

Schneider Electric new company program presentation

January 28, 2009



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A successful transformation of Schneider Electric



We have transformed our company

	2004	2008
Size		x2
New businesses	36%	+ ~ 50% Solutions capability
Global footprint		
% of production costs in new economies	18%	41%
No. of employees in new economies	26,500	46,500
Productivity		+4.4% p.a.

We have leading world market positions

	Low & medium voltage	Installation Systems & Control	Critical power & cooling services	Industrial automation & control	Building automation & security	Renewable
n°1		Legrand		Siemens	Honeywell	SMA
n°2	ABB		Emerson	 Rockwell	Siemens	Fronius
n°3	Siemens	Panasonic	Eaton		JCI	
n°4				Mitsubishi		

Leader in Energy Efficiency

We have met all new² financial targets

Indicator	new ² Targets ¹ (2005-2008)	Achievements ²
<ul style="list-style-type: none">• Organic sales growth• EBITA margin• ROCE• Dividend payout	<ul style="list-style-type: none">• ≥ 6% per annum• 13%-15%• up 2pts• ~50%	<ul style="list-style-type: none">• 10% p. a. (+6.6% in 2008)• 15% (achieved in 2008)• up 2pts• 50%

¹ Targets upgraded in February 2007. Initial targets were >5% | 12.5%-14.5% | up 2 to 4pts, respectively

² Based on 2008 unaudited results

... and delivered on efficiency initiatives

Efficiency initiatives

- Customer satisfaction
- Customer service
- Productivity
- Rebalancing
- Logistics costs
- IT costs
- Support function costs

Results¹

- Very satisfied customers rate up **30%**
- On-time delivery rate up **3pts**
- **4.4%** of products COGS on average
- **41%** of COGS in new economies
- Down **1.5pt²**
- Down **1.5pt²**
- Down **~3pts²**

¹ 2008 unaudited results

² Impact on EBITA as % of sales

We are a socially responsible company committed to sustainable development

The Planet & Society barometer to measure our improvements

A composite Barometer of 4 criteria and 10 indicators for:

- Environment
- People
- Community
- Governance



Our performance

In Sep 2008: **7.9/10**
vs. 3.6/10 in 2004

A recognised performance

We are in the main Socially Responsible Investment (SRI) indexes

- ASPI: Advance Sustainable Performance Indices Eurozone listing
- Dow Jones Sustainability World, DJ Stoxx Sustainability (Europe)
- Ethibel Sustainability Index: Excellence Europe and Excellence Global



Our vision



Energy is a key challenge to our planet

Energy need
is booming

- If per capita energy consumption in China & India reaches US level, **world consumption would triple**
- **1.6 billion** people have no access to electricity

Mobilisation on
climate change

- By 2030, ~3/4 of energy sources will remain **CO₂-related**
- Grave consequences expected if global temperature rises by **3°C**

Important need for
reliable energy

Cost of 1 hour downtime = up to **\$10 million**
(depending on the industries)

Green energy
is an opportunity

Share of renewable in energy mix could double in the next 20 years

The energy dilemma is here to stay

The facts

× 2

Energy demand
by
2050

Source: IEA 2007

vs

The need

÷ 2

CO₂ emissions
to avoid dramatic
climate changes

Source: IPCC 2007, figure (vs. 1990 level)



Energy management is the key
to address the dilemma

Limitations of CO₂ emissions driven by energy savings and cleaner generation

Energy savings

- Expected payback: 2 to 5 years
- 1kW.h saved= 3 kW.h generated
- Solution rapidly implemented
- Low investment threshold

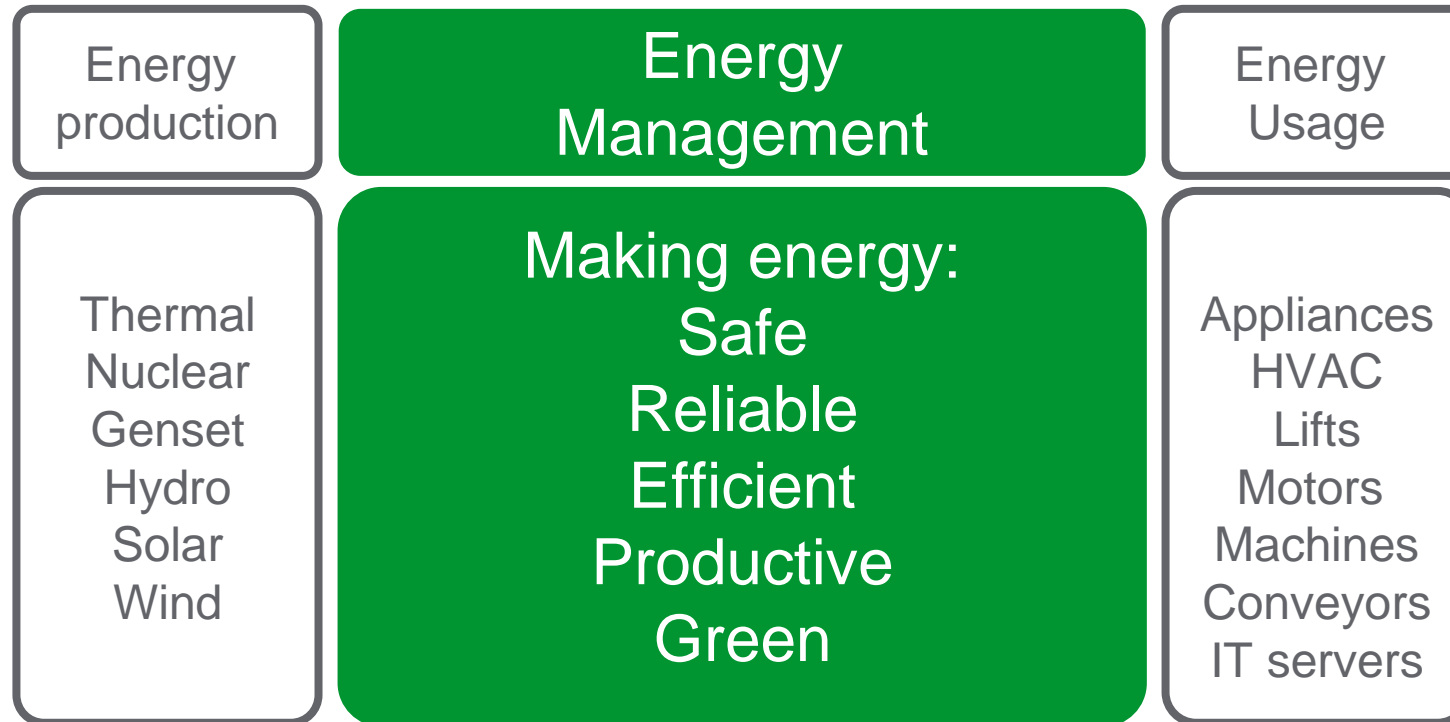
Energy generation

- Expected payback: >10 years
- 1 kW.h saved = 1 kW.h generated
- Implementation delay
- High investment threshold



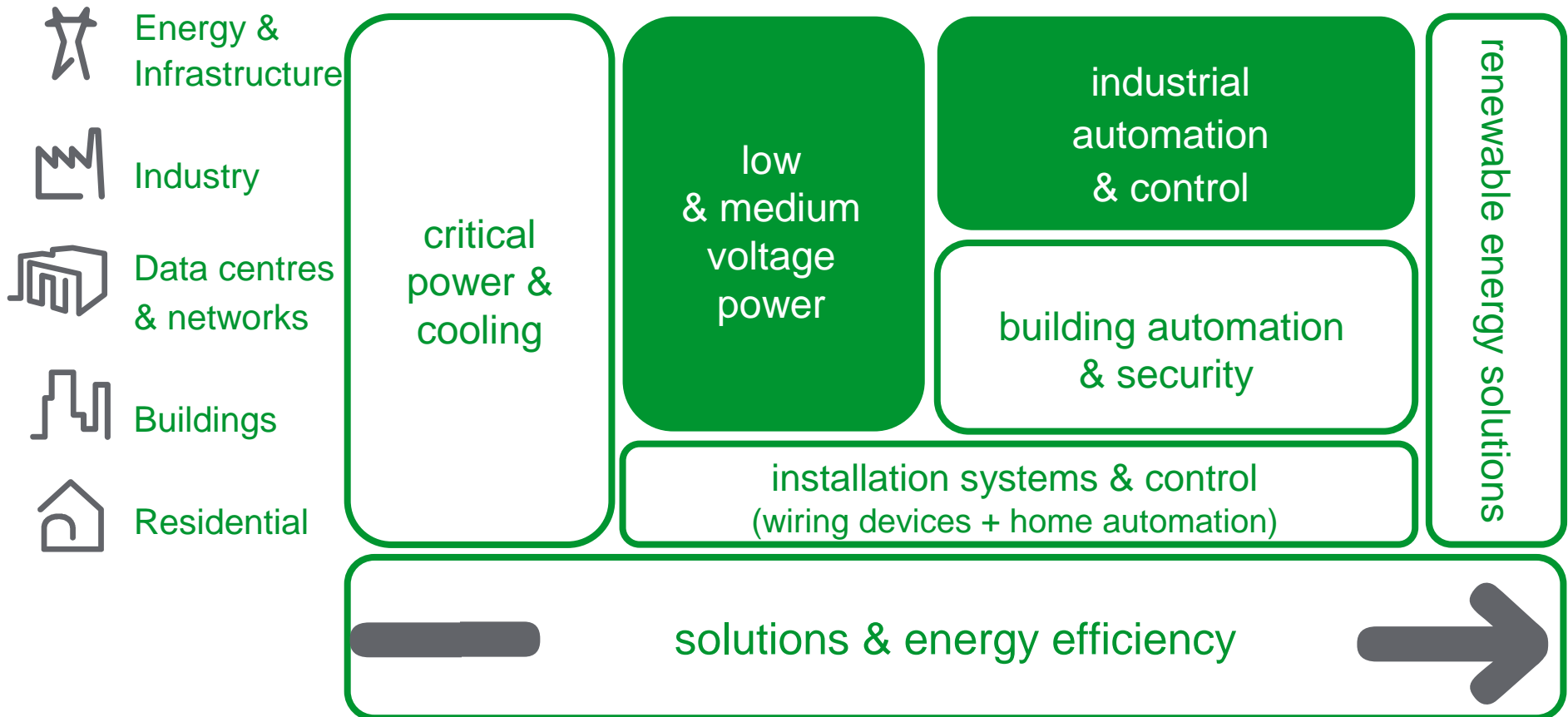
Energy efficiency
is the cheapest way
to 'generate' energy

We are the global specialist in energy management

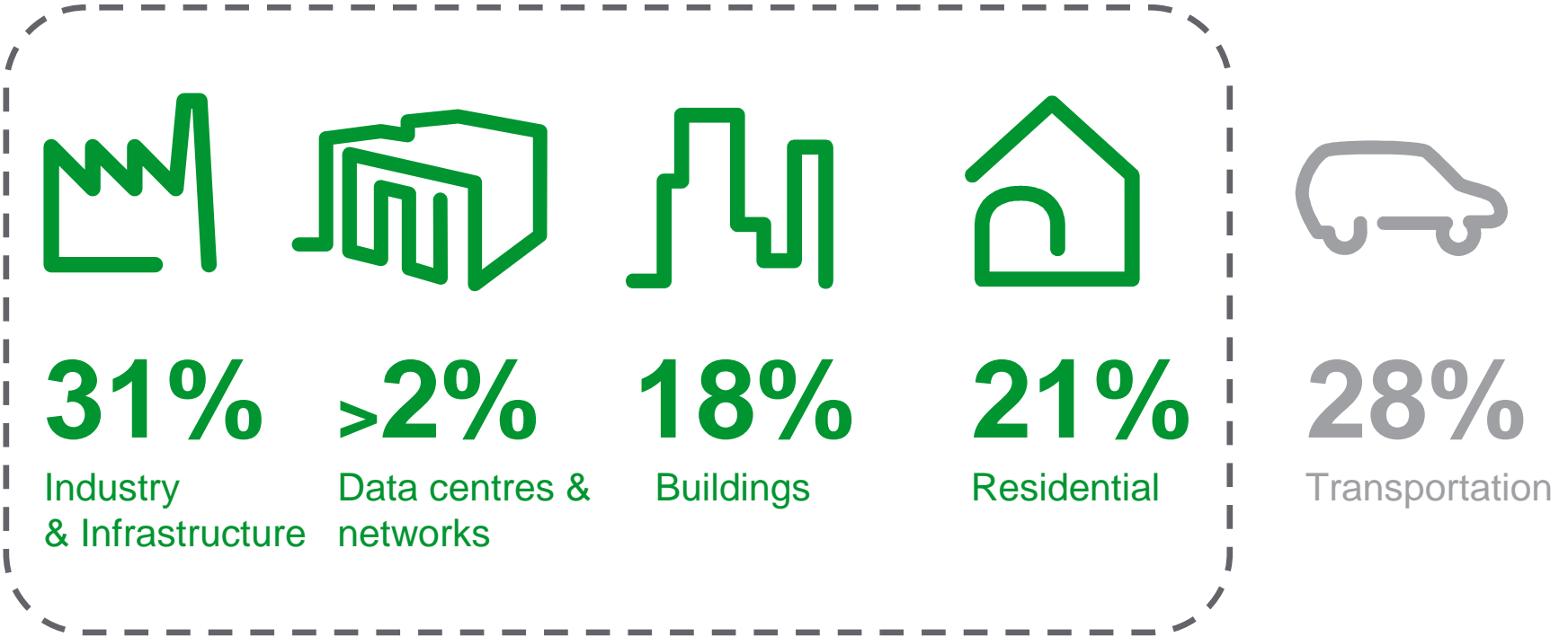


We help our customers **achieve more**
while using less of our common planet

We have the most comprehensive and integrated portfolio in energy management



Our businesses address 72% of the world's energy consumption

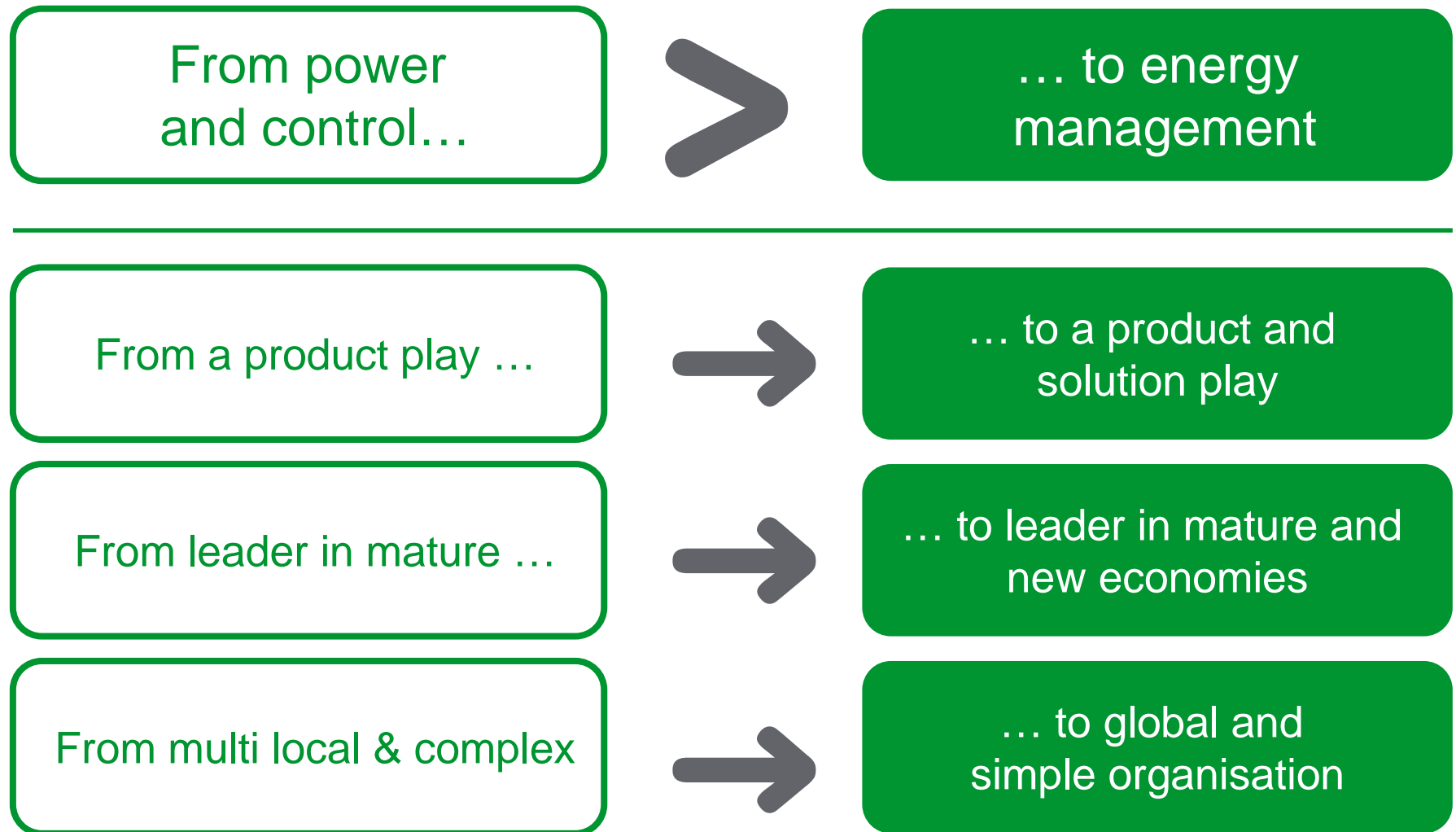


One: our new company program for
2009-2011



@ne

The Case for Change: 4 radical transformations



Strategic initiatives to be supported by 2 strong fundamentals

customer 1

- Strengthen **our basics**
- Develop **customer delight**
- Very satisfied customers: **+20%** by 2011

1 team

- Schneider Electric as an **employer of choice**
- Strong **collaboration** across geographies, entities and functions
- Develop **people and performance**



3 key transformations to drive long term growth and operational efficiency



1 solution provider

1 leader
in new economies

1 global
company

Long term **growth drivers** that support superior organic growth across the cycles

Positioned for **lower cost structure** in the near term & beyond

1 solution provider

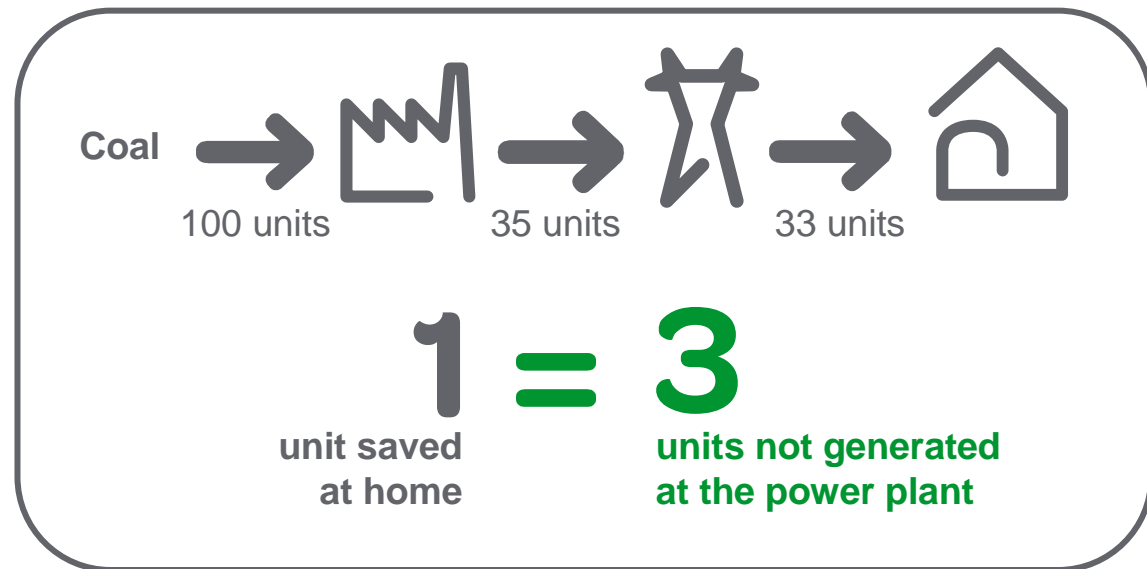
1 leader
in new economies

1 global company



Solution with energy efficiency benefit is a must have for customers

- Cheaper



- Quicker

- Technology is available today with short term results

- Cleaner

- “Negawatt” produces no environmental footprint

- Enhanced Security

- Energy efficiency is homegrown, it reduces dependence on imports

Customers need simple solutions more than ever

Simple solutions for the increasing complexity of our life and work...

... enabled by connecting technologies in the last 4 years



- Mobile devices displacing traditional computing and communications methods
- Internet access and usage is booming
- Web 2.0 is spreading fast

Each market segment has specific needs requiring customized answers

Key market segments



Energy & infrastructure

- Utilities
- Oil and gas
- Marine



Industry

- OEMs
- Water and waste water (WWW)
- Mining, Minerals, Metals (MMM)



Data centers & networks

- Data centres
- Finance



Buildings

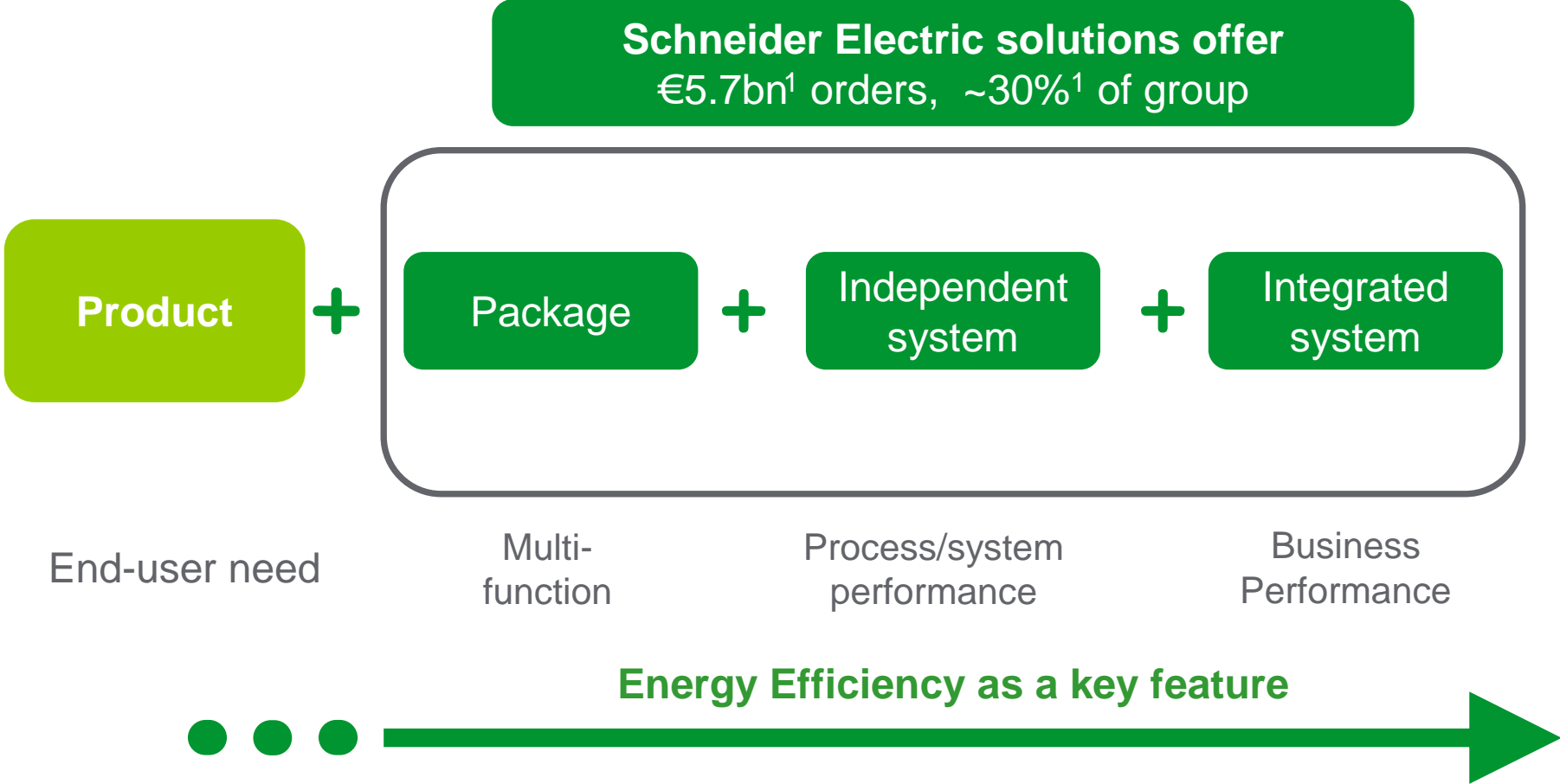
- Retail
- Hotels
- Hospitals
- Offices



Residential

- Residential

We aim to leverage our solution capability to capture a bigger part of the value chain ...

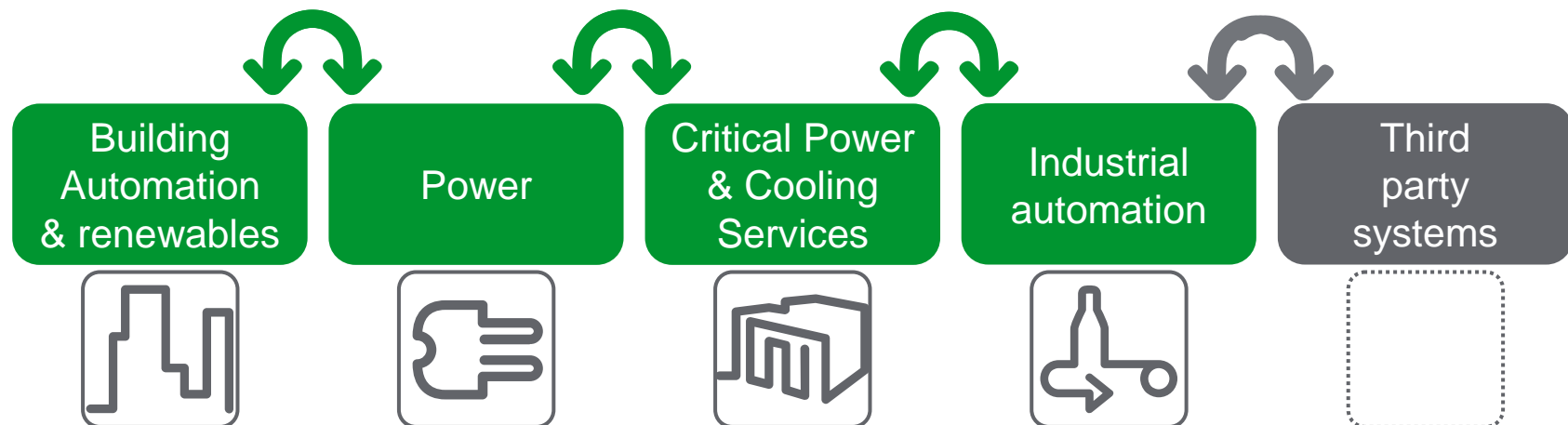


¹ Figures in 2008

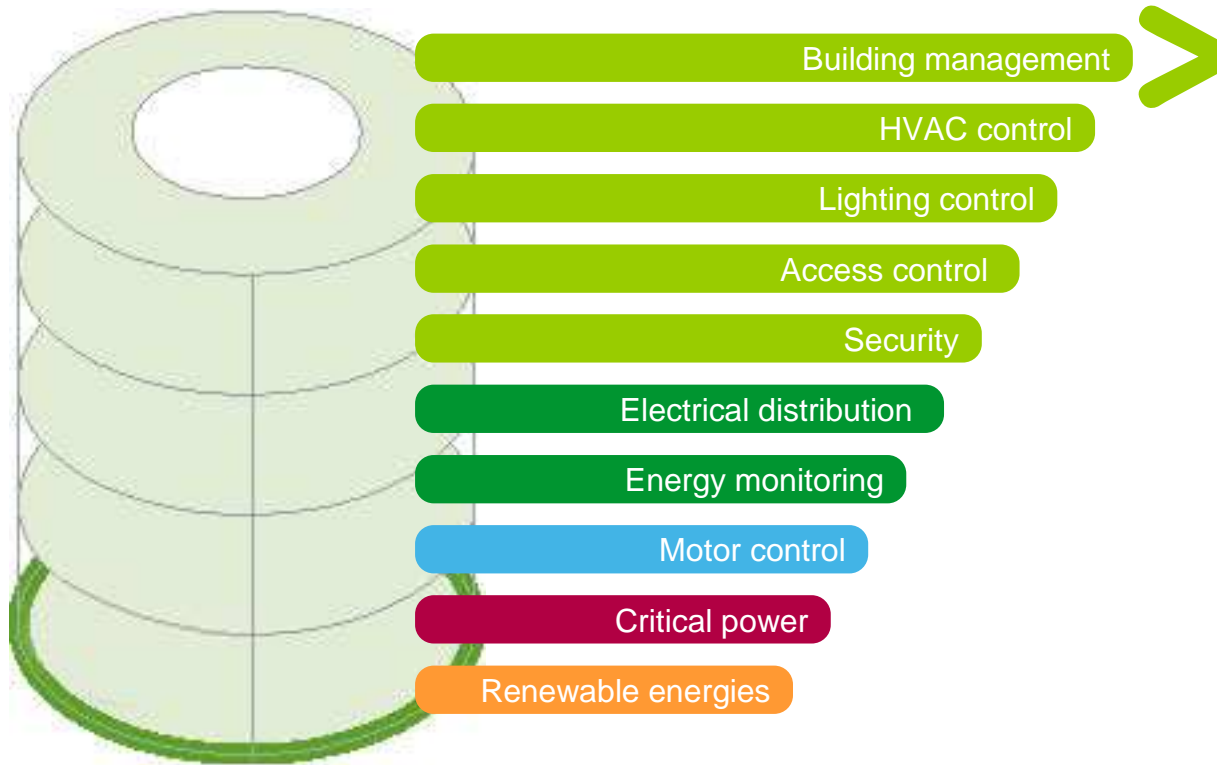
... through our EcoStruxure® that bridges our fields of expertise

- Provide interoperability & openness to third party systems
- Leverage connecting technologies
 - Standard communication low cost and pervasive
 - Supervision software using web 2.0 technology

EcoStruxure®



EcoStruxure[®] for buildings



Building: the leading end-user interface

Targeted segments



Retail



Hospitals



Offices



Hotels

Simple Integration

Interoperability and openness to third party systems

EcoStruxure[®]

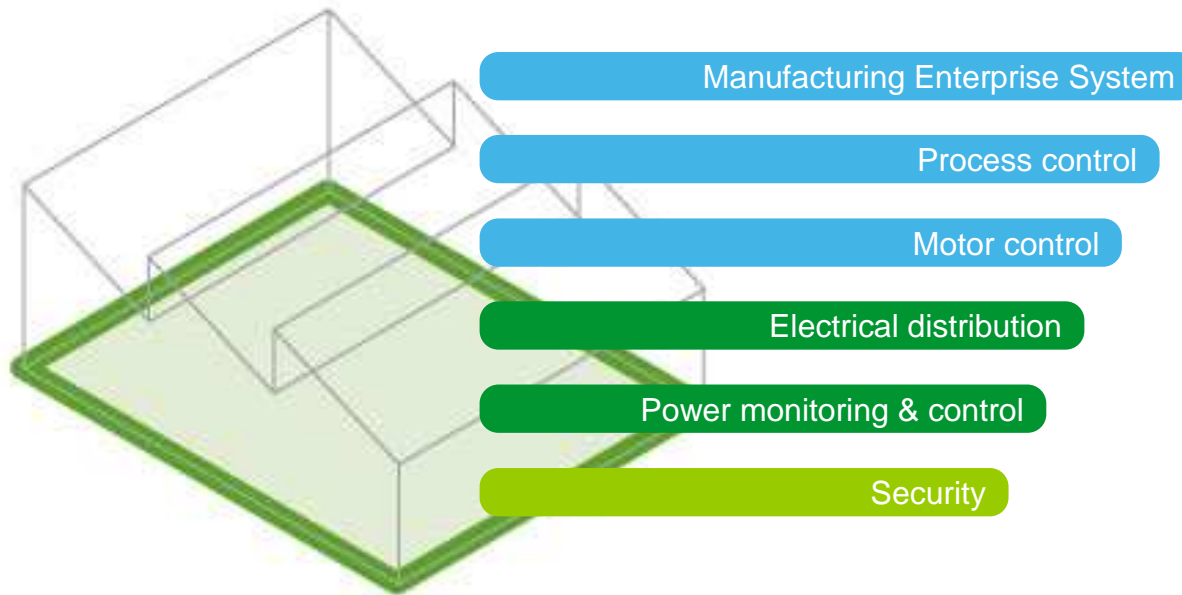
Efficiency

- >30% energy saving
- Optimised Capex & Opex

Green

- Connection to renewable energies

EcoStruXure[®] for industry



Process: the leading end-user interface

Targeted segments



Mining,
Mineral, Metal



OEMs



Water

Simple Integration

Interoperability and openness to third party systems



Productivity

- Easy PLC programming
- Scalable systems

Efficiency

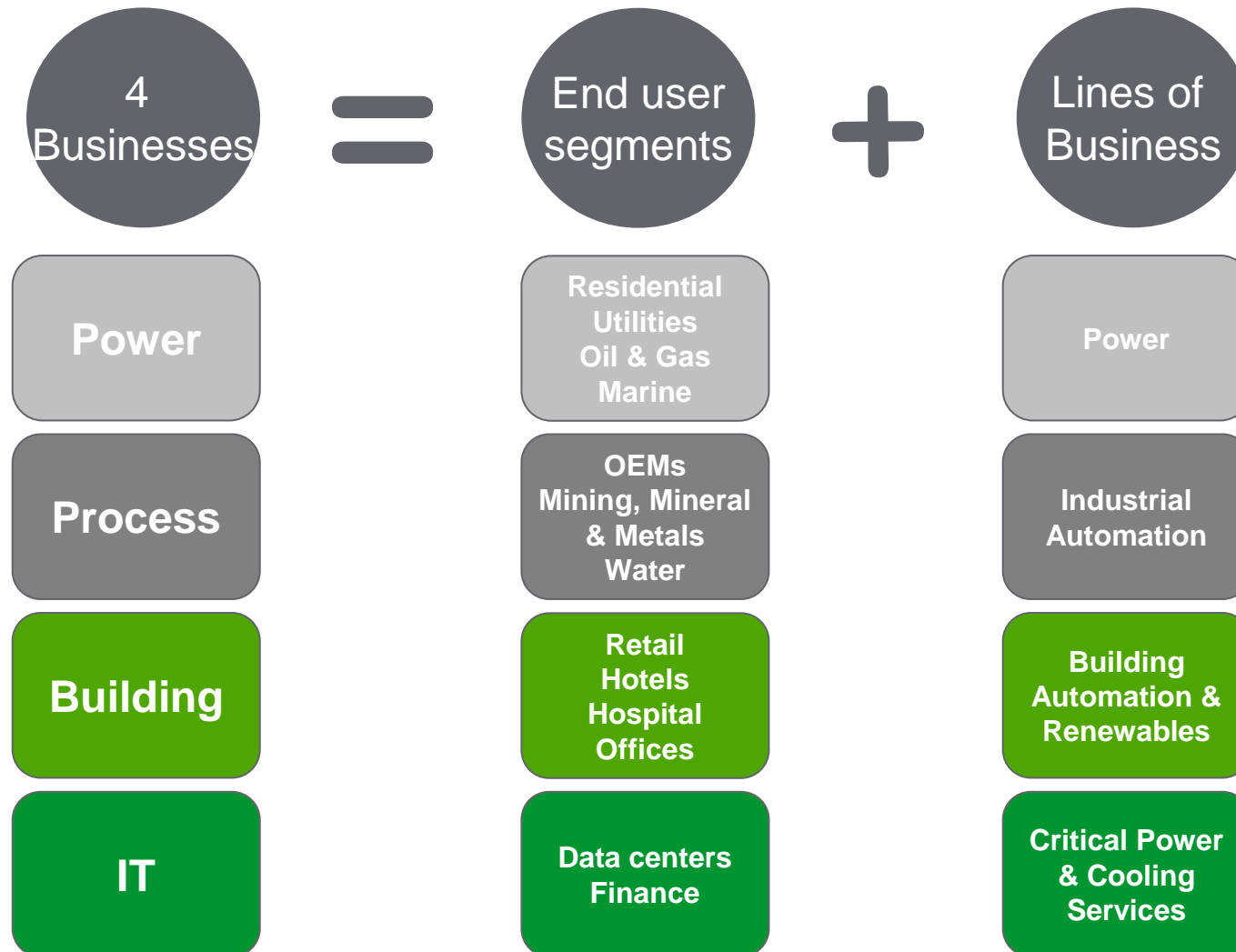
- Up to 30% energy savings
- Capex & Opex reduction

Safety

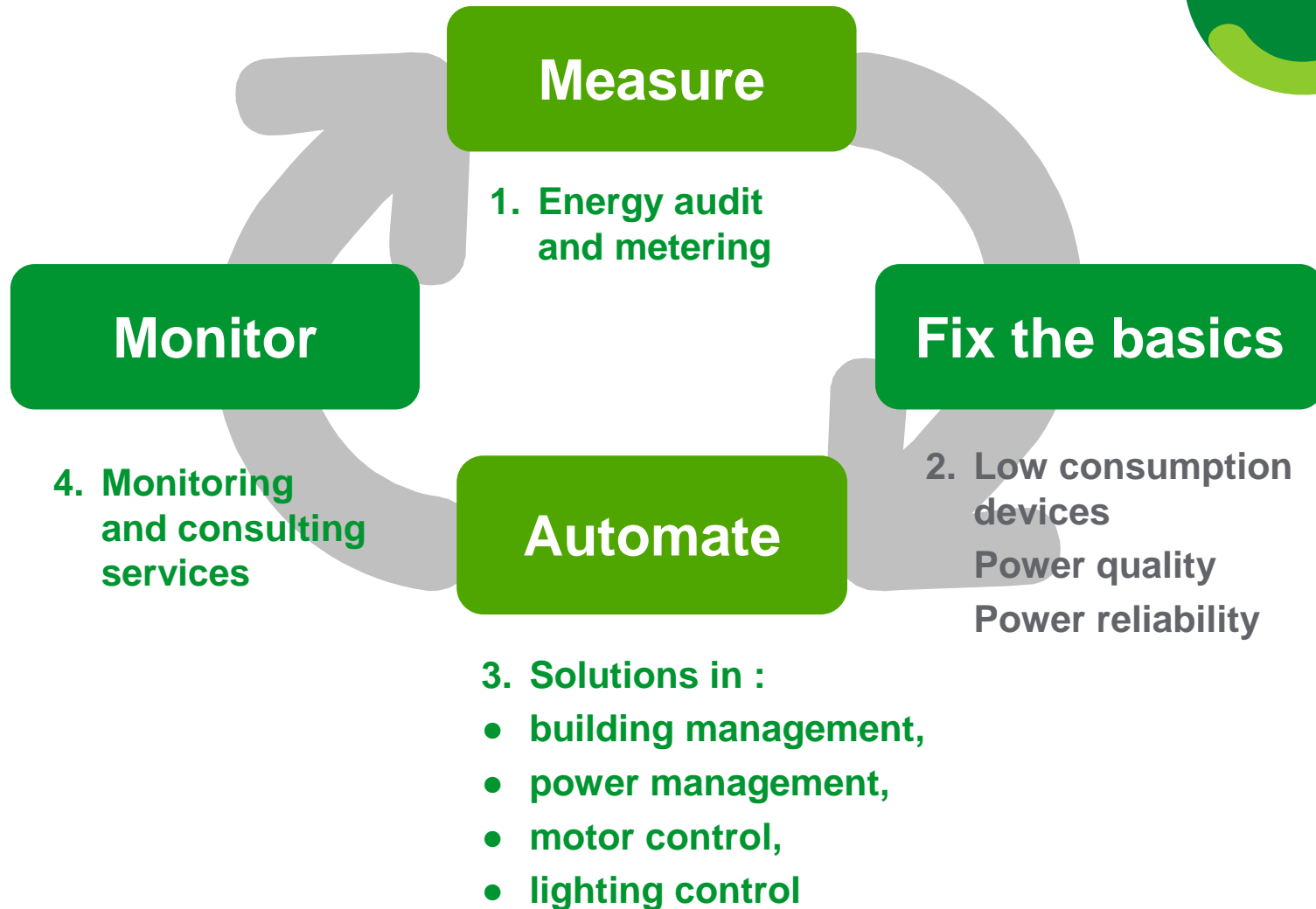
- Secured power
- Certified process control

A new adapted organization with end-user focus

Each business is the **unique interface** of customers in end-user segment and is expert on a business line



We bring value all along the energy efficiency lifecycle with standardized approach



Increased presence to end-user will further boost our service business

Lifecycle of customer's installation

Improve

Services of:

- Performance audit
- Energy audit
- Consulting support

Build

Solutions offered directly to end-users

Operate

Services of:

- Operations and maintenance
- Audit and diagnosis
- 24/7, 365 days operational support

SERVICES

~ €2bn sales, growing +20%

10% of Group

18% of Critical Power

24% of Building Automation

- Create appetite for services
- Build long-term partnerships
- Become a preferred partner

We are one solution provider with enhanced growth profile

- **Common architecture** that bridges our fields of expertise, with open interoperable systems
- **End-users focused** front offices
- **Energy efficiency** as the key enabler for the implementation of solutions
- **Virtuous circle** leading to increased service revenues



**Solutions grow at GDP + 5pts
across the cycles**

1 solution provider

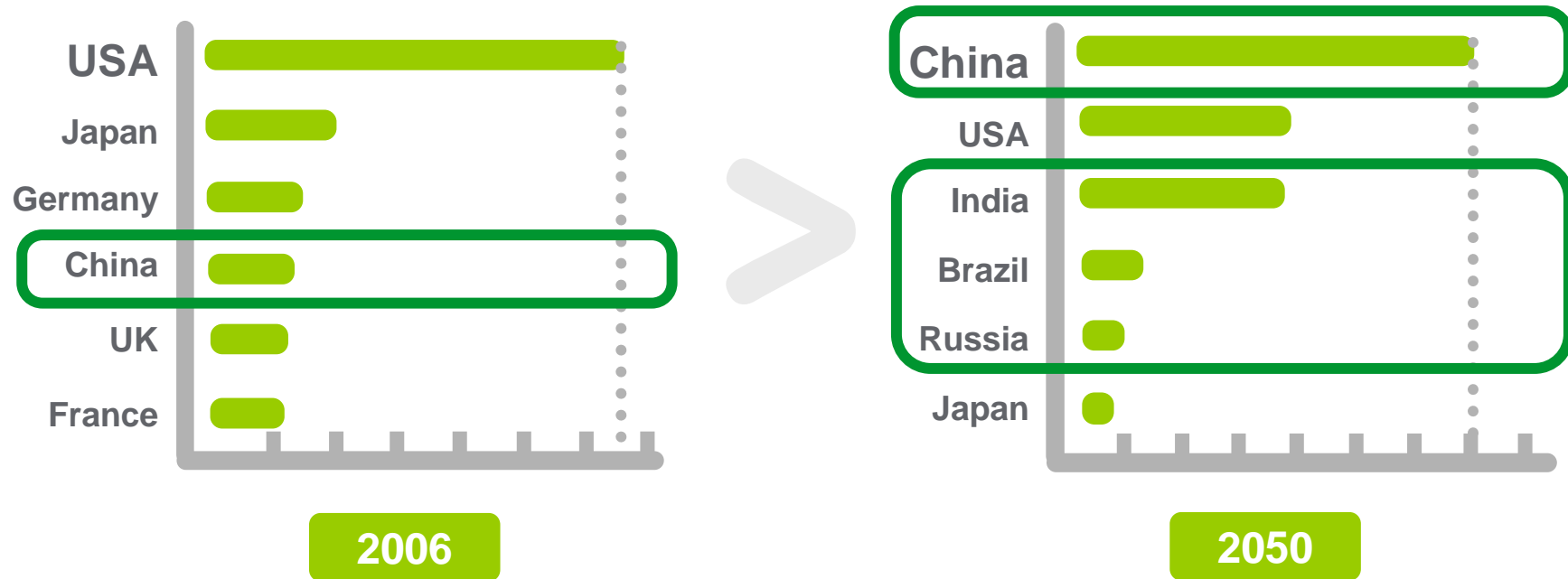
1 leader
in new economies

1 global company

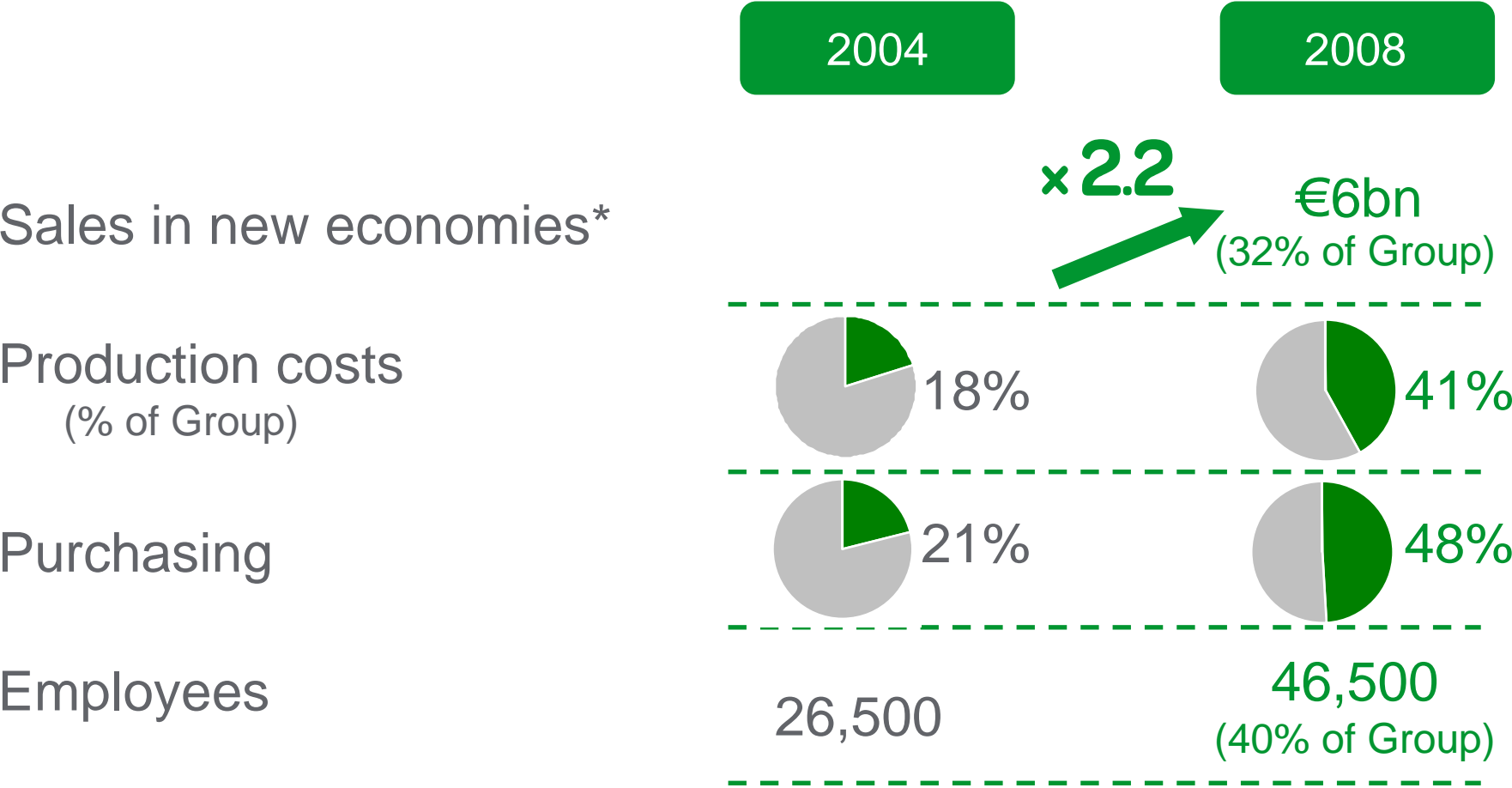


New economies are a major opportunity for our generation

Top 6 GDPs



We have established strong market presence and industrial base in new economies



*Asian countries excluding Japan, Africa, Middle East, Latin America & Mexico, Eastern Europe including Russia

Our ambition is to become the champion in new economies by 2011

2008

2011

Boost R&D and marketing to be as local as possible

- R&D and support function rebalancing
Local sales to be supported by local skills
- Invest in SE Brand notoriety for clear and long term recognition

19%

33%

Grow at
GDP + 6pts
across
the cycles

Capture productivity opportunity

- Continued industrial rebalancing through sourcing and manufacturing

41%
of COGS

50%
of COGS

1 solution provider


1 leader
in new economies

1 global company



Simplification is a pre-requisite for many of our strategic initiatives

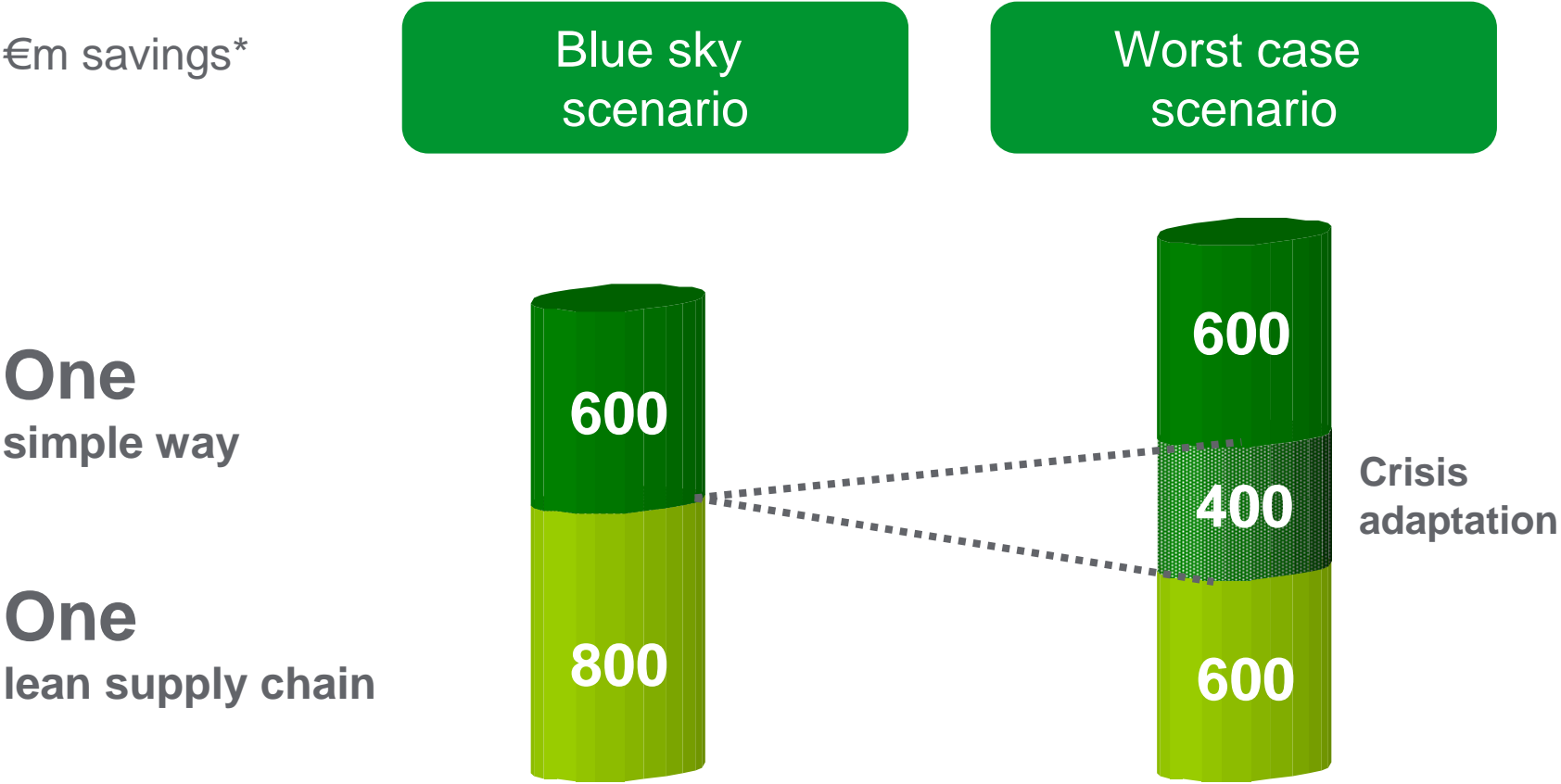
Reduce complexity	2008	2011	vs.2008
Product references (SKUs)	800 000	400 000	÷ 2
Production suppliers	20,000	10,000	÷ 2
Active brands	120	10	÷ 12
Operating sites (industrial & commercial)	1,400	1,000	-30%
Reporting entities	560	350	-40%
Complexity Index	100	1	

Reference base 



One simple way of doing business across the board

We have launched initiatives leading to a minimum of € 1.4 billion savings by 2011



* Before restructuring costs of up to €660m over 3 years

1 solution provider

1 leader
in new economies

1 global company

- **One** simple way



Our ambition is to generate structural savings of a minimum of €600m per year from 2011

Simplification streams

Finance & HR optimization

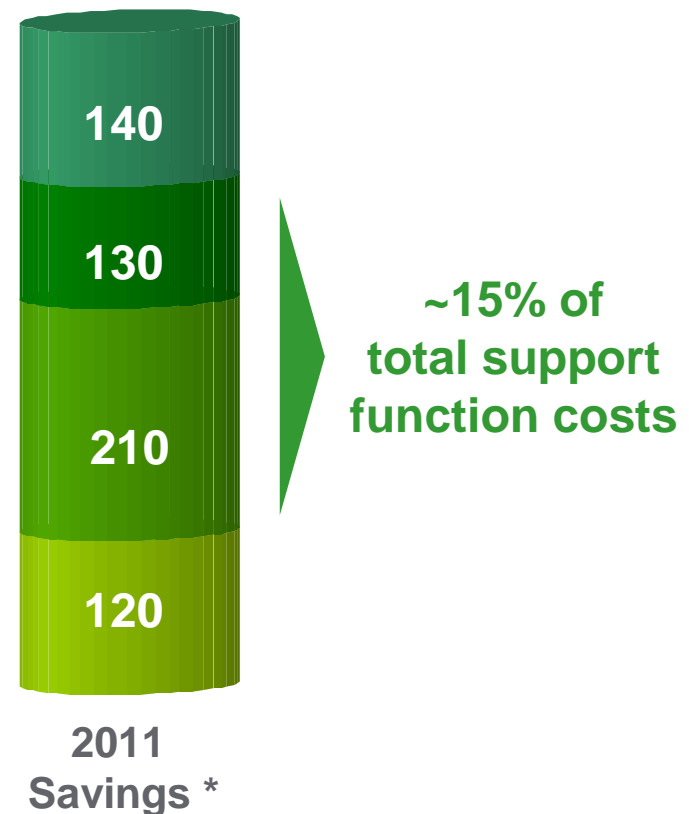
Marketing simplification

Sales Force effectiveness

Other actions

(Reduction of management entities, support for industry...)

Structural savings ambition (in €m)



* Before restructuring costs

We have identified key levers for structural changes

Simplification streams

Key levers for structural reduction in costs

Finance & HR optimization

- **Harmonize practices to increase service level to business**
- **Deploy shared services across the board**
 - > for all transactional activities
 - > for expertise resources

Marketing simplification

- **Eliminate overlaps between business units & geographies**
- **Regionalize/Globalize when possible** (communication, web...)

Sales Force Effectiveness

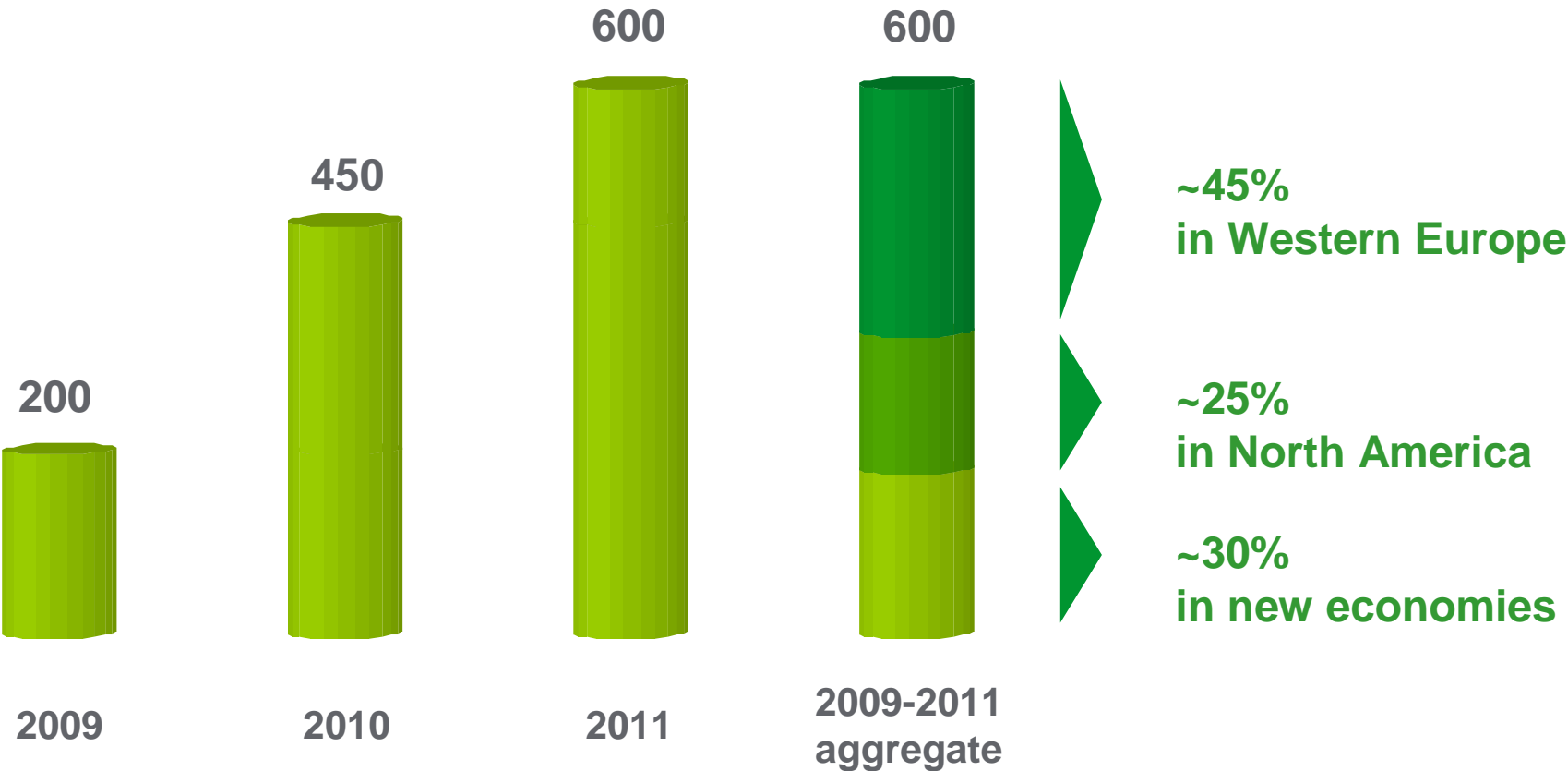
- **Optimization of commercial processes**
(increase productivity of field sales & reduce support costs)

Other actions

- **Reduction of the number of management entities**
 - **Less support in a context of simplified industrial footprint**
 - **New organization to be streamlined**
-

Implementation has started rapidly to ensure initial savings and a progressive ramp-up

Cumulative savings (in €m)



Additional cost savings up to €400M could be generated as a function of volumes decline

Adaptation streams

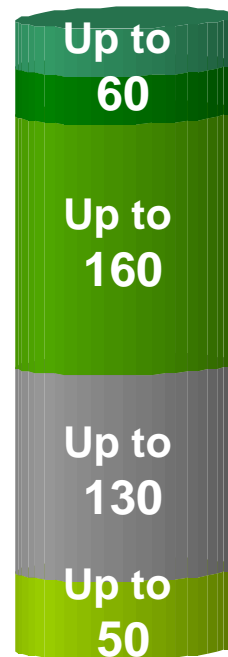
Potential of adaptation savings (in €m)

Finance, HR & Marketing

Sales Force

R&D and IT

Other actions



2011 Savings*

Temporary savings as remedy to a further deterioration of environment

* Before restructuring costs

1 solution provider

1 leader
in new economies

1 global company

- **One simple way**
- **One supply chain**



Our objective is to boost productivity in our supply chain

- Continue to simplify our supply chain to drive improved services for our customers at lower cost

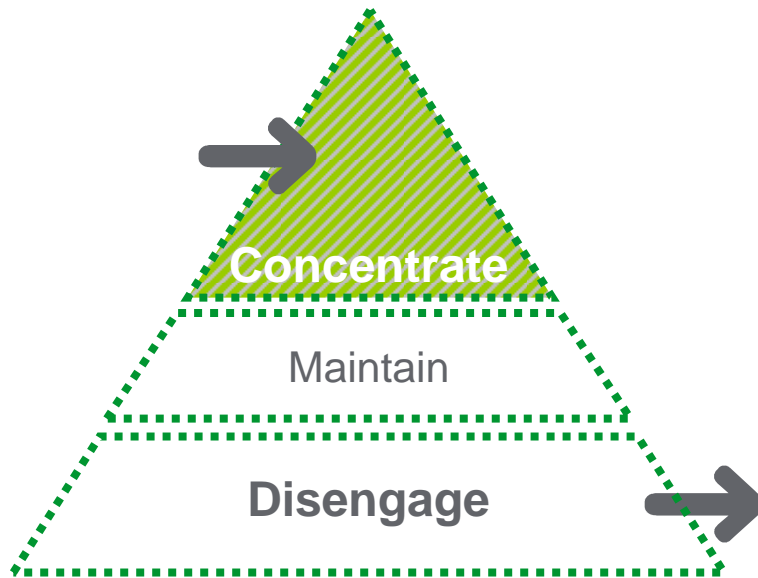
	2008	2011	
Product references (SKUs)	800,000	400,000	2x more efficient
Production suppliers	20,000	10,000	
Distribution centers	140	80	

- Reduction of product cost by reinforcing the quality and value engineering
- Continue the rebalancing of our industrial footprint with suppliers and manufacturing sites



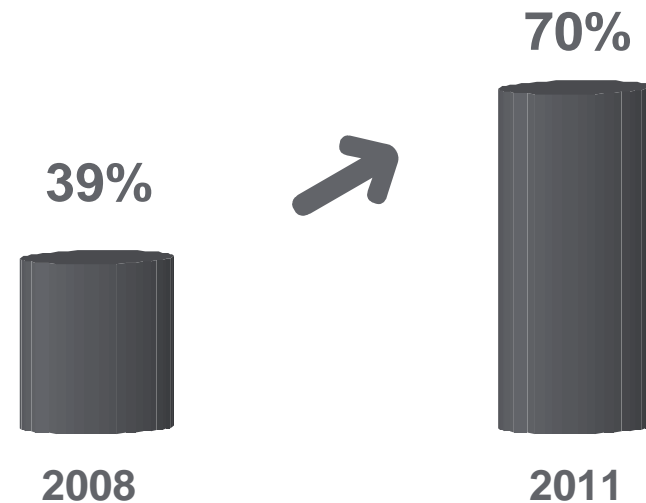
Cumulative gross savings
of **€600 – 800m** by 2011

Large savings are expected from supplier concentration



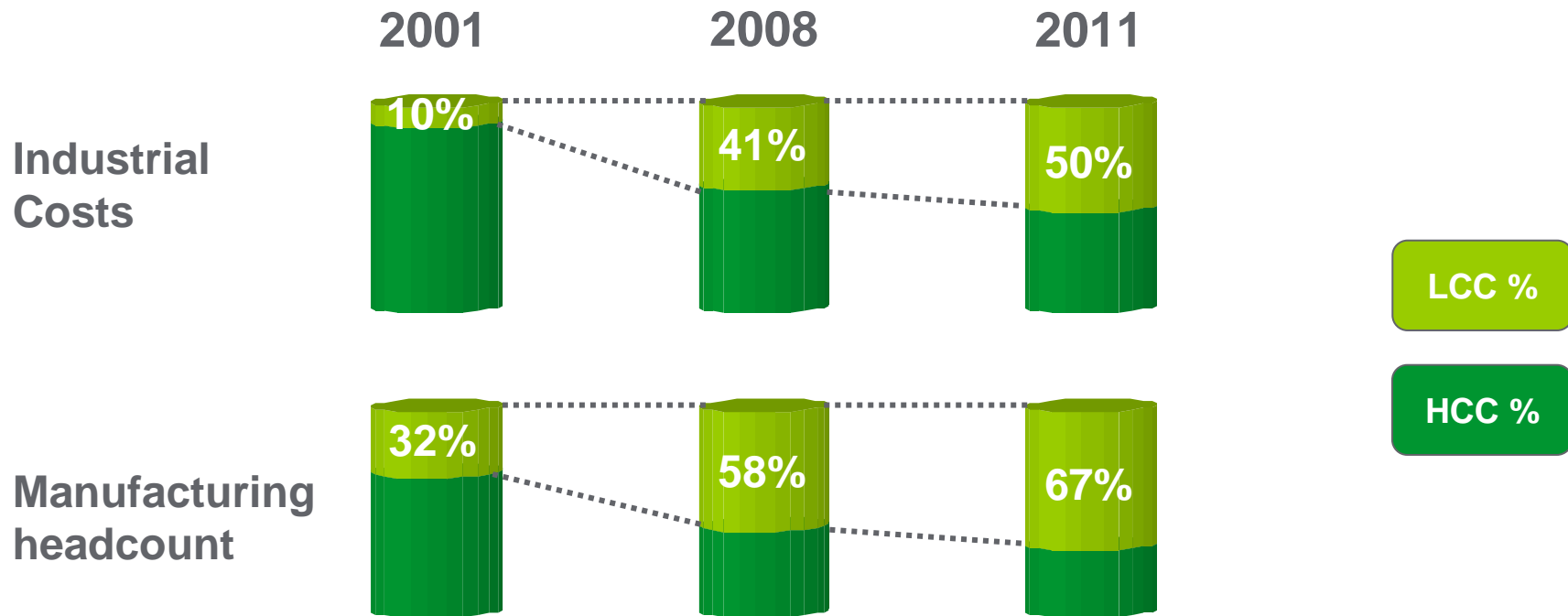
- Select a limited number of suppliers demonstrating best-in-class quality, delivery and cost and co-development competencies

% of purchases from selected suppliers



- Massify purchasing with 1,000 to 1,200 selected suppliers
- Start immediately at new product development level

Continuing rebalancing of industrial costs and headcount to low cost countries

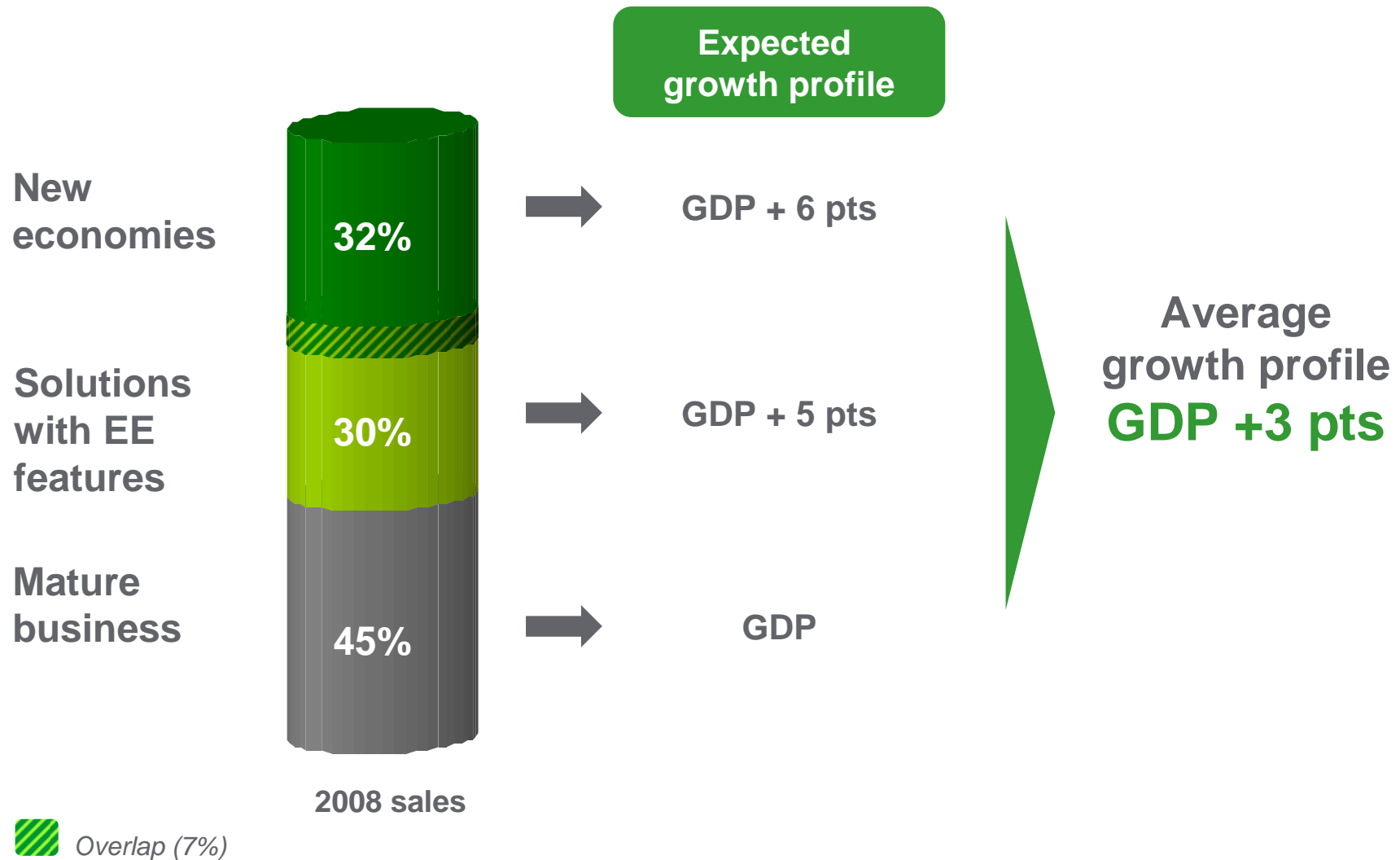


The target is to **rebalance ~240M€ per year** to low cost countries

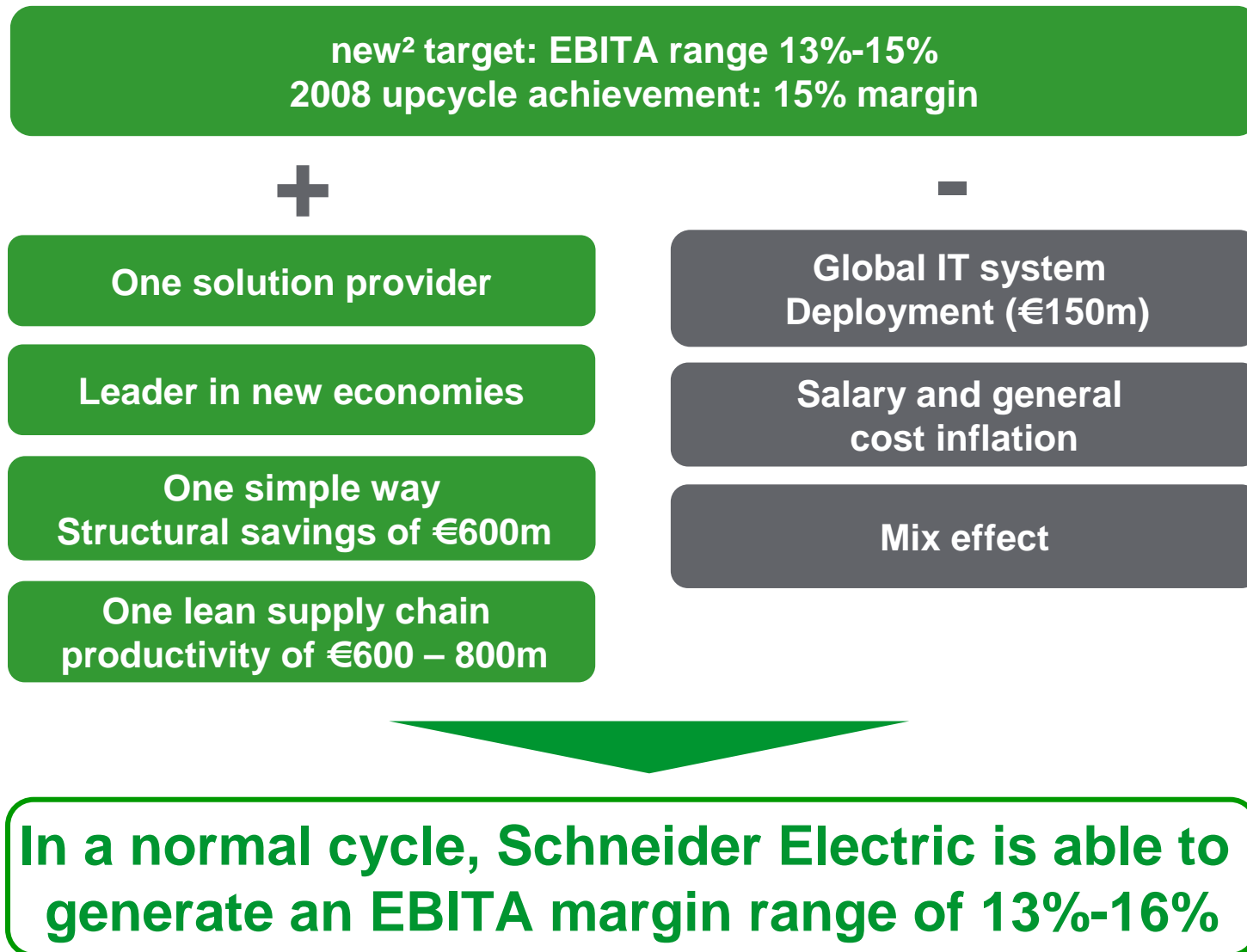
Financial strategy and targets



Across the cycle, Schneider Electric's profile is a growth rate at GDP +3 points



Across the cycle, earnings drivers should support a continued improvement of profitability



In the short term we are prepared to manage a global economic downturn

Environment	Management Response	Outcome
Low visibility	Flexibility	Resilience
<p>High uncertainty on the severity of the downturn</p> <p>Impact on organic growth difficult to forecast</p> <p>Our scenario is a range of -5% to -15% growth in 2009</p>	<p>We are geared to manage the worst case scenario:</p> <ul style="list-style-type: none"> - Intensification of support function costs reduction - Conservative cash management (capex reduction, active working capital management) - Restructuring costs up to €660m over 3 years 	<p>Under these conditions, we want to deliver:</p> <ul style="list-style-type: none"> - Support function costs savings of €0.6-1.0bn - EBITA margin floor at 12% before restructuring costs in the worst case - a cash conversion of 100% of net income

Strong liquidity has been achieved through the credit crisis

- Even in a worst case scenario, we have secured a minimum €3 billion liquidity by end 2011

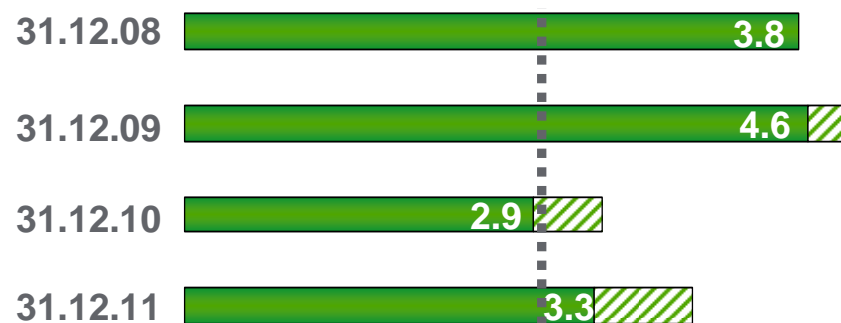
Commitments


- A- rating
(FFO / net debt ratio > 35%)
- Dividend pay out ~50%

Key assumptions

- Worst case volume scenario
- No acquisition / divestiture
- Restructuring costs of €660M

Cash & available credit lines (€bn)



 Liquidity position could be higher with a payment of dividend in shares, at shareholder's option

Schneider Electric's business model is resilient

Markets

Diversified end-markets

Diversified geographic exposure

Multiple accesses to markets

Activity

Capture additional value in the market through solutions and services

Increased presence in new economies

Exposure to government stimulus plans

Structure

Flexible cost structure (70% of COGS variable)

Production in low cost countries (41% of COGS)

Simplification (support function costs reduction) & lean supply chain

**Help people make the most
of their energy**



Schneider
 **Electric**

Definitions

- EBITDA: EBIT before net depreciation and amortization
- EBITA: EBIT before amortization and impairment of purchase accounting intangibles
- Capital Employed: Shareholders' equity + net debt + provisions
- Cash conversion: Free cash flow / net income
- Free cash flow: Operating cash flow – change in working capital – net capital expenditures
- ROCE: After tax EBITA / Capital Employed

**Help people make the most
of their energy**



Schneider
 **Electric**