

2002 Interim Results

September 5, 2002

Merlin Gerin

Modicon

Square D

Telemecanique

Schneider
 **Electric**

Building a New Electric World

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

Electrical Distribution

Make electrical power available and reliable

Medium voltage



Low voltage



Industrial Automation

Command, control and protect machines and equipment

Industrial control



Automation



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



Residential

- optimize safety, comfort and voice-data-image (VDI) applications



Buildings

- optimize safety, communication and operating costs



Industry

- optimize productivity, flexibility, safety and traceability



Energy and Infrastructures

- optimize the production, distribution and sale of electricity
- optimize availability, safety and operating costs



Review of operations

2002 interim results

Divestiture of Legrand

Strategy and outlook

- **Global economic indicators are improving less rapidly than expected**
- **The global level of industrial investment and construction (excluding residential) remains at a low level**
- **Business activity bottomed out in the first quarter 2002**
- **The group continued its cost reduction efforts**
- **Launch of company program new 2004**
- **A significant step made in the Legrand divestiture**

Sound operating profitability

(EUR mio)

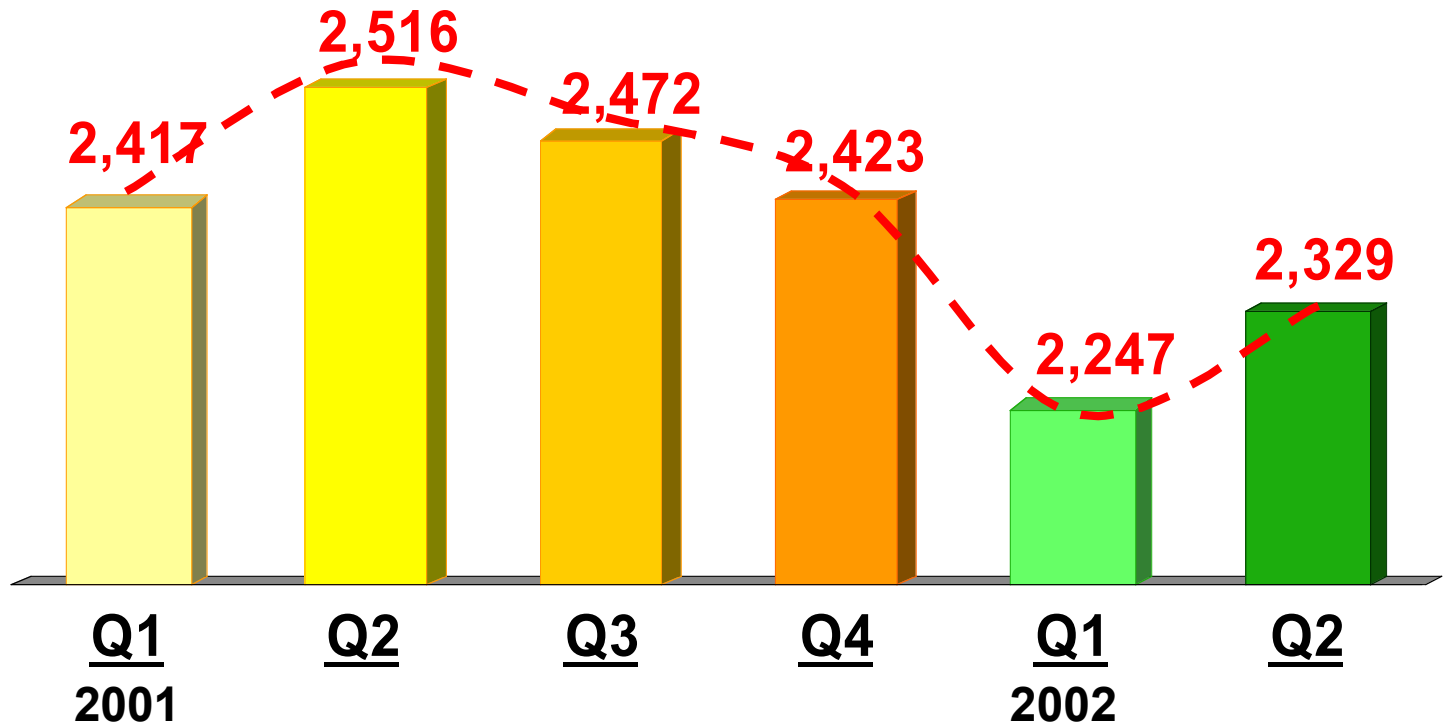
at June 30, 2002

as % of sales

Sales	4,576	
Gross margin	1,873	40.9%
Operating income	493	10.8%
Operating cash flow	464	10.1%
Income before amortization of goodwill	261	5.7%

Low point in first quarter 2002

Quarterly sales trend (EUR mio)



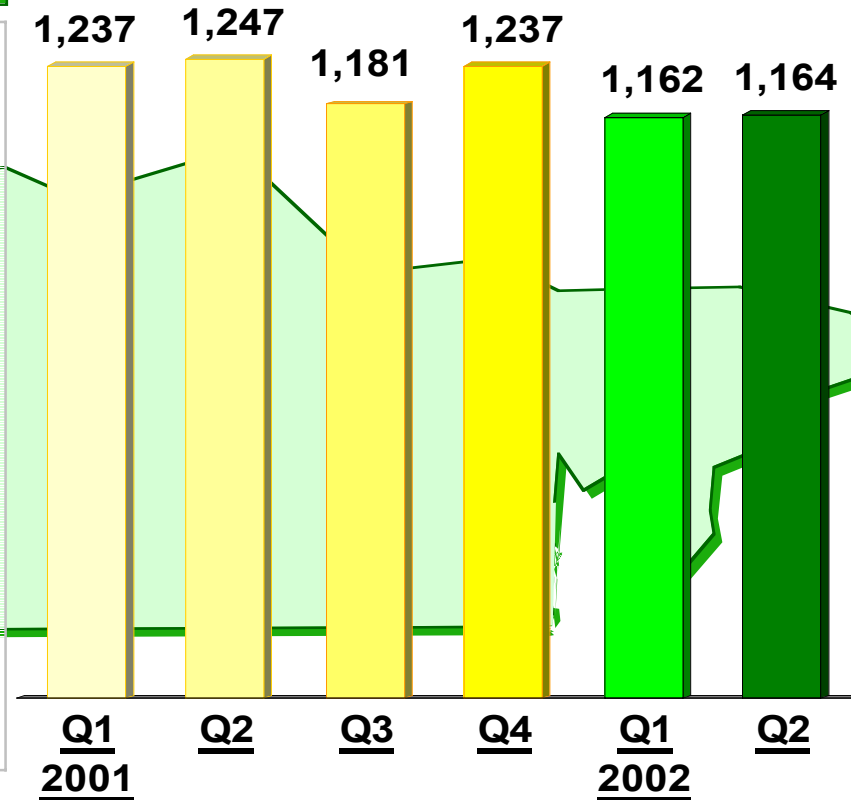
Quarter Y /
Quarter Y-1
(constant)

+6%	+ 2%	- 1%	- 8%	- 9%	- 7%
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Activity in Europe stable in 2nd quarter

Europe (including France)

- Trends observed since Q4 2001 continue
- Demand in all the markets and investments stabilized at a low level
- French markets were sluggish, particularly non-residential buildings
- Activity was slow in Germany, Italy, United Kingdom and Eastern Europe
- Spain, Portugal and Northern Europe put up good resistance

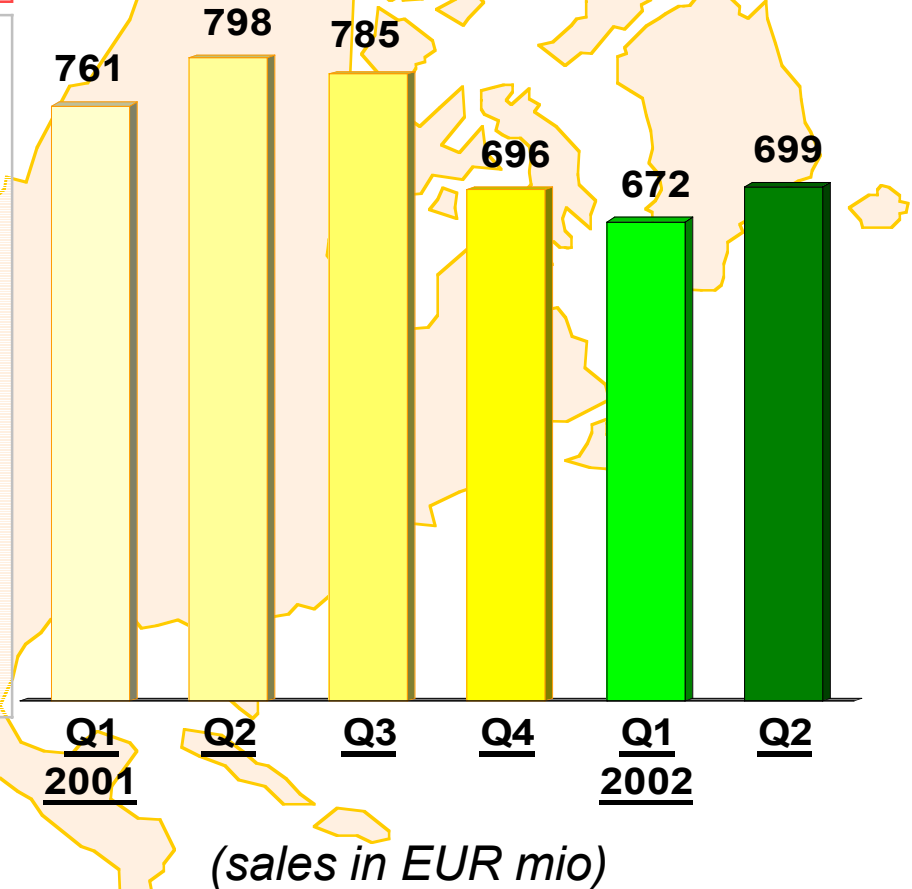


(sales in EUR mio)

Slight improvement in North America in 2nd quarter

North America

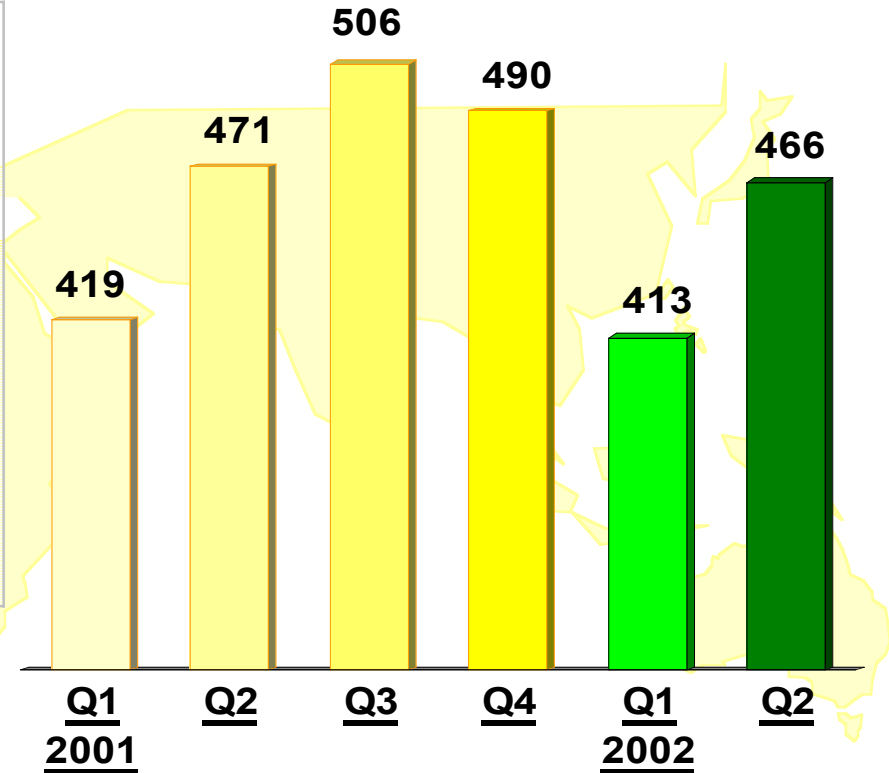
- Positive effect of halt in inventory drawdown by distributors
- Non-residential building and industrial investment markets (equipment, OEMs) stabilized at low level
- Residential market stayed firm
- Low industrial capacity utilization rate



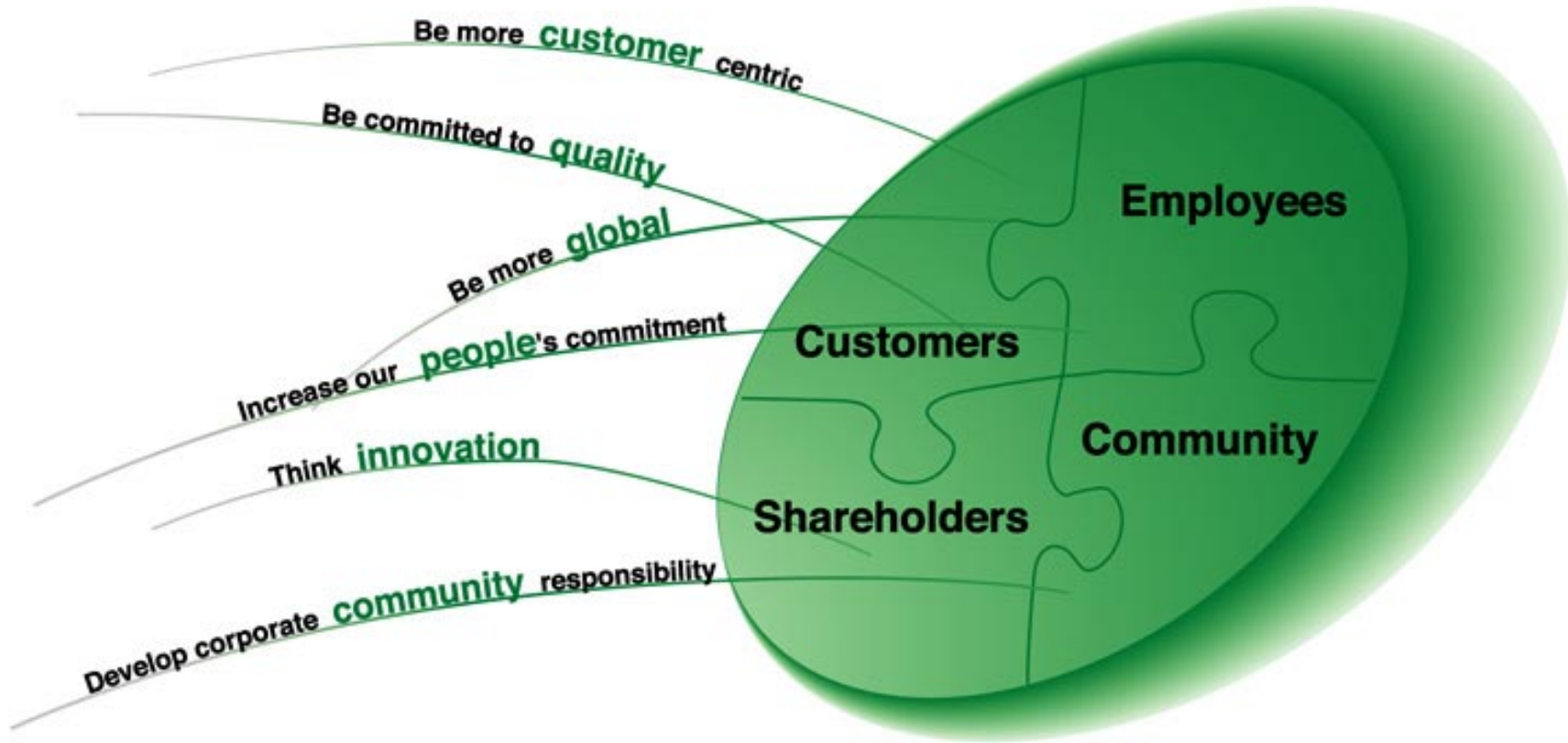
Growth in activity in the International Division in 2nd quarter

International Division

- Upturn in activity in the Africa, Middle East, North Asia and Pacific regions
- Markets still difficult in South America
- Low level of investment despite an improvement in the economic situation in South East Asia



(sales in EUR mio)



- **Reinforce our global accounts and partnerships policy**
(SGBD)
 - **Example:** Lafarge (China) United Olefins (Saudi Arabia)
 Tanis (Australia) Renault (France)

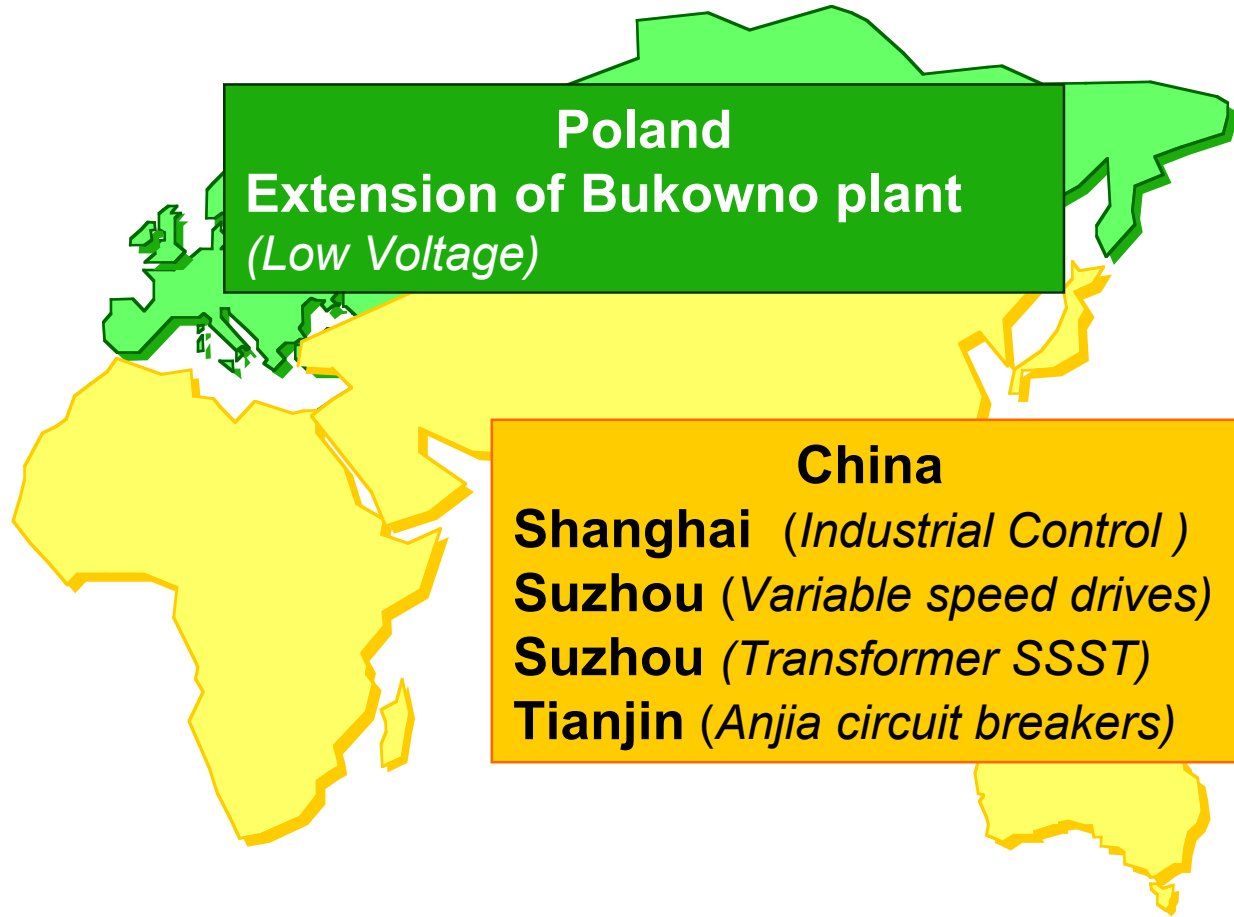
- **Develop services : cooperation, expertise, maintenance and training**
 - **Example:** Schneider Performance Manufacturing (SPM) program, industrial competitiveness and efficiency

- **Pursue targeted acquisitions**
 - **Example:** Korea : Samwha electronic relay business
 Russia : Ural Elektro Kontactor business

Be more Global: Reinforce production facilities located in growth areas



Mexico
Escobido
(Industrial Control)



Poland
Extension of Bukowno plant
(Low Voltage)

China
Shanghai *(Industrial Control)*
Suzhou *(Variable speed drives)*
Suzhou *(Transformer SSST)*
Tianjin *(Anjia circuit breakers)*

Be more Global: Continue restructuring efforts

new 2004

USA/Canada

Closure of Oceanside, Bramalea *
and Middletown * plants

Europe

Reducing of capacity in medium
voltage in Germany*, France and
Italy

Automation

Outsourcing of production sites in Carros (France) and
North Andover (North America)

Reduction of the number of employees by 1 670

- North America: - 350 people
- Europe: - 960 people
- International: -360 people (mostly in South America)

- Expand and differentiate the product offering
- Cut the number of references and develop modular offering

➤ Examples

Motor starters:

Tesys U: the 1st contactor associated with a motor circuit breaker (will cut number of references by 10)



Global detection offering: photoelectric and inductive sensors, limit switches and electronic pressure switches using the OSI concept "Offering Simplicity through Innovation"

Give priority to improving the operating margin

new 2004

➤ Control selling prices

- Price increase in several countries: USA, South Africa, Brazil, etc.
- Increase selectivity in order intake

➤ New purchasing policy

- Renegotiate all agreements, change suppliers and go international
- Globalization (iron and steel products, plastic components)
- Go to low cost countries (Asia, Eastern Europe, etc)

➤ Deployment of

- More than 50 projects under way



Give priority to improving the operating margin (cont...)

new 2004

➤ Industrial Excellence program

- Review a relevant sample of 5 plants: potential improvement of more than 20% on direct labor costs
- Program launched in 20 plants in 2002
- Rationalize industrial tool

➤ Value analysis

- Potential economies estimated at more than EUR200 million
- Better assignment of R&D resources
- 14 projects launched in first half of year



Gross margin at June 30, 2002 of 40.9% compared to 40.2% in 2001 (target new 2004 43.5%)



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Summary of 2002 interim results

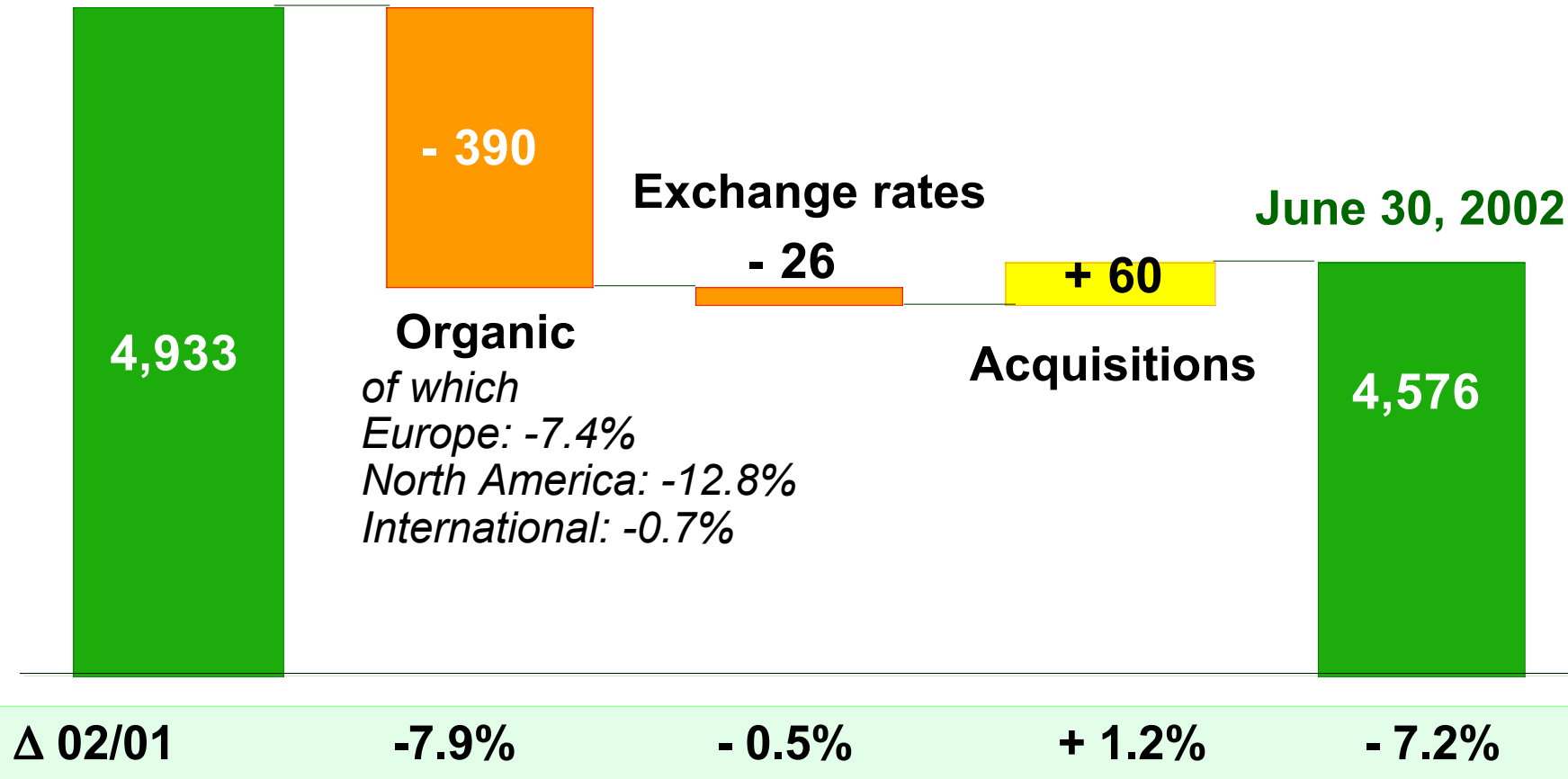
- **Decline in sales in a challenging context**
- **Good operating performance due to implementation of stringent cost reduction and productivity actions**
- **Ongoing industrial rationalization**
- **Control of capital employed and investments**
- **Very sound financial situation maintained**

Sales evolution

(EUR mio)

June 30, 2001

June 30, 2002



Simplified statement of income

(EUR mio)

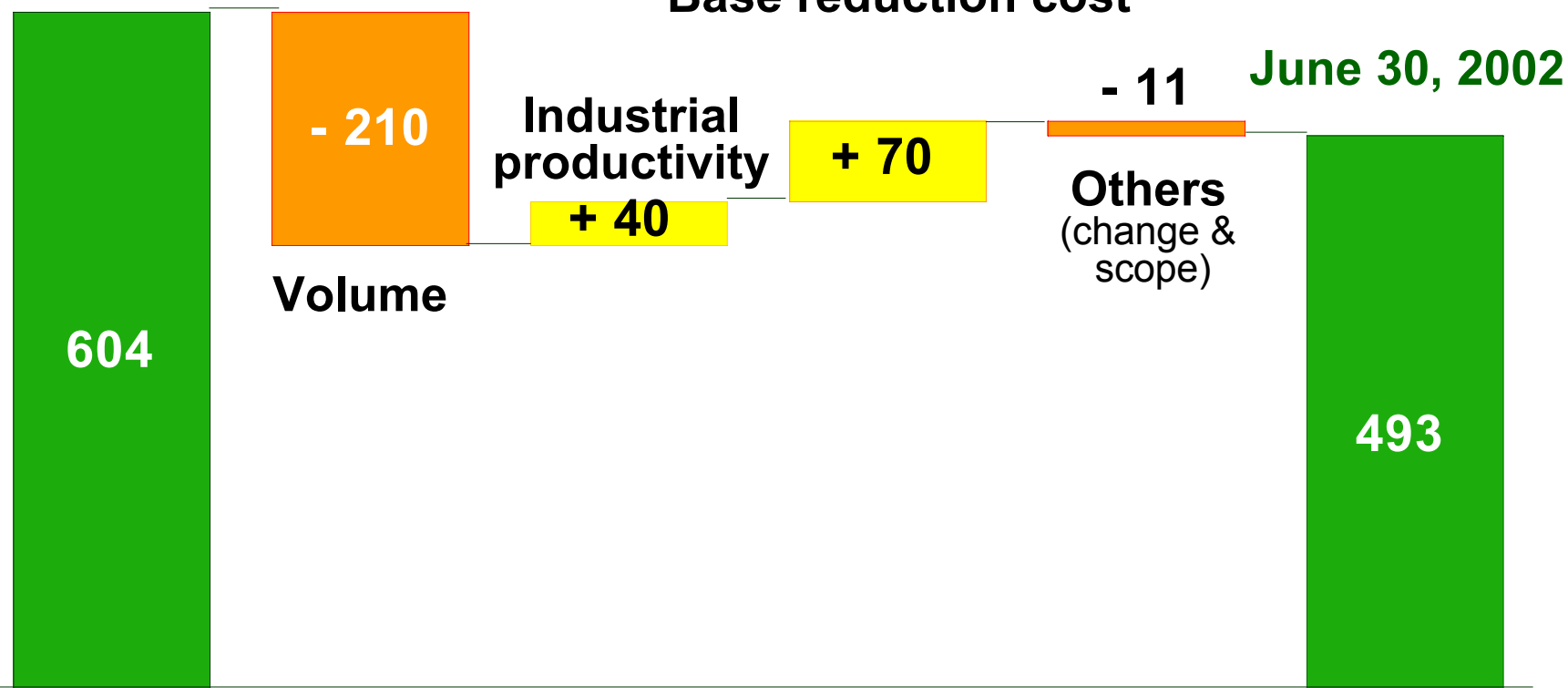
	<u>H1 2002</u>	<u>H2 2001</u>	<u>H1 2001</u>	<u>Δ H1 02/H1 01</u>
Sales	4,576	4,895	4,933	- 7%
EBITDA <i>as % of sales</i>	655 14.3%	657 13.4 %	796 16.1%	
Operating income <i>as % of sales</i>	493 10.8%	512 10.5%	604 12.2%	- 18%
Net interest expense	(62)	(81)	(40)	
Income from current <i>operations as % of sales</i>	431 9.4%	431 8.8%	564 11.4 %	- 24%

Operating income evolution

(EUR mio)

June 30, 2001

Base reduction cost



Simplified statement of income (cont...)

(EUR mio)

	<u>H1 2002</u>	<u>H1 2001</u>	<u>Δ H1 02/H1 01</u>
Income from current operations	431	564	- 24%
Extraordinary items	(21)	(23)	
Taxes	(121)	(165)	
Other (minority interests & results accounted for by equity method)	(28)	(14)	
Income before goodwill amort.	261	362	- 28%
Amortization of goodwill	(85)	(83)	
Net income	176	279	- 37%

Good cash flow generation

(in EUR mio)

	<u>H1 2002</u>	<u>H2 2001</u>	<u>H1 2001</u>
Operating cash flow	464	391	570
Net capital expenditure	(168)	(191)	(213)
Variation in operating WCR ⁽¹⁾	(189)	142	(161)
Free cash flow	107	342	196

(1) including a variation of EUR -110 mio in first-half 2002 relating essentially to tax items

Good cash flow generation (cont...)

(in EUR mio)

	<u>H1 2002</u>	<u>H2 2001</u>	<u>H1 2001</u>
Free cash flow	107	342	196
Net financial investment	(80)	(357)	(80)
Dividend	(320)	(10)	(305)
Other	(3)	21	-
Variation in available cash	(296)	(4)	(189)

Very sound balance sheet structure

	<u>30/06/02</u>	<u>31/12/01</u>
Consolidated shareholders' equity (<i>EUR bn</i>)	8.0	8.5
Net financial debt (<i>EUR bn</i>)	2.6	2.3
Net debt/equity ratio	33%	27%
Debt coverage ratio (EBITDA / net interest)	10.1 x	10.5 x



Review of operations

2002 interim results

Divestiture of Legrand

Strategy and outlook



The divestiture process is secured due to the agreement signed with Wendel and KKR

- **On July 26, 2002: agreement on the sale of stake in Legrand based on the evaluation of 100% of shareholders ' equity at EUR3.7 bn**
- **The price is firm and definitive and will be paid in cash** (with deduction of a EUR150 mio vendor loan)
- **The buyer may withdraw its offer for Legrand in the case of "Material Adverse Change"** (standard business and market clauses in a LBO)
- **Schneider Electric may decide not to sell Legrand and pay compensation for breaking the agreement if the EC veto is cancelled** (Judgement by EC Court of First Instance is expected by October 2002)



Impact for Schneider Electric of Legrand sale to Wendel and KKR

- **In the consolidated accounts, the sale of Legrand under the aforementioned conditions will have a slightly positive impact taking into account:**
 - The provision recorded at December 31, 2001
 - Current and deferred tax savings related to the asset disposal loss
- **The sale would generate almost EUR3.5 Bn in cash in 2002, to be used for share buyback, new investments and optimization of the financial structure**



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Strategy and outlook

- **The buildings markets and industrial investment continued to be challenging in the first half of 2002**
- **Given the current rate of recovery and level of investment as well as poor visibility for the coming 2nd half, the group confirms a moderate decline in full-year sales compared to last year**
- **Schneider Electric will put all its efforts into its action plans aimed at improving gross margin and reducing base cost**

- **From a short term financial viewpoint, Schneider Electric will focus on the following objectives:**
 - **Share buy-back** (possible to buy up to 22.8 mio shares until the next general shareholders' meeting i.e. almost 10% of the shares outstanding)(1)
 - **Optimization of the financial structure through the redemption of short term debt**

- **Strategy**
 - **Schneider Electric has identified a significant number of targets in the VDI sector, consumer final low voltage, secured power, services, industrial and building automation**
 - **The group will pursue its selective acquisitions policy in order to expand the accessible market**

(1) taking into account the 1.2 mio shares purchased since the 2002 shareholders' meeting



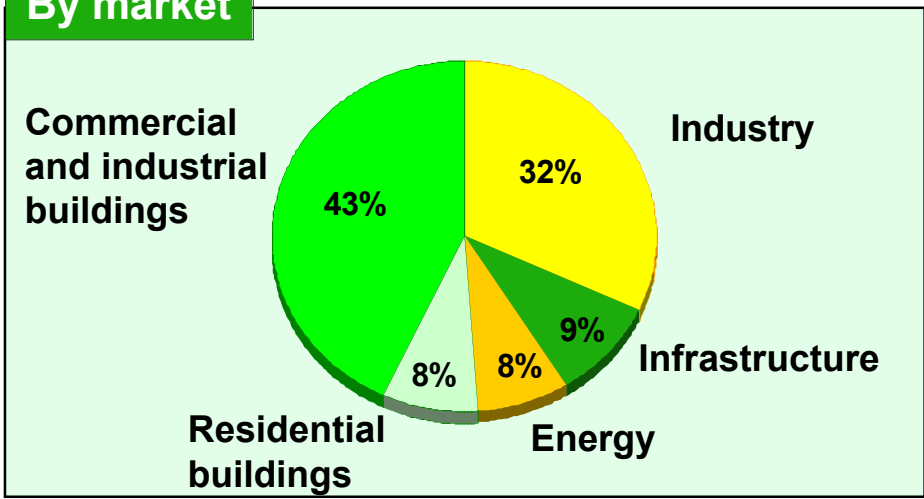
Appendices

- **Sales breakdown at December 31, 2002**
- **Balance sheet at June 30, 2002**
- **Statement of changes in shareholders' equity**
- **EPS at June 30, 2002**

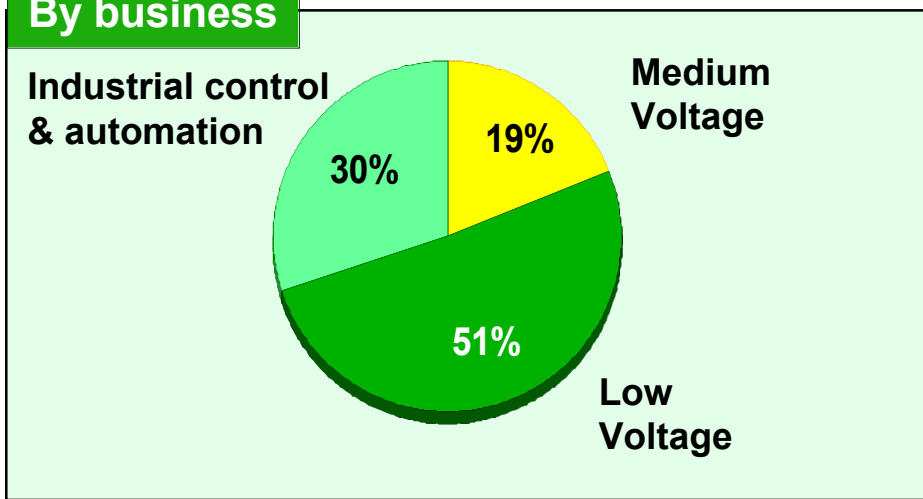


Sales breakdown at December 31, 2002

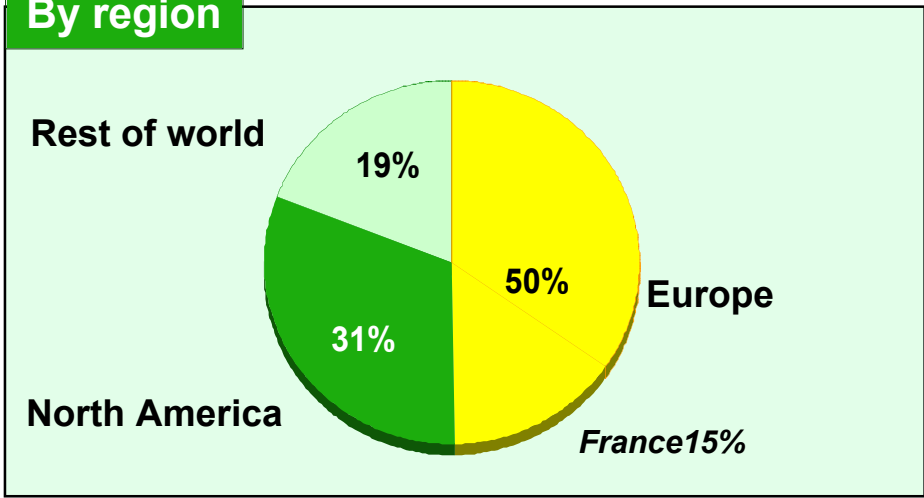
By market



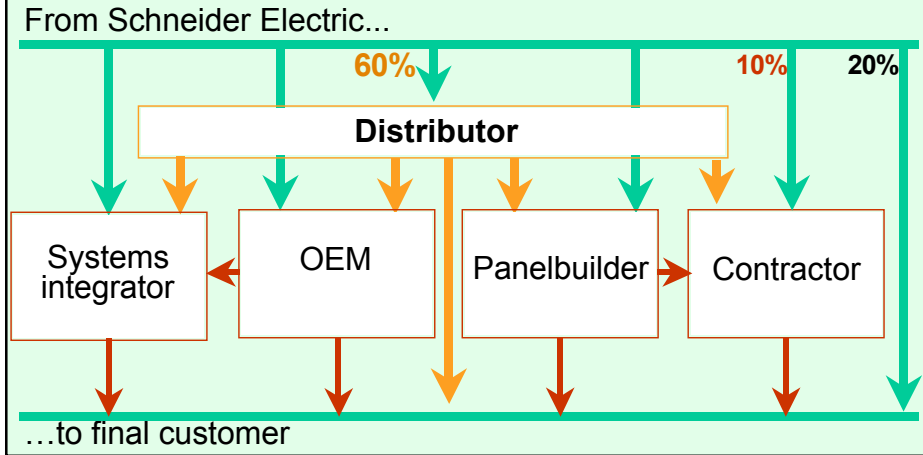
By business



By region



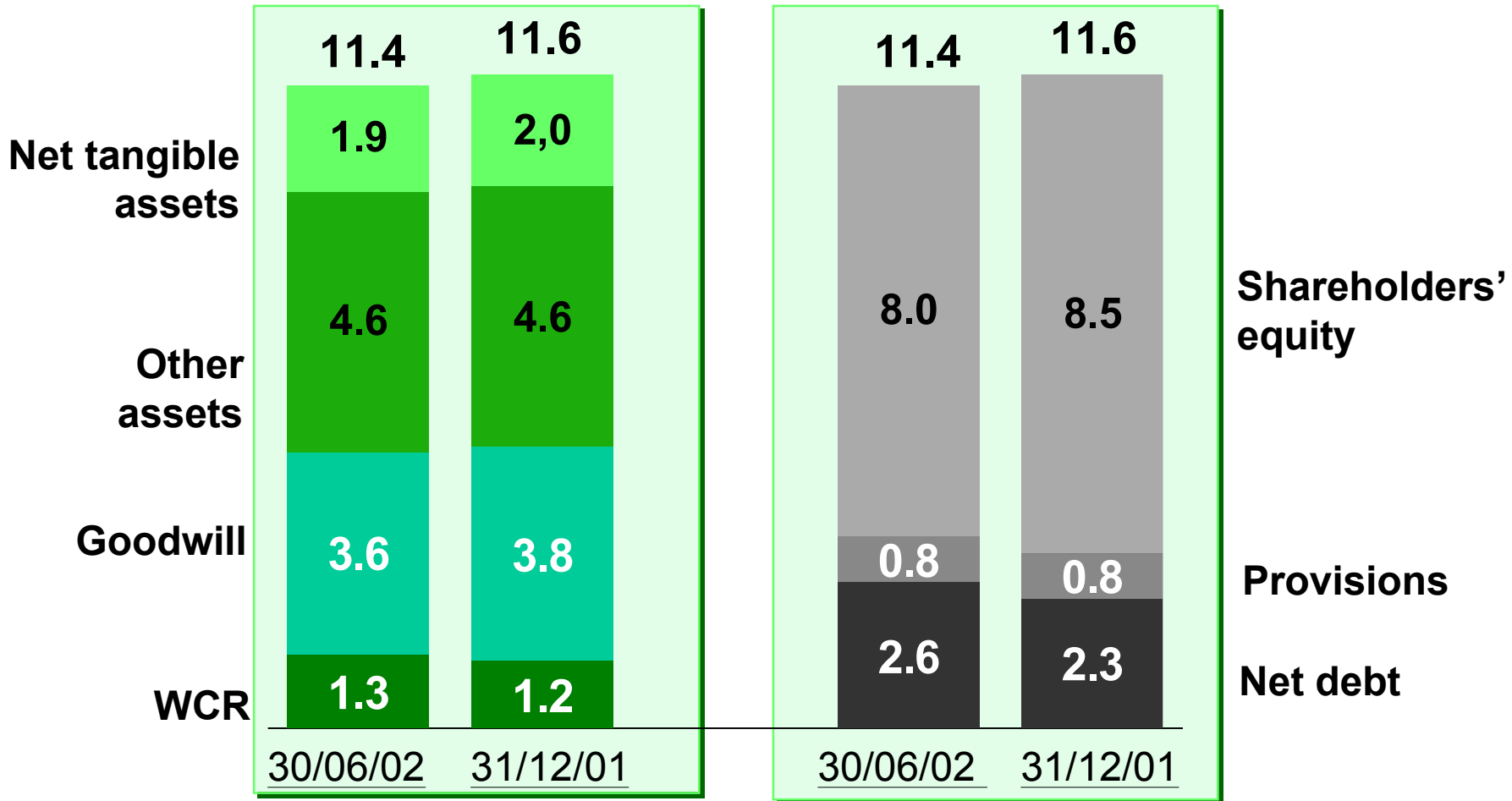
By distribution channel





Simplified balance sheet at 2002

(in EUR bn)





Changes in shareholders' equity including minority

(in EUR bn)

<u>At December 31, 2001</u>	8.46
Dividends	(0.32)
Translation adjustment	(0.35)
Income	0.19
Other	0.03
<u>At June 30, 2002</u>	8.01



Net earnings per share

(in euros)

1st half 02

Average number of shares (millions)	232.1
EPS <u>before</u> amortization of goodwill	1.13
EPS <u>after</u> amortization of goodwill	0.76

Building *a New Electric* *World*

