remain strong differentiating factors
- The needs for sophisticated integrated systems, **open communications** and **global architecture** are increasing
- The **risk acceptance** is lower: building security, industrial risk management, “trace-ability”

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What's going on around us?

Technological trends

- ➔ More **intelligence** embedded in products
- ➔ More **integration** of systems
- ➔ Technology enabled services
- ➔ Internet post bubble maturity
- ➔ Wireless

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Where do we want to go? Strategic Ambition

Become an innovative, growth oriented, solution provider

- With a **balanced portfolio** of businesses between
 - “Cash cows” and “stars”
 - Electromechanical and software / electronic
 - Residential, Energy & Infrastructures markets on the top of Buildings and Industry
- With a culture of **innovation**, **entrepreneurship**, cost efficiency, optimization of capital employed and superior **execution**
- Doing **business locally** while leveraging our **global presence**

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Where do we want to go?

Strategic Ambition

- Boost “**challenge**” businesses: Services, Ultra Terminal & Industrial Automation

- Develop “**new growth platforms**”
 - Building Management & Security systems
 - Secured Power
 - Energy Management systems & services
 - Sensors for Repetitive Machines

- Grow in **Residential, Energy & Infrastructures** markets to reach major market share

- Reinforce our market share in the **Industry** market by:
 - Leveraging our global accounts
 - Focusing on OEMs for targeted segments: be the leading specialist in automation solutions for industrial machines

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Our Ambition



*Move Schneider Electric
from **good** to **great***

> *our* Operational Priorities

Three Operational Priorities to Get to Great

growth

efficiency

people

Committed to Growth

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- ➔ **Capitalise on Commercial Excellence**
- ➔ **Boost Innovation and New Products**
- ➔ **Grow New Businesses**

growth

Capitalise on Commercial Excellence

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- **Defend** and **grow** the market **size**
 - Protect Intellectual Property Rights
 - Act on standards, laws, codes
 - Industrialise intermediaries added value
- Target the **right** market **segments**
- Intensify customers **training** on our offering
- Reinforce **prescription** of our offering
 - Promote our solutions
 - Push our preferred architectures and innovative products
- Develop customers **intimacy**

growth

Boost Innovation and New Products

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- Optimise the **R&D centers** location
 - Reduce the number of R&D centers by -30%
 - Grow R&D centers in China (Shanghai) & India (Bengalore)
- Develop technological **partnerships**
- Implement a **unified** information system
- Accelerate **time to market** for new products
- **Phase out** faster previous products

Target 2008: 40% of core sales with new products
(vs ~20% actually for products < 4 years)

growth

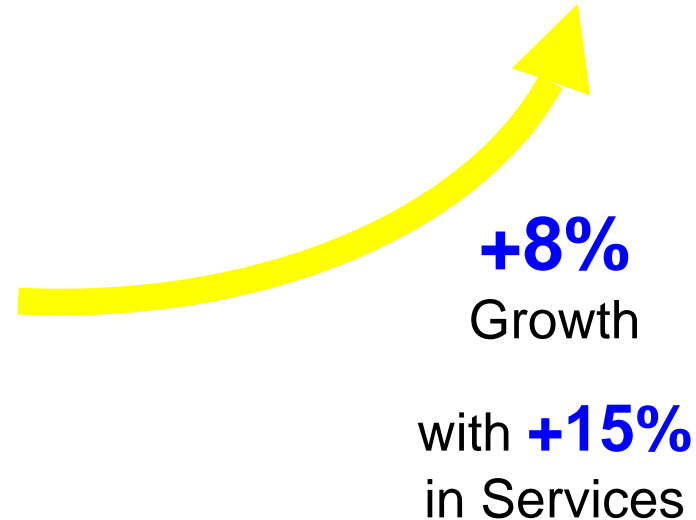
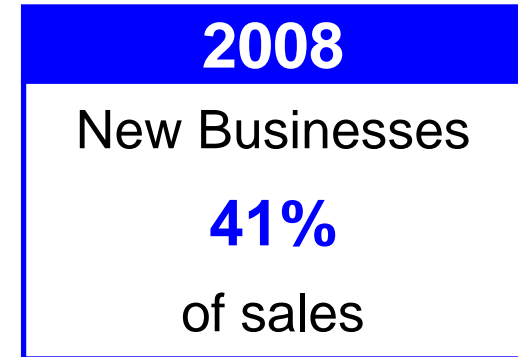
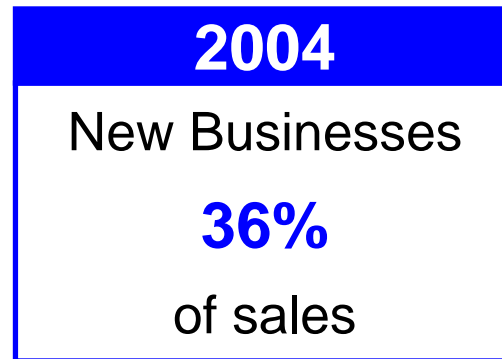
Grow New Businesses

→ Grow organically
twice faster in

- Building Automation
- Secured Power
- Ultra Terminal
- Industrial Automation
- & Services

than core business

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Efficient and Effective Every Day



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- ➔ **Deliver Outstanding Customer Service**
- ➔ **Build World Class IT System**
- ➔ **Re-balance Supply Chain for Growth**

Deliver Outstanding Customer Service

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- Quicker time to **respond**
 - Decrease lost call rate
 - Increase customer answer rate
- Even greater product **quality**
 - Reduce field failure rate
- Better downstream **logistics**
 - Improve on time delivery rate
 - Reduce logistics costs

Target 2008: logistics costs down by - 2%
(from ~7% actually as a % of sales)

efficiency

Build World Class IT System

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- Improve our **business efficiency** by the implementation of a global core system with **harmonised processes**
 - 11 common domains: Sales, Manufacturing, Purchasing, Quality, Logistics, Projects, Services, Customer Relationship, Finance, Controlling & Human Resources
 - 2 years of design and testing by pilots: deployment from 2007 to 2009 (23 000 named users)
- Reduce the IT costs with the **standardisation** and **global management** of IT systems

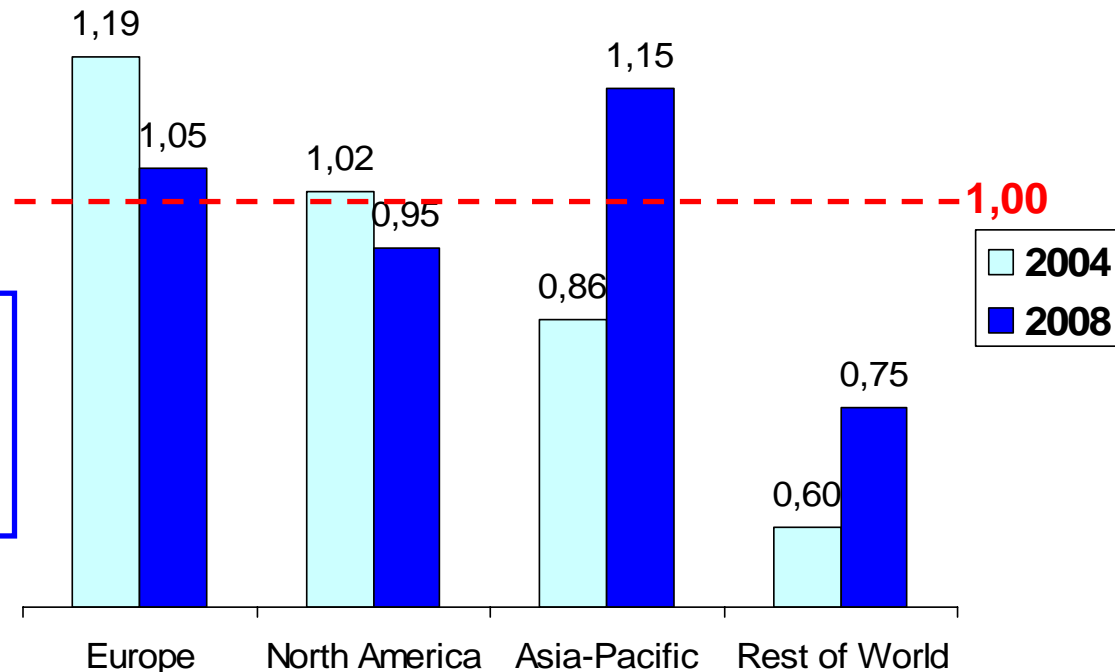
Target 2008: IT costs down by - 1%
(from > 4% actually as a % of sales)

Re-balance Supply Chain for Growth

- Produce **closer to the customer** in order to improve service level, reduce logistics costs and inventories
- **Re-balance** production costs with sales to limit the currency exposure and leverage the potential of low costs countries

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Targets of production costs vs sales by operating division



Passionate People

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- ➔ Increase Health & Safety
- ➔ Develop our People
- ➔ Unleash Entrepreneurship

people

Increase Health & Safety

- Be a best in class in providing a **safe environment** for our **employees**
- Define a **safety policy** at a **global** level
- Reduce **lost days** due to **work place injuries** by **-20%**
- Pay a close attention to **health** issues

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people

Develop our People

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- Reinforce **leadership behaviors** and **competencies**
 - Implement 360° for all managers
 - Develop “Schneider University”
 - Anticipate competencies requirements
- **Attract** and **retain** best talents
 - Recruit at the top schools and universities
 - Deploy development tools
- Strengthen through **diversity**

people

Unleash Entrepreneurship

- Lead through **customer priorities**
- **Empower** and **trust** people
- Cut the unnecessary and privilege speed
- **Recognise entrepreneurs**

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> *our* **Commitments**

Our Stakeholders

“ *Take* **new commitments**
to our stakeholders ”

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→ Customers

→ Employees

→ Planet & Society

→ Shareholders

Customers

“*Total, absolute focus on customer*
satisfaction”

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- ➔ Proactive listening
- ➔ 30% increase in very satisfied customers
- ➔ 50% decrease in very dissatisfied customers
- ➔ Quarterly survey updates in major countries

Employees

“*Growing* **together**”

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- ➔ Proactive listening via employee surveys
- ➔ Vigorous action plans and internal communication
- ➔ Quarterly updates in business reviews

Planet & Society

“*Take* **responsibility**”

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- ➔ Implement a new barometer to rate the performance of 10 criteria in the Social, Environment, Community & Corporate Governance areas
- ➔ Radically improve our corporate responsibility rating from 5/10 to 8/10

Shareholders

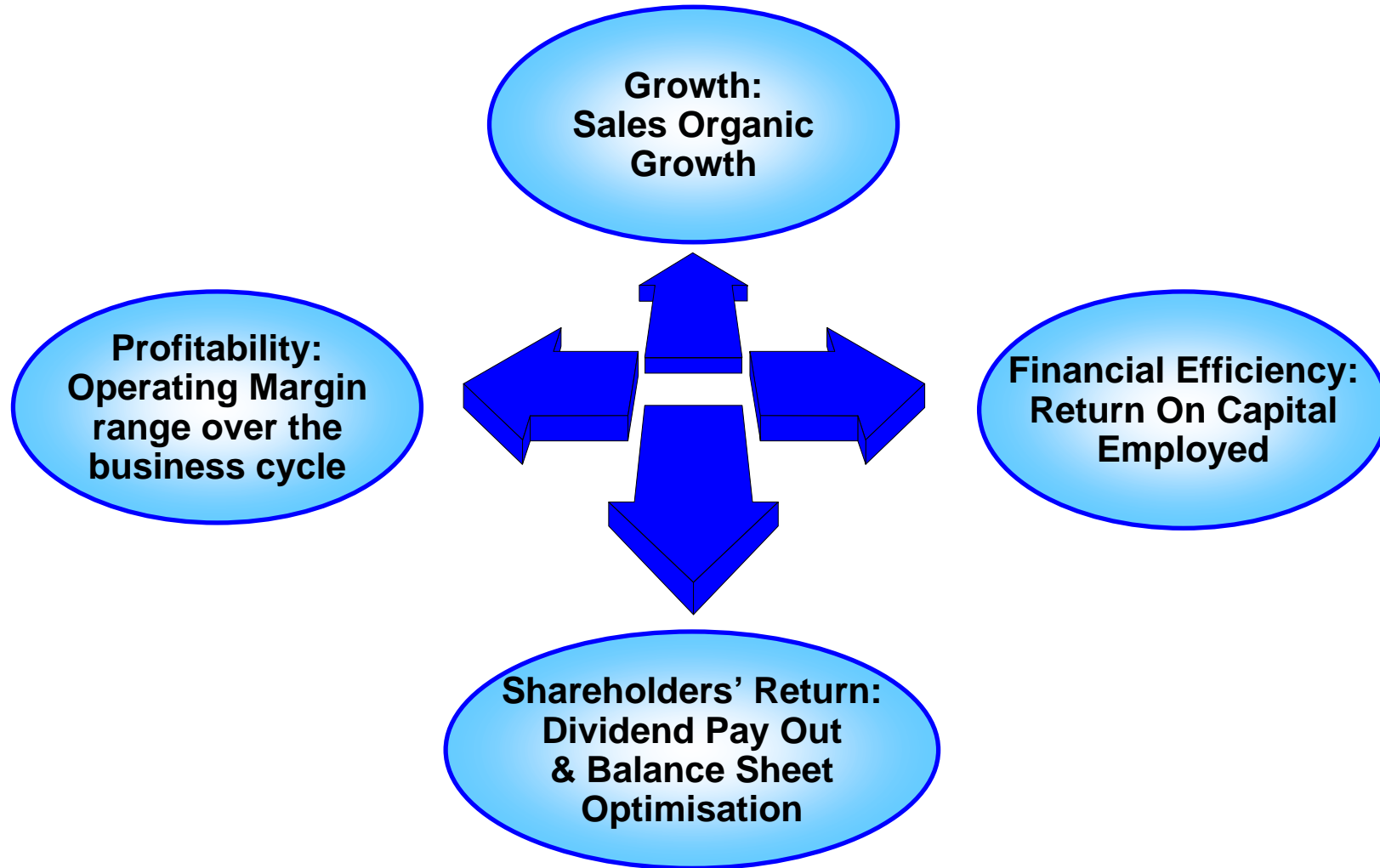
“ **Outperform** *market* ”

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- ➔ Be and be perceived as a growth machine
- ➔ Sustain a best in class profitability over the business cycle
- ➔ Maximize the return on capital employed
- ➔ Deliver an attractive shareholders' return

> *our* **Financial Targets**

Financial Targets: 4 dimensions



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4-year Financial Targets

Sales Organic Growth

- We will demonstrate that we can:
- outperform end markets & gain market share
 - find new growth relays
 - perform well despite the cycles

Operating Margin range over the business cycle

- We will leverage our productivity levers:
- re-balancing of supply chain
 - improvement of logistics
 - optimisation of overhead costs (IT, processes)

ROCE

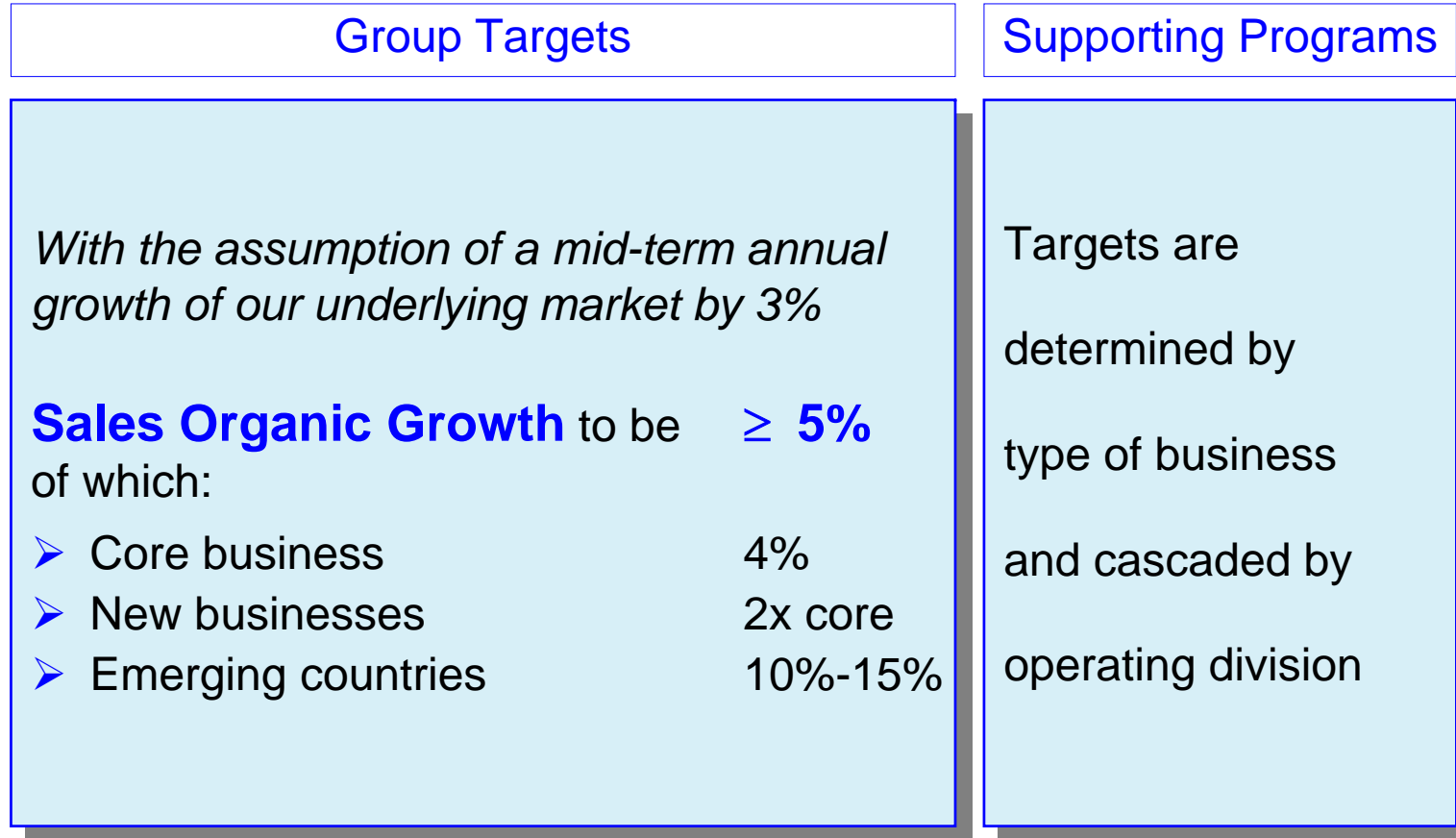
- We will optimise the use of cash:
- internal investment projects
 - working capital needs
 - external growth

Shareholders' Return

- We will deliver higher return to shareholders
- balance sheet optimisation
 - aggressive dividend policy to return significant cash

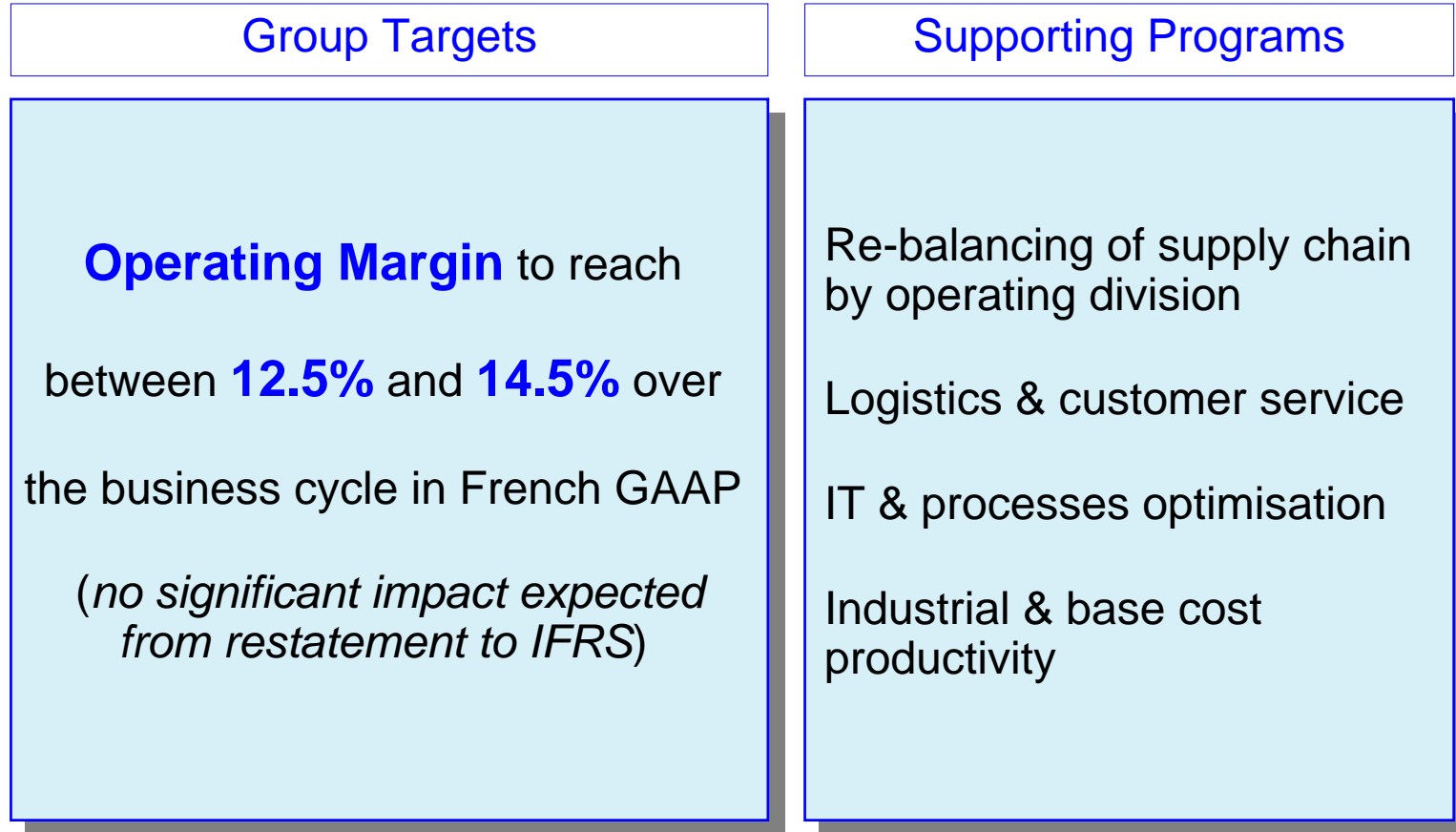
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Growth



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Profitability



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Return On Capital Employed (ROCE)

Group Targets	Supporting Programs
<p><i>With the previous market growth assumption</i></p> <p>ROCE before tax to be</p> <p>up 2% to 4%</p> <p>from 2004 level</p>	<p>Specific ROCE targets for:</p> <ul style="list-style-type: none">➤ Acquisitions: no change from present policy (ROCE > cost of capital within 3 years maximum)➤ Projects: rules set within central functions (products, industrialisation)➤ Business entities: unified methodology to be deployed through the Group

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Shareholders' Return

Group Targets	Supporting Programs
<p>Total Shareholders' Return ≥ Peer group</p> <p>Yearly Dividend Pay Out ~ 50% of net earnings before goodwill vs ratio on 2004 distribution of 39%</p> <p>Re-leveraging the balance sheet by reaching a net financial gearing of 30-40% within a period of 2 years</p>	<p>With previous assumptions & our high cash flows, we should have resources of ~ €3.0 Billion over 2 years which will be used:</p> <ul style="list-style-type: none">➤ on the top of the regular dividend policy,➤ for share buy backs and profitable acquisitions

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> *our* Destination

Our destination

Good to Great

→ A Great Company To Do Business With

→ A Great Place To Work At

→ A Great World Partner

And

→ A Great Investment