

2003 Annual Results

Paris, February 20, 2004

Merlin Gerin
Square D
Telemecanique



Schneider
 **Electric**

Building a New Electric World



Highlights

H. Lachmann

Review of the year 2003

A. Giscard d'Estaing

Our priorities for 2004

J.P. Tricoire

Our growth strategy

H. Lachmann

A priority on organic growth...

- ➔ **Early presence in all the emerging countries**
 - More than 25% of total sales with 12% growth
 - Exceptional growth in China (up 22%) and Eastern Europe (up 14%)
- ➔ **Successful execution of our specific plans and market share gains in North America**
- ➔ **Enhanced market coverage thanks to more effective deployment of our lineup and penetration into new segments (Residential and Industry markets)**
- ➔ **Priority to innovation & numerous product launches**



Return to sales growth in 2003: up 1.4%
with market share gains (US, Asia and Eastern Europe)

Sales growth on a constant basis

...strengthened by the creation of new growth platforms...

➔ A targeted acquisitions strategy

- Specific segments in automation & control
- Building automation
- Residential market
- Secured power
- Value-added services

➔ Rigorous execution over the past 12 months

- ✓ Digital Electronics: December 2002
- ✓ T.A.C: August 2003
- ✓ Clipsal: December 2003
- ✓ MGE UPS: February 2004
- ✓ T.A.C, MGE UPS



Additional sales of EUR 1.3 Bn in full year, with an average operating margin of 11%

...and combined with sustained execution of our efficiency plans

- ➔ Improved Purchasing productivity
- ➔ Intensified deployment of Lean Manufacturing
- ➔ Sustained measures to optimize manufacturing base
 - Adaptation of capacities in developed countries
 - Development in countries with high demand
- ➔ Gain of 3 points in North America operating margin
- ➔ Launch of specific plans in Europe



Improvement in gross margin by 1.4 points
and operating margin at 13% excluding currency effects

Very solid financial performance

	in EUR M	2003 % of sales	2002 % of sales
➔ Sales	8,780	<i>down 3.1% from 2002 on a current basis</i>	
➔ Gross margin	3,717	42.3%	41.5%
➔ Operating income	1,007	11.5%	11.5%
➔ Net income before goodwill amortization	624	7.1%	6.8%



Schneider Electric demonstrates the quality of its business model and the effectiveness of the action plans deployed as part of the NEW2004 program

Unique strengths in the industry

- ➔ A world leader in Power & Control
- ➔ A premium portfolio of products and brands & strong innovation capabilities
- ➔ A business model based on flexibility and the ability to form partnerships
- ➔ A balanced geographic presence and forefront positions in the emerging countries
- ➔ Skilled and committed teams & young management
- ➔ Strong operating performance and very solid financials



Schneider Electric is particularly well placed to benefit from the worldwide economic recovery and high potential of its accessible markets



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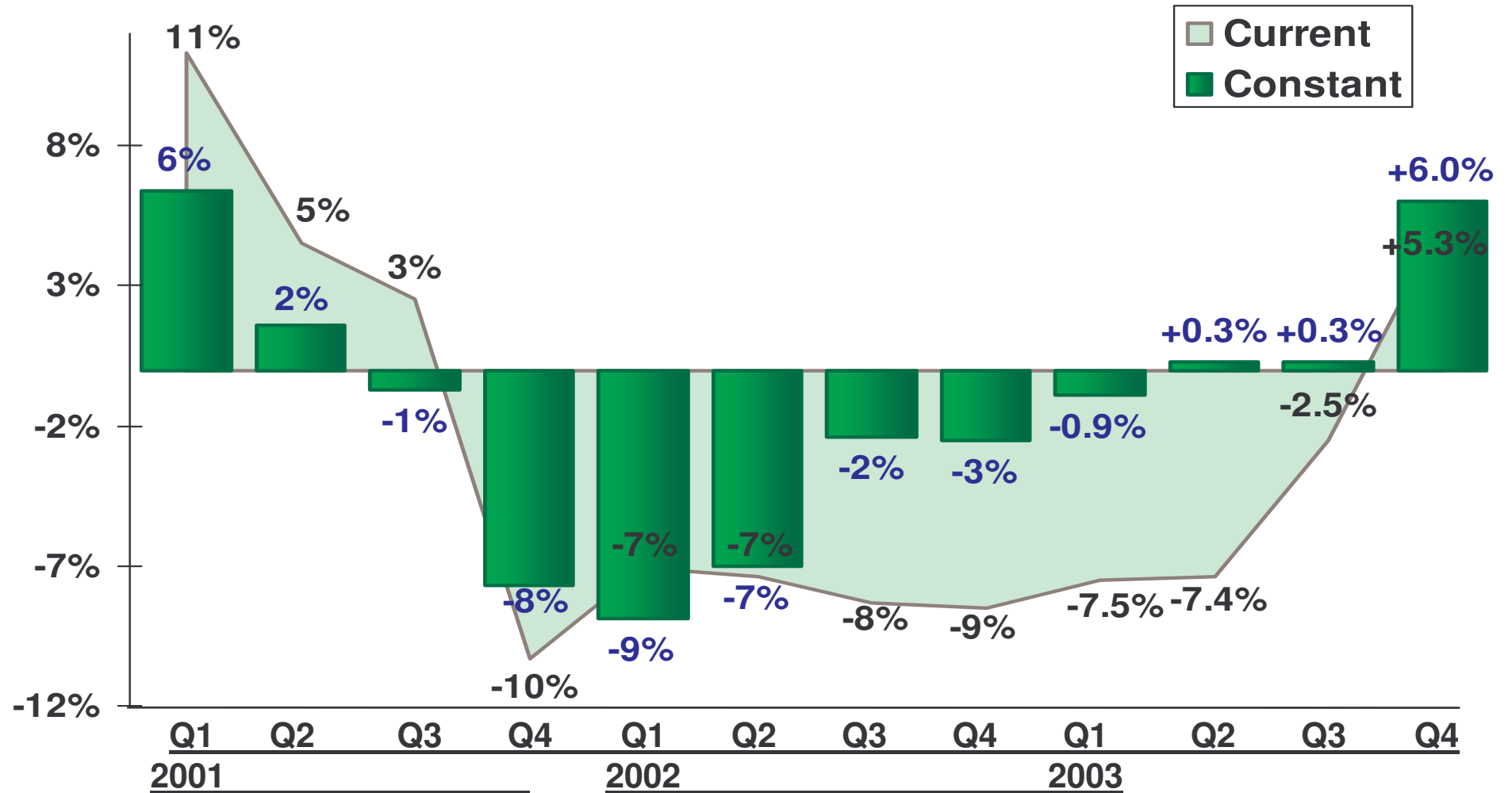
H. Lachmann

2003 results highlights

- ➔ **Growth in sales: +1.4% on a constant basis**
 - Initial effects of our growth plans
 - Beginning of business recovery in H2 2003
- ➔ **Acquisitions' contribution to sales: +3%**
- ➔ **Very significant currency effects of EUR -682 million on sales with an impact of -1.5 points on operating margin**
- ➔ **High resilience of the operating margin at 11.5%**
 - Further increase in gross margin
 - Sustained control over base costs
- ➔ **Record free cash flow of EUR 1 Bn**

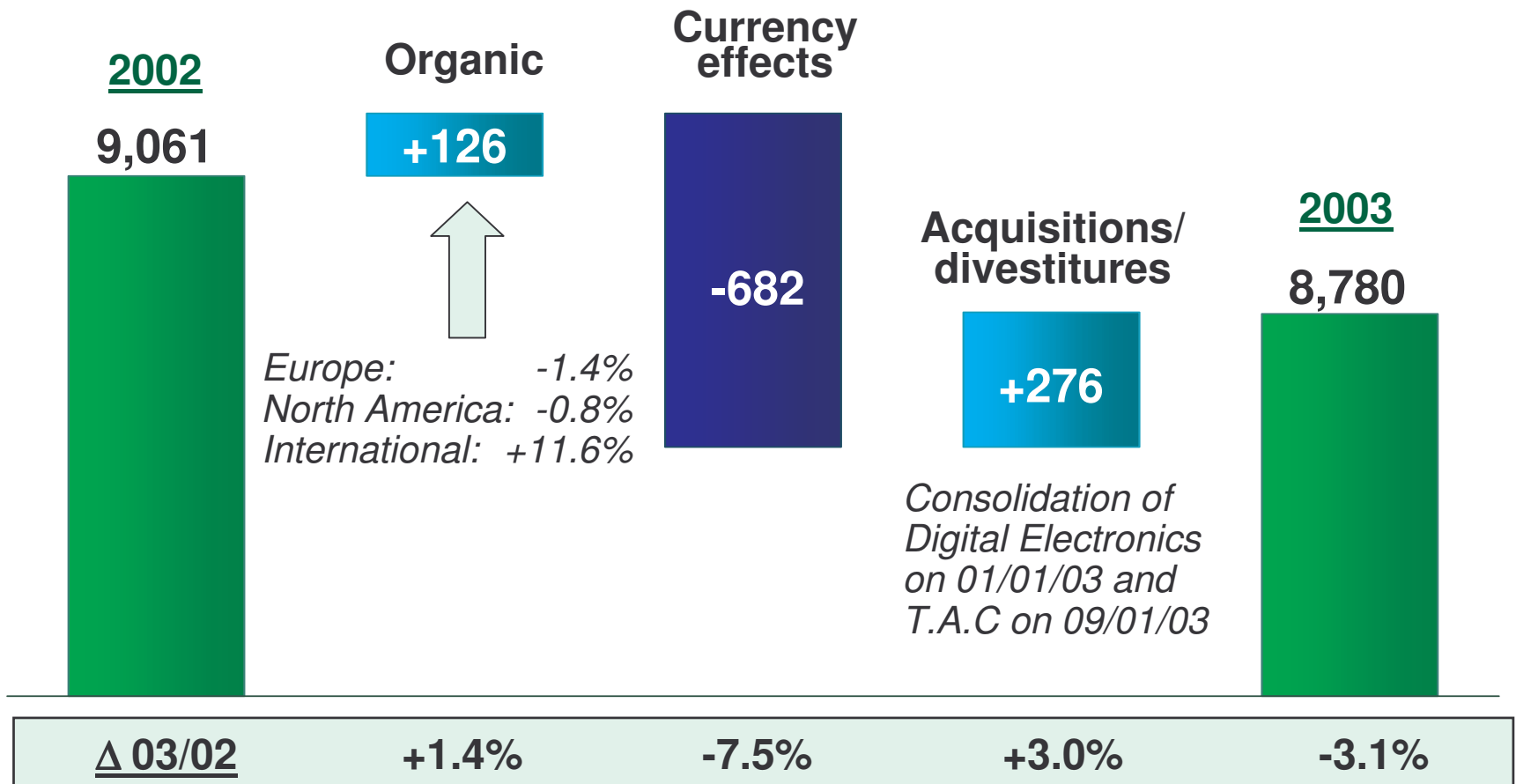
Trend reversal in H2 2003

(Quarterly sales change compared to the same quarter last year)



Return to sales growth dampened by currency effects

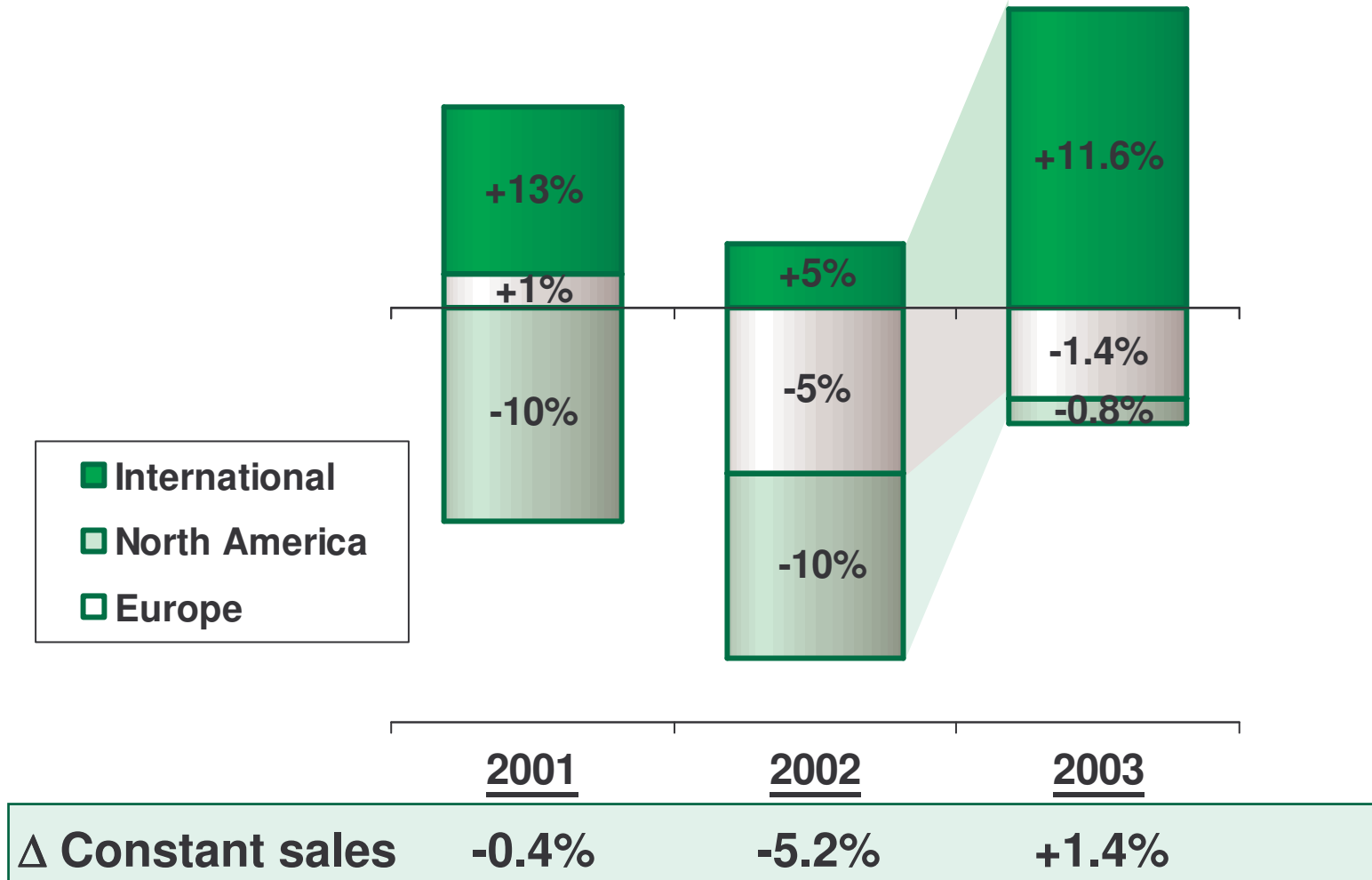
(in EUR M)



Average EUR/\$ exchange rate: 1.13 vs. 0.95 in 2002

Essential contribution from International and noticeable improvement in North America

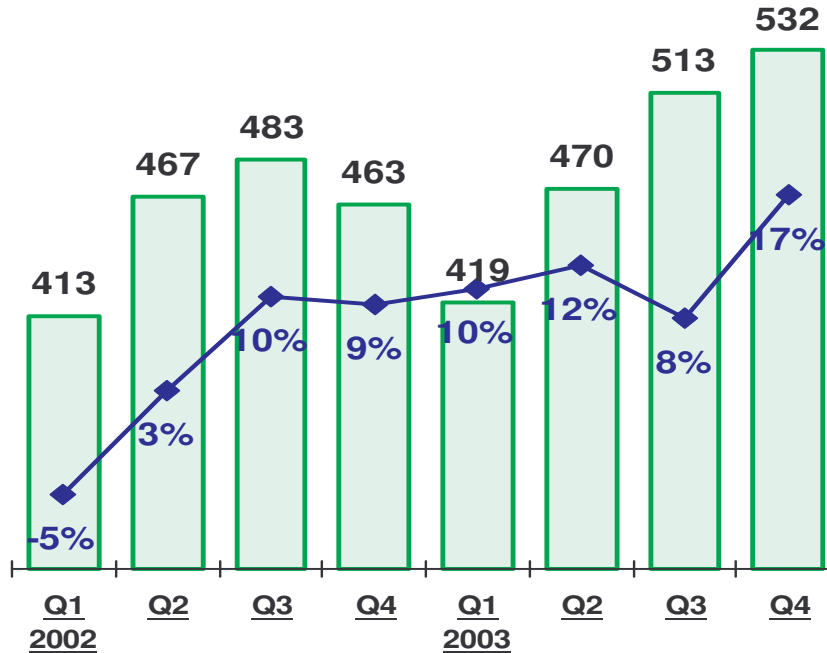
(Constant change in sales and contribution to total Group growth)



Growth & Efficiency action plans in the International Division



Sales reported
in EUR M and
constant
change



➔ Geographic expansion

- Specific plans in Vietnam, Korea, etc.
- Sales forces in China, India, etc.

➔ Targeted development in Industry

- Offers in speed drives, automation
- HMI technology supported by Digital Electronics, acquired at end-2002

➔ Residential growth plan

- Dedicated lineup: mini CB, enclosures
- Acquisition of Clipsal, leader in British Standard wiring devices

➔ Conquest of the intermediate market

➔ Creation of an Asia & Pacific operating division based in Hong Kong

➔ Opening of a global R&D center in India

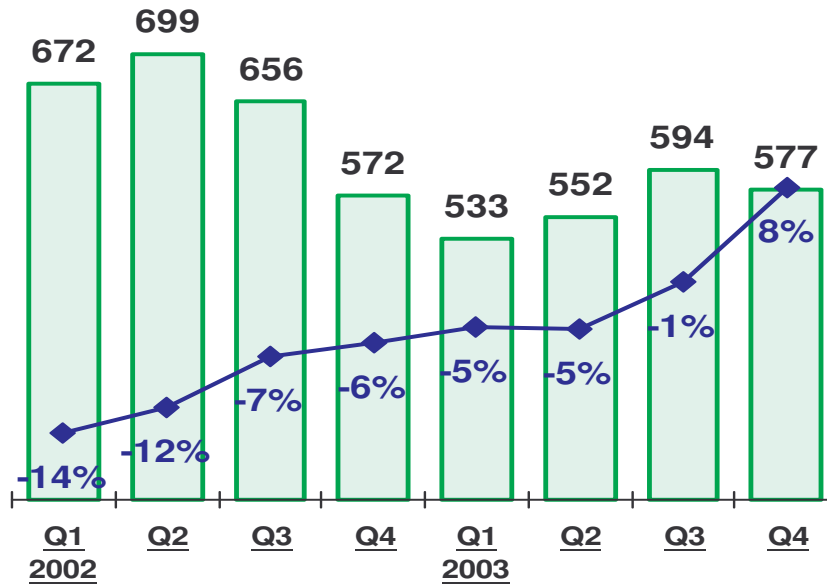
➔ Creation of four new production units in China: enclosures, components, speed drives and transformers

➔ *Continued deployment of infrastructures in high-growth regions and recruitment of 650 people*

Growth & Efficiency action plans in the North American Division



Sales reported
in EUR M and
constant
change



➤ Specific Industry plan

- Telemecanique brand promoted with OEMs & systems integrators
- Introduction of new offers: Global Detection, TeSys U

➤ Support actions for distributors

- Small Project Express program for Residential and retail markets
- Development of partnerships with systems integrators

➤ Market share gains thanks to successful marketing initiatives

➤ Purchasing and Lean Manufacturing plan targets met in 2003

➤ Sustained optimization of manufacturing base

- Plants closed or being closed: Raleigh, Ballinasloe, Monroe and Asheville
- Transfers to Mexico: Columbia, Lincoln, Lexington, Oxford and Cedar Rapids

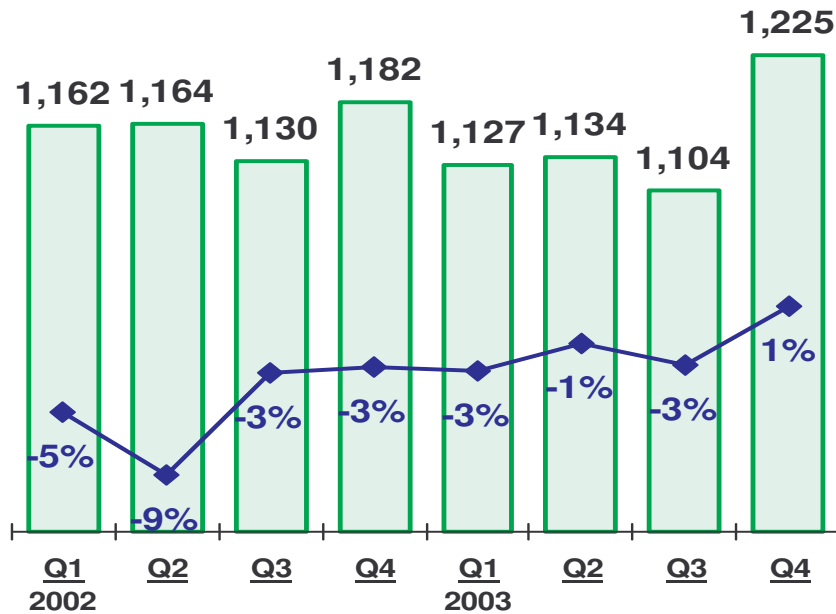
➤ Continued rationalization of front and back office functions

➤ Workforce reduced by 1,200 people in the US in 2003

Growth & Efficiency action plans in the European Division



Sales reported
in EUR M and
constant
change



➤ Residential growth plan

- Successful 2003 initiatives
- Sustained commercial deployment with dedicated lineups

➤ Industry development plan

- New product launches
- Specific initiatives for OEMs: Application Centers, Pioneer program

➤ Initial integration of T.A.C lineup (France, Italy, Eastern Europe)

➤ Purchasing productivity of 5% achieved in the global plants

➤ Lean Manufacturing deployed in 53 plants at end-2003

➤ Continued optimization of manufacturing base

- Plants closed or being closed: Num (France), Wolverhampton (UK), Swindon (UK), Celbridge (Ireland), Slough (UK), Marienheide (Germany), 2 Lixel sites

➤ Adaptation of support functions to business levels in France, Italy

➤ Workforce reduced by 1,300 people in 2003

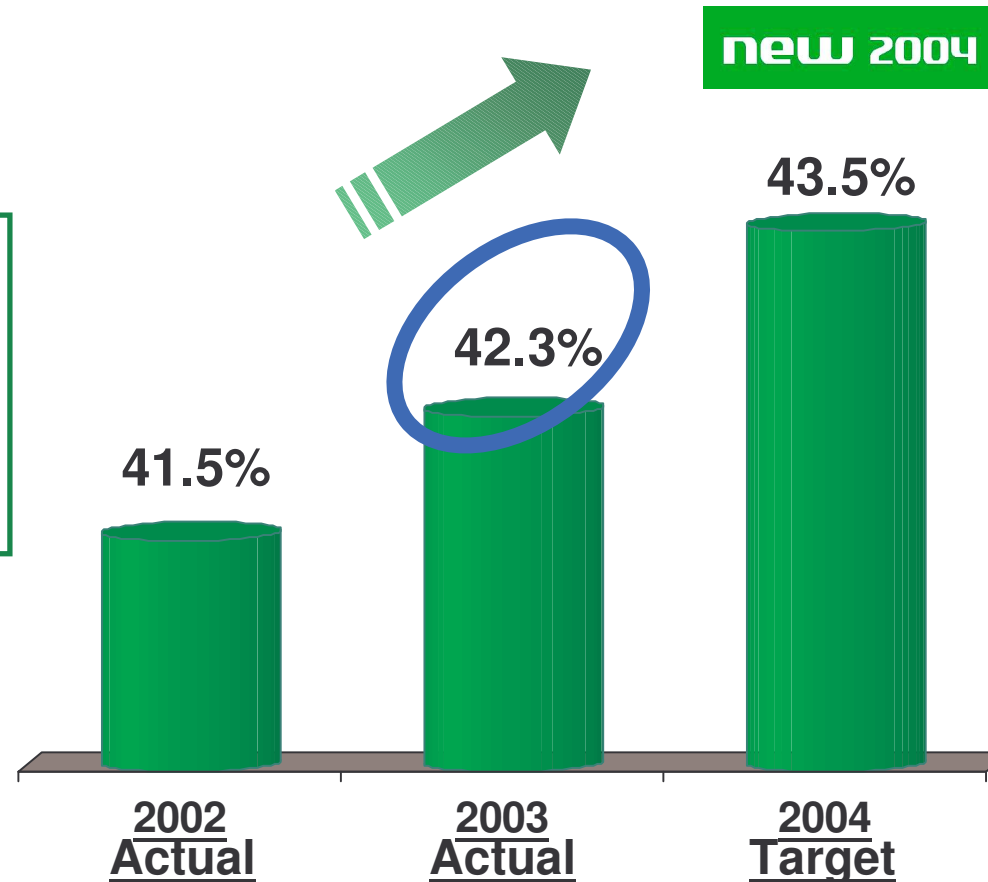
Simplified income statement (part 1)

<i>(in EUR M)</i>	<u>2003</u>	<u>2002</u>	<u>Δ 03/02</u>
Sales	8,780	9,061	- 3%
Gross margin <i>as a % of sales</i>	3,717 42.3%	3,755 41.5%	+0.8 pt
Operating Income <i>as a % of sales</i>	1,007 11.5%	1,040 11.5%	- 3% -
Financial Expense, Net	(53)	(158)	
Income from continuing operations <i>as a % of sales</i>	954 10.9%	882 9.7%	+8% +1.2 pt

Improvement in gross margin in line with target despite currency effects

(as a % of sales)

Excluding currency effects, gross margin reaches 42.9% of sales and exceeds the 2003 target



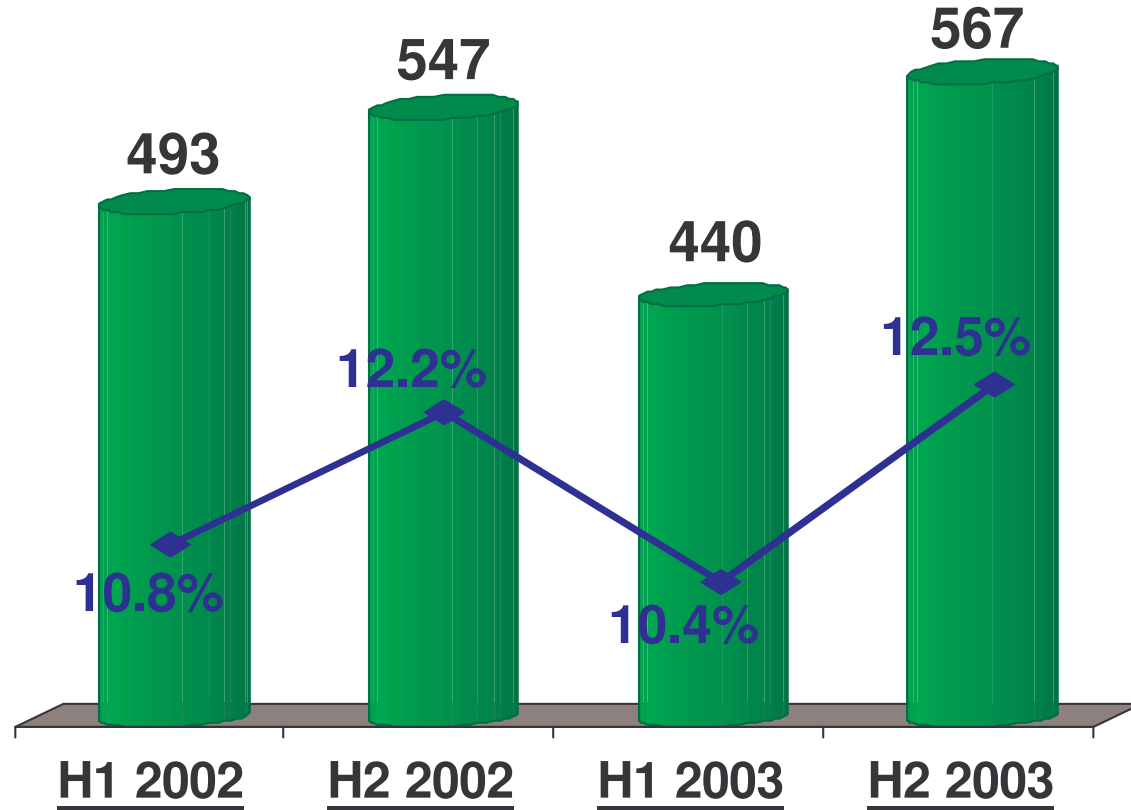
Gross margin = sales less cost of sales (including manufacturing base costs)

Substantial improvement in operating performance in H2 2003

(in EUR M)

Operating
income

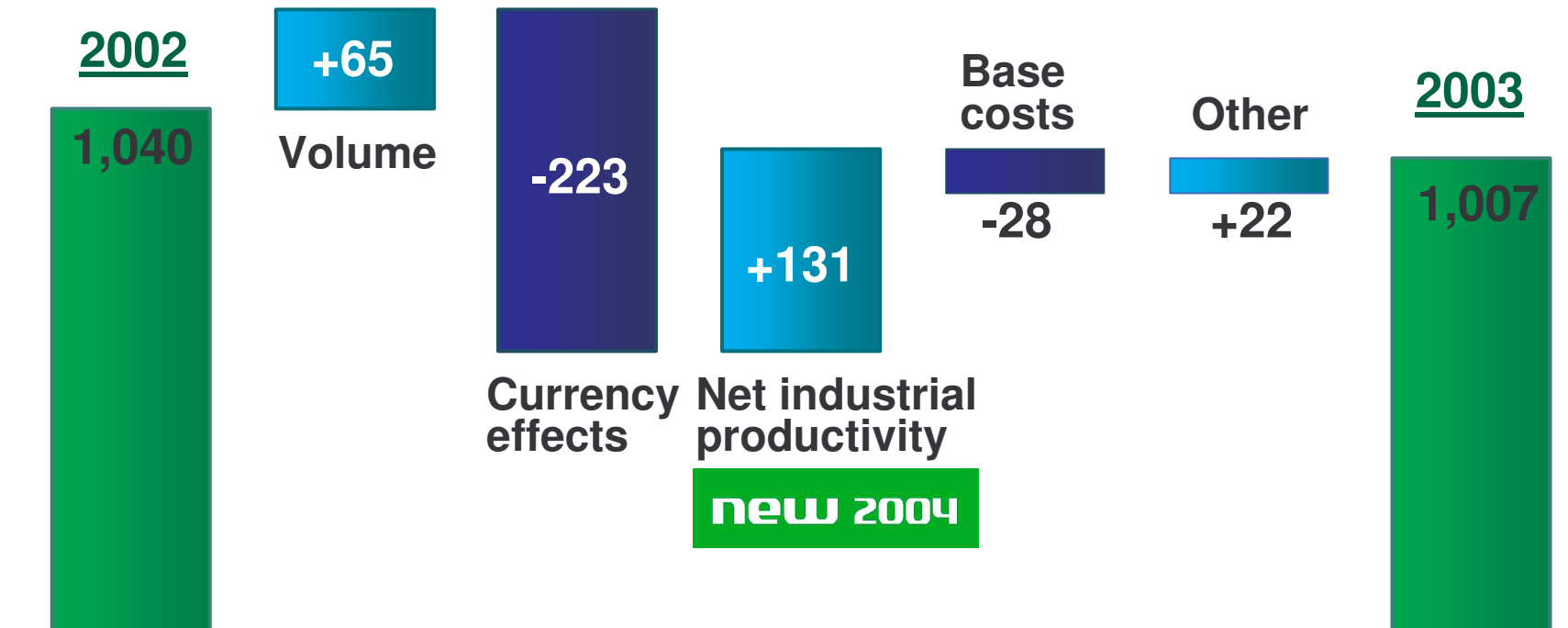
Operating
margin
(as a % of sales)



H2 2003 operating margin > H2 2002
despite currency effects

Currency effects offset by productivity gains

(in EUR M)



2003 net productivity penalized by inflation in payroll costs

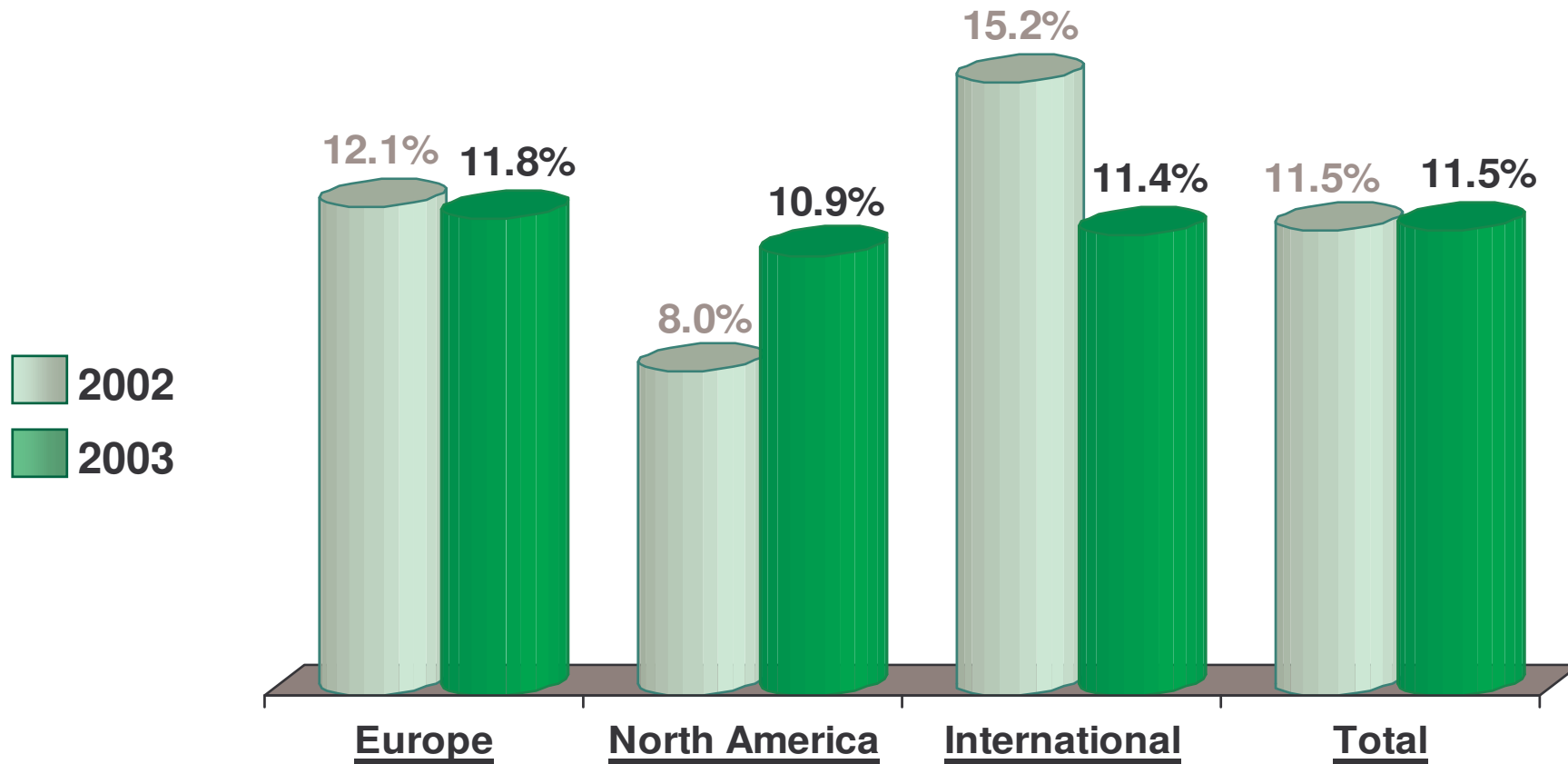
(in EUR M)

	<u>2003 Actual</u>	<u>End-2003 Cumulated</u>	<u>2004 Target</u>
Purchasing	128	200	170
Lean Manufacturing	63	103	110
Other plans	4	24	45
<u>Gross productivity</u>	195	327	
Inflation in payroll costs (i)	(64)	(64)	
<u>Net productivity</u>	131	263	325

(i) of which EUR 43 million in North America primarily related to higher pension costs and fringe benefits

Operating margin: sharp increase in North America, International impacted by currency effects

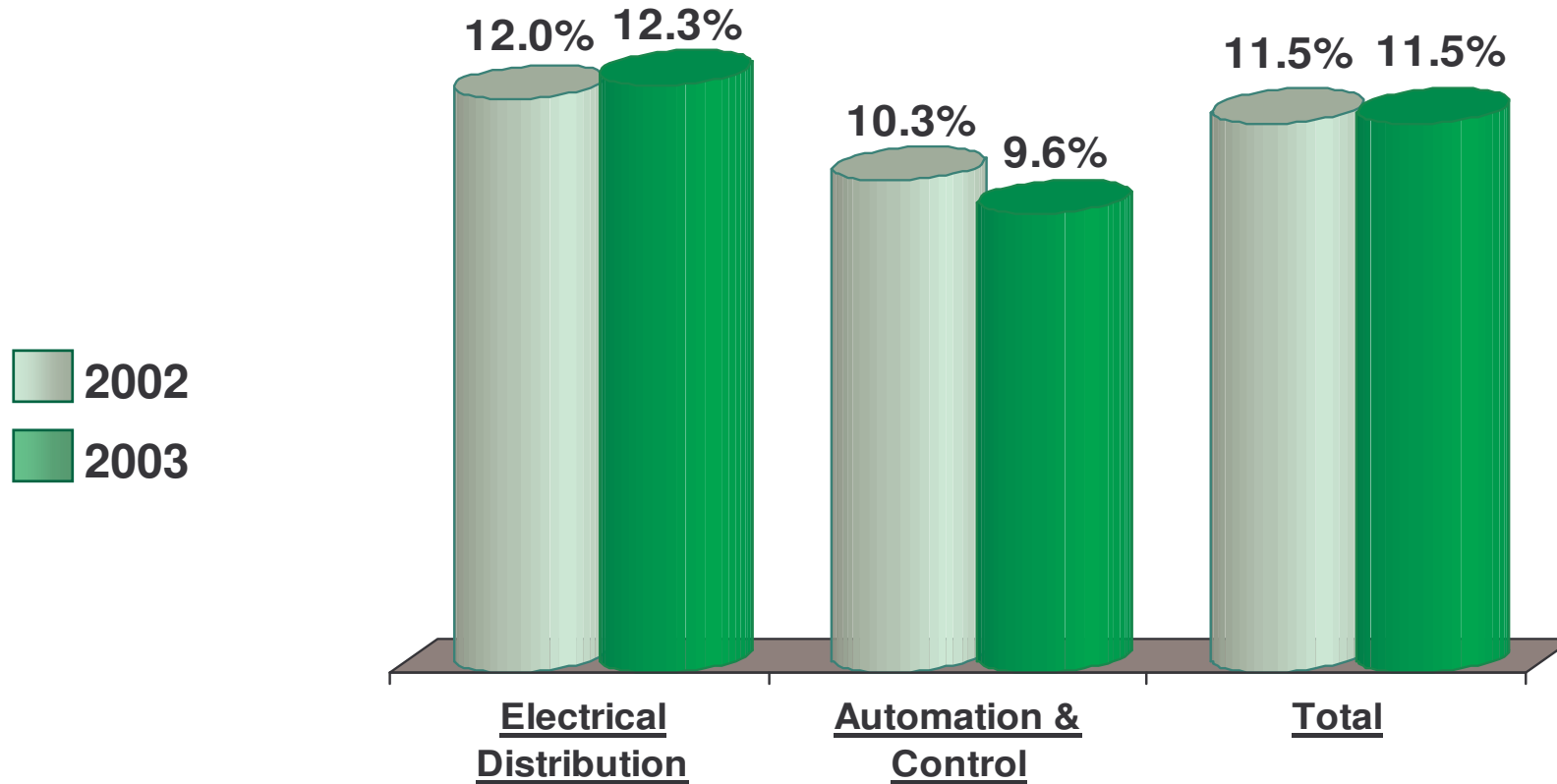
(as a % of sales)



2002 data modified as part of some changes in management accounting system during 2003
(MAP project: MAnaging Performance - See Appendix)

Operating margin by business

(as a % of sales)



2002 data modified as part of some changes in management accounting system during 2003
(MAP project: MAnaging Performance - See Appendix)

Simplified income statement (part 2)

<i>(in EUR M)</i>	<u>2003</u>	<u>2002</u>	<u>Δ 03/02</u>
Income from continuing operations	954	882	+8%
Exceptional items	(164)	(509)	
Income taxes			
current	(271)	(189)	
deferred	144 (i)	484	
Other (minorities, affiliates)	(39)	(53)	
Net income before goodwill amort.	624	615	+1%
Goodwill amortization	(191)	(193)	
Net income after goodwill amort.	433	422	+3%

(i) including recognition of an additional deferred tax asset related to the sale of Legrand:
EUR 114 million (new measures in the 2004 Finance law)

Increase in earnings per share and proposed dividend to the General Shareholders' Meeting

(in euros)	2003	2002	Δ03/02
Average number of shares (millions) (i)	223.1	228.5	-2%
EPS <u>before</u> goodwill amortization	2.79	2.69	+4%
EPS <u>after</u> goodwill amortization	1.94	1.85	+5%
Proposed dividend per share - net (ii)	1.10	1.00	+10%

(i) after deducting treasury shares & intragroup cross shareholding

(ii) dividend paid in cash on May 10, 2004

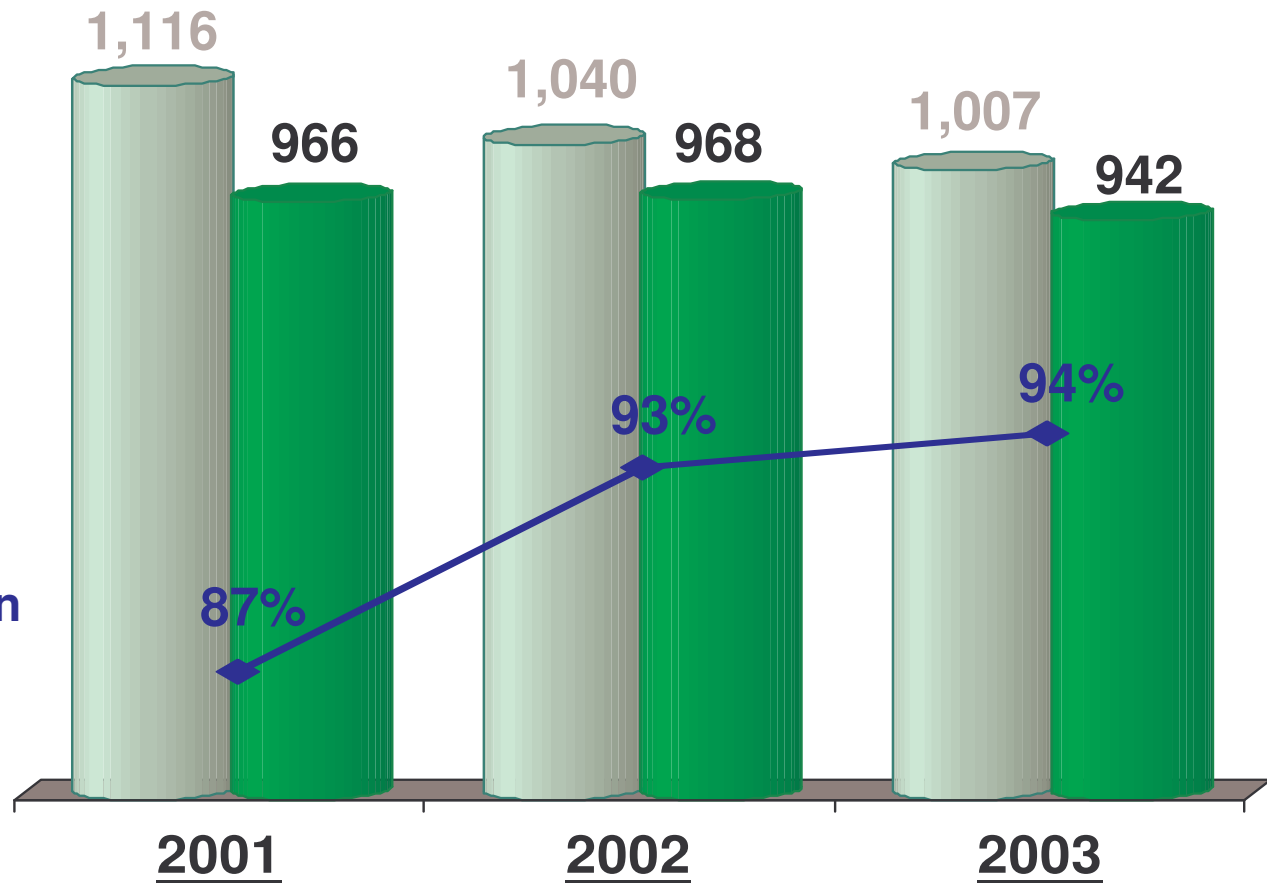
High conversion of operating income into cash flow

(in EUR M)

Operating
income (A)

Operating
cash flow (B)

Cash conversion
(B/A)



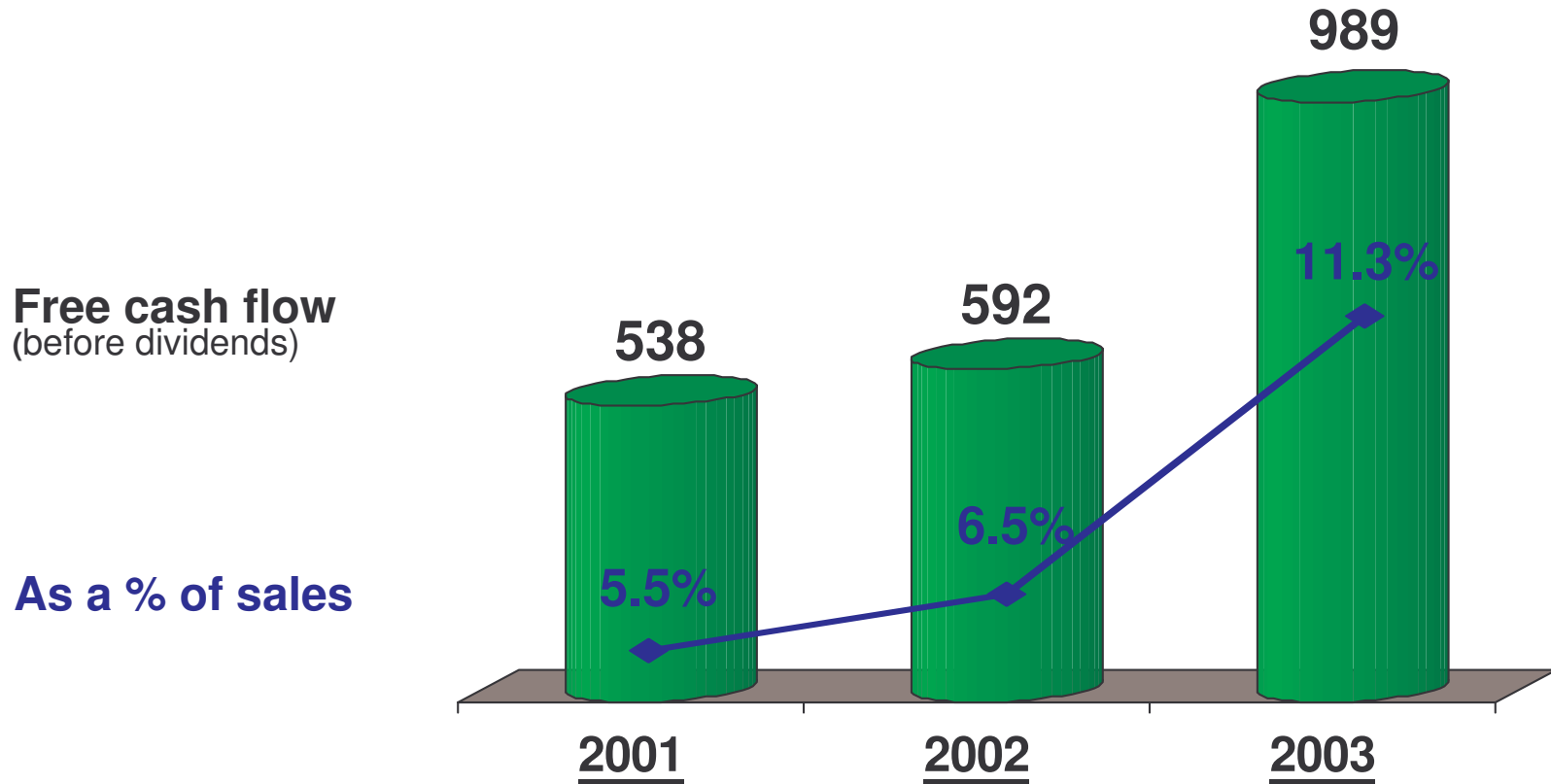
Record free cash flow

(in EUR M)

	<u>2003</u>	<u>2002</u>
Operating cash flow	942	968
Capital expenditure - net	(265)	(341)
Change in operating working capital	47	62
Change in non-operating working capital	265	(97)
Free cash flow (before dividends)	989	592

Record free cash flow (cont'd)

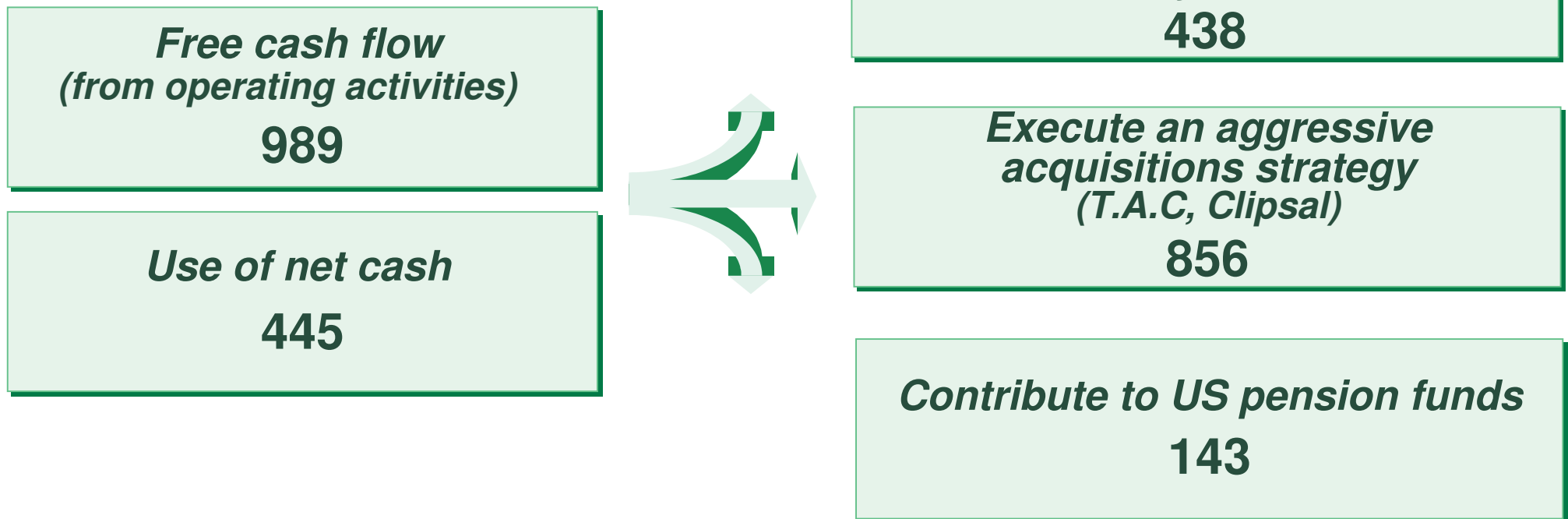
(in EUR M and as a % of sales)



Free cash flow: operating cash flow - net capital expenditure +/- change in working capital

Substantial financial resources to:

(main items of the cash flow statement in EUR M)





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Our priorities for 2004

J.P. Tricoire

Our growth strategy

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Objectives of our new organization

- ➔ **Create an Asia & Pacific division to address all growth opportunities closer to the markets**
- ➔ **Confirm our leadership in products**
 - Maintain our strong innovation capabilities
 - Optimize R&D investment: Technical Excellence program
- ➔ **Invest more in systems**
 - Ensure the technical consistency of our products
 - Favor installation, communication and design
- ➔ **Accelerate globalization to enhance efficiency**
 - Balance our manufacturing base with our markets
 - Globalize purchasing and develop low-cost countries contribution
 - Improve supply-chain efficiency and reduce costs

Our operating priorities for 2004

- ➔ **Successfully complete our NEW2004 program**
- ➔ **Focus on customers and deliver appropriate solutions**
- ➔ **Leverage all our growth opportunities**
- ➔ **Leverage our potential to reduce costs**
- ➔ **Identify, reward and promote talent**

A powerful partnership strategy to better serve our customers

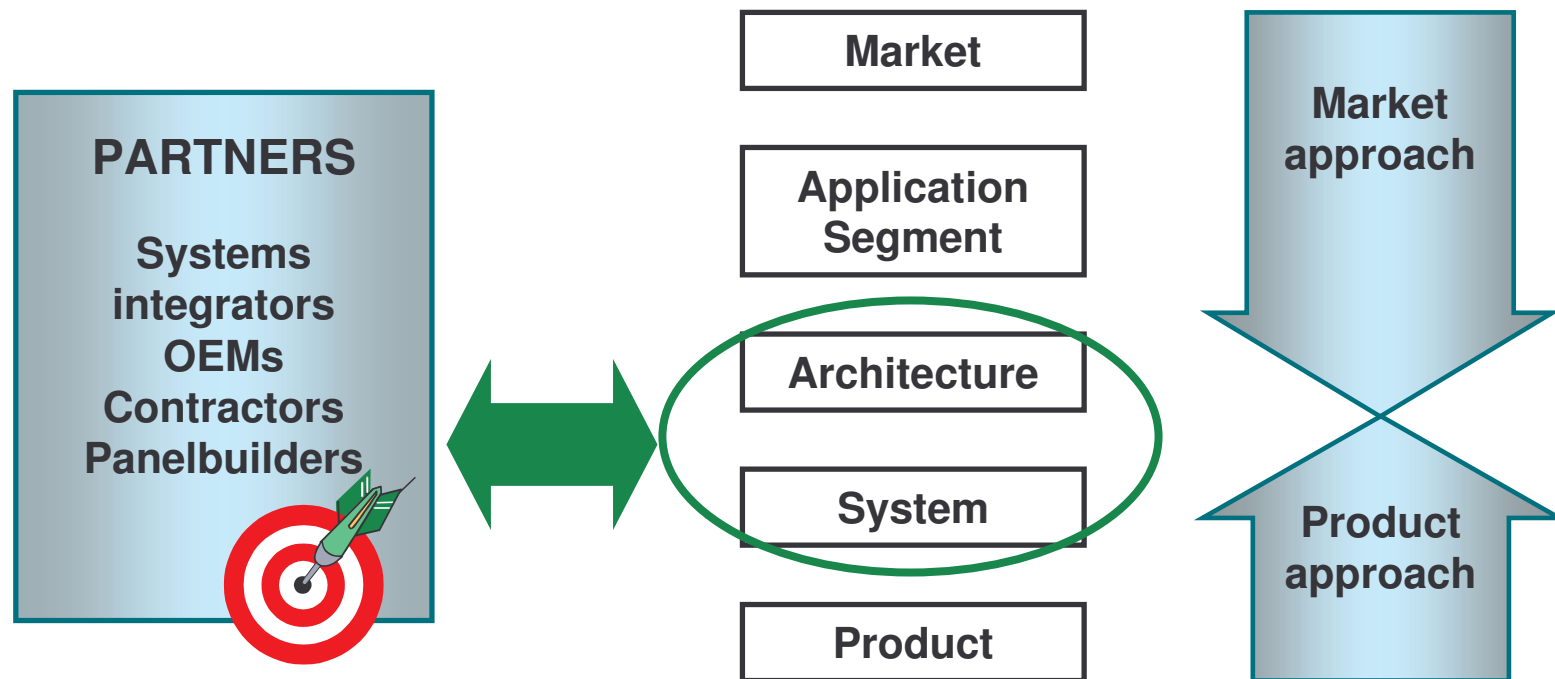
- ➔ **We have unique skills for developing leading, cutting-edge products**
- ➔ **Our products are designed to fit into comprehensive solutions that meet customers' specific needs**
- ➔ **We leverage our partners' specific expertise to increase the value added for customers**



Our solution: combine our partners' knowledge of customer needs with our ready-to-integrate product and software packages

Increase our partners' involvement in our offer development process

- ➔ Our partners are the key to our differentiation strategy
- ➔ They ask for consistent systems and architectures



Leverage all our growth opportunities and our potential to reduce costs

- ➔ **Leverage all the growth drivers in our business model and access all markets**
- ➔ **Boost growth of certain key activities: wiring devices, automation, services and global accounts (SGBD)**
- ➔ **Achieve commercial excellence with targeted policies by type of customer**
- ➔ **Continue to enhance industrial productivity**
- ➔ **Accelerate plans to adapt production capacity and support functions by taking greater advantage of our international positions**



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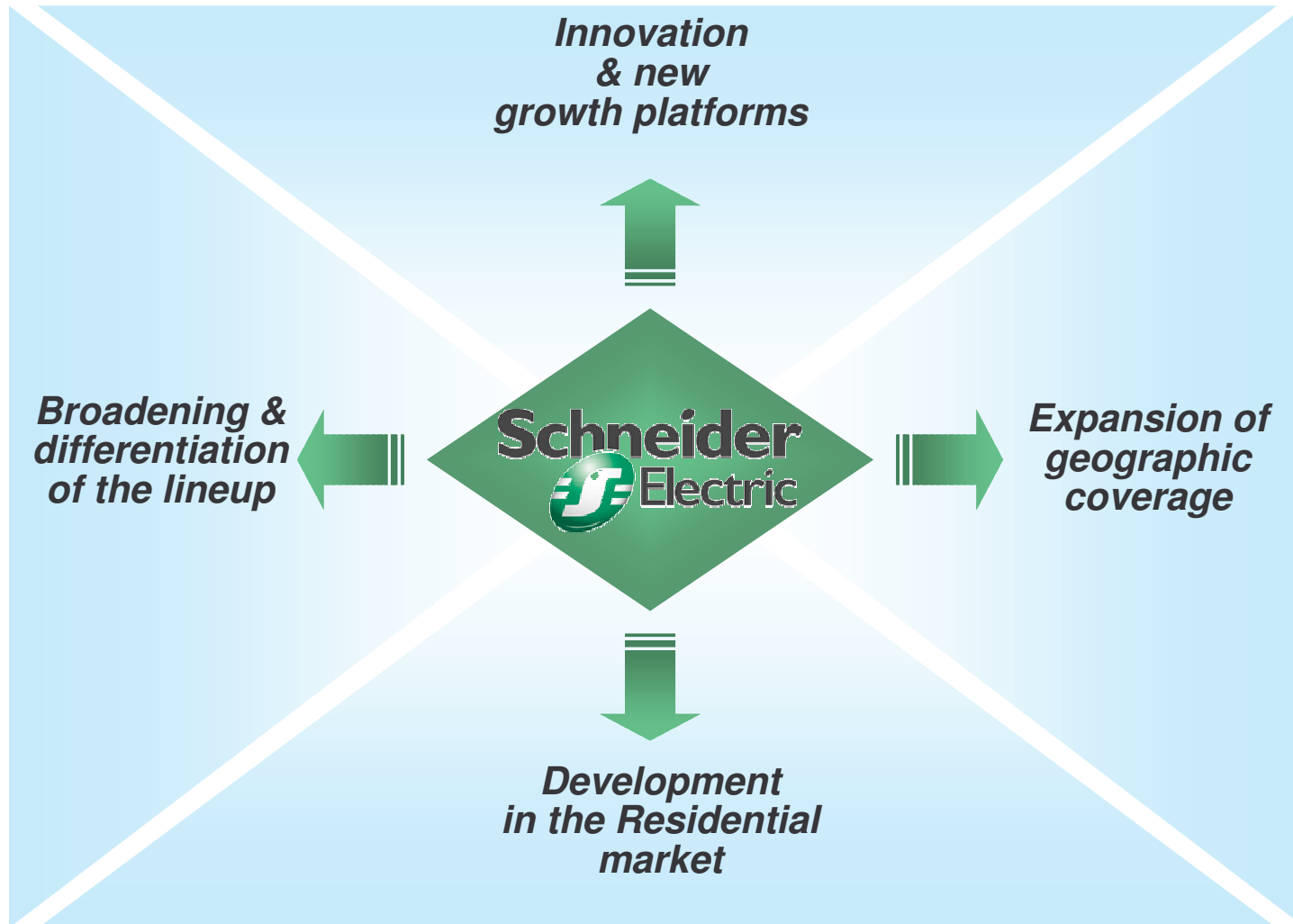
Our priorities for 2004

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Our growth strategy

H. Lachmann

An aggressive growth strategy combining innovation and differentiation



Our growth strategy

- ➔ **Optimize our business portfolio**
 - Industry market: reinforce our presence and broaden our offer
 - Buildings, Energy & Infrastructure markets:
 - **Capitalize on new differentiating factors**
 - **Enhance our coverage through micro-segmentation**
 - Residential market: expand geographically and develop the product lineup

- ➔ **Invest in fast-growing countries: China, Eastern European countries, India, Brazil**

- ➔ **Develop new growth platforms**

Our selection criteria for acquisitions

➔ **Sector's attractiveness**

- Long-term growth prospects and profitability
- Potential for related services

➔ **Strategic fit with our businesses**

- Consistent business model and market access channels
- Ability to integrate and synergies with our operations

➔ **Target's quality**

- Well-established market position or specific technology
- Good level of profitability

➔ **Ability to create value: return on capital employed covers cost of capital within a maximum of three years**

Expand our accessible markets



➔ Residential: acquire market positions as strong as in the Buildings market

- Expand our geographic coverage in wiring devices: acquisition of Clipsal
- Develop our sales of dedicated lineups: launch of Eloge range (miniature circuit breakers, residual current switches, enclosures)
- Become the leader in high-growth products: Home Automation (Lexel), VDI (Infra+, partnership with Leviton)

➔ New growth platforms: expand in high-potential activities adjacent to our own

- Building control and automation
- Secured power
- Energy management systems
- Specific segments: components for repetitive applications, motion control, security systems

Develop new growth platforms



- ➔ **Building control and automation: the central point to anchor other growth platforms**
 - Energy management (savings, reliability) is one of the key features
 - Security systems are increasingly integrated in the global building management system

- ➔ **Secured power: strong synergies with our core business**
 - Customer base (Buildings, Infrastructure, Industry)
 - Global electrical architecture

- ➔ **Energy management systems: the link between the energy utilities market and our other markets**

- ➔ **Components for repetitive applications: a fast-growing sector thanks to increasing use of smart sensors (home appliances, automotive, medical, aeronautics, etc.)**

Schneider Electric: well-positioned for 2004

- ➔ Our lineup continues to benefit from very strong demand in the emerging countries
- ➔ Our growth plans should allow us to take full advantage of the gradual upturn in our markets in other regions
- ➔ Our acquisitions are expanding our accessible markets
- ➔ Our efficiency plans significantly increase our operating leverage
- ➔ Our solid financials will allow us to continue investing in our development and buying back shares

➔ *The Board of Directors approved the implementation of a share buyback program in 2004 within the limit of 5% of the capital*

Our outlook for 2004

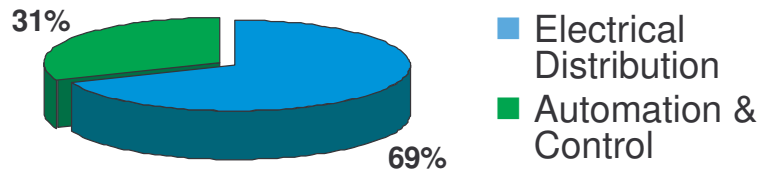
- ➔ **For 2004, in light of current conditions in our markets and based on an exchange rate of 1.25 US Dollar for one Euro, we aim at:**
 - ➔ *Sales growth of +8% to +10% on a current basis*
 - ➔ *A more than one point increase in operating margin*

- ➔ **Sales breakdown**
- ➔ **Change in operating margin by division and by business**
- ➔ **Change in financial indicators**

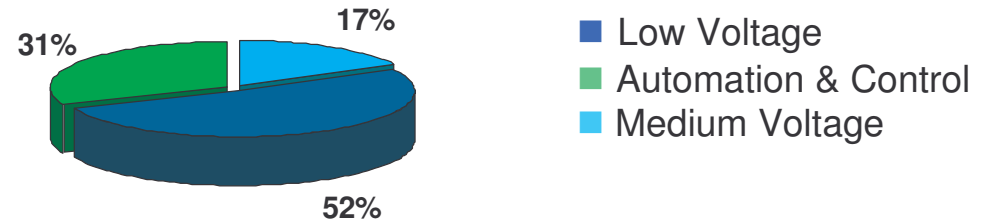
Sales breakdown

(2003 data by country of origin)

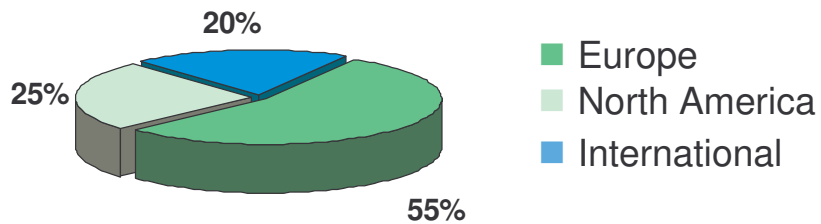
By business



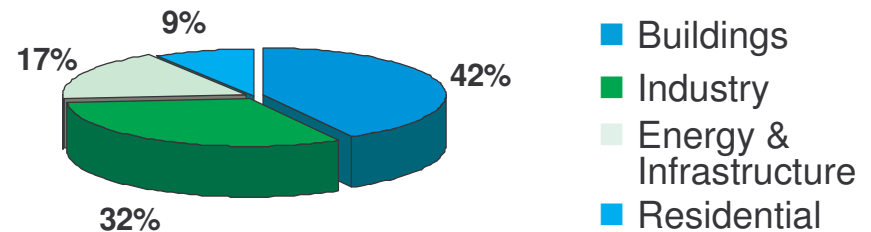
By activity



By operating division



By market



Change in operating margin by division and by business

- ➔ The Group made some changes during 2003 in its management accounting system (MAP project: MAnaging Performance)
- ➔ This led to modifications in the following items, without any significant impact:
 - Breakdown of sales by country of origin
 - Simplified allocation of corporate costs
- ➔ As a result, sales and operating income by division have changed as follows:

<i>(in EUR M)</i>	<u>2003</u>			<u>2002</u>		
	Sales	EBITA	%Sales	Sales	EBITA	%Sales
Europe	4,814	566	11.8%	4,868	588	12.1%
North America	2,176	237	10.9%	2,575	206	8.0%
International	1,790	204	11.4%	1,617	246	15.2%
Total	8,780	1,007	11.5%	9,060	1,040	11.5%

Change in operating margin by division and by business (cont'd)

➔ By business, sales did not incur any modification and operating income has changed as follows:

	<u>2003</u>		<u>2002</u>	
	Sales	EBITA (% of Sales)	Sales	EBITA (% of Sales)
Electrical distribution	69%	12.3%	70%	12.0%
Automation & Control	31%	9.6%	30%	10.3%
Total	100%	11.5%	100%	11.5%

Change in financial indicators

(in EUR M)

	<u>2003</u>	<u>2002</u>
Consolidated shareholders' equity	7,734	7,861
Net cash position	399	844
Long-term debt rating (Standard & Poors)	A	A

Building *a New Electric World*

