

# Schneider Electric Capital *Market Day*

*March 28, 2002*

Merlin Gerin

Modicon

Square D

Telemecanique

**Schneider**  
 **Electric**  
*Building a New Electric World*

# New Organization

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## New organization

### Executive Committee :

- more compact and reactive organization
- diversity of profiles
- 7 Executive VP report directly to the CEO

### Stronger central functions for Development :

- Manufacturing (purchasing, quality and industrial organization)
- Strategy-Markets (e-Business, services)

### Simplified geographic operations :

- North America
- Europe
- International

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**Chairman & CEO**  
*Henri Lachmann*

**North America Division**

*Chris Richardson*

**International Division**

*Jean-Pascal Tricoire*

**Europe Division**

*Christian Wiest*

**Developments-Industry**

*Marcel Torrents*

Product Development; Purchasing; Industrial;  
Quality; R&D; Information Systems

**Strategy-Markets**

*Eric Pilaud*

Markets; Strategy & Planning; Commercial  
Development; eB@SE; Services

**Finance & Control - Legal Affairs**

*Antoine Giscard d'Estaing*

**Human Resources - Communication**

*Jean-François Pilliard*

**Project & Acquisitions Legrand - Lexel** *Jean-Paul Saas*

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**Our Vision for a New Electric World**

**Strategy**

**Company Program :  
NEW 2004**

**Budget  
2002**

**2002**

**2003**

**2004**

**2005**

**2010**

# vision

## Our Vision for a **New Electric World**

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**The future is looking more and more Electric,**  
powered by growing demand, new types of generation,  
fresh applications and increasingly integrated and networked  
systems.

**Today a new era is dawning, where electricity, automation  
and communication technologies will converge.** Smart  
homes, information highways and transparent factories will soon  
be everyday realities.

**Electricity - flexible, safe, clean - plays an essential role in  
our daily lives and is critical to the production** of virtually  
every product and service we use.

More than ever, **electricity is the energy of the future.**

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## **Our Mission**

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

## **Our Ambition**

Be the worldwide leader in Power & Control by pushing back our limits in all aspects of our business : markets, geographic spread, technology, behavior, corporate social responsibility.

## **Our Commitment**

Enable customers to meet their performance challenges.

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# Our Strengths

- 1. Our skills and the commitment of our teams**
- 2. Our ability to innovate and our commitment to quality**
- 3. Our ability to develop win-win partnerships**
- 4. Our coverage of the global marketplace**
- 5. Our brand portfolio**
- 6. Our capabilities in information and communications technologies**
- 7. Our financial health**



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# Our Fundamentals

Our success is built on the success and initiatives of our employees.  
People's attitudes and practices do and will make the difference.

**Consideration for individuals**

**Commitment to customers**

**Performance minded**

**Risk-taking**

**Team spirit**

**Beyond our company spirit, we encourage diversity and see the range of personalities, nationalities and cultures of our employees as a tremendous wealth.**

## Our Fundamentals (continued)

Our continuous improvement process will be successful through the change and improvement of the working behaviors of our people and their managers.

Schneider Electric requires three key missions from its leaders :

### Lead

- Implementation of strategies, values and behaviors - Efficiency of execution - Alignment of organization

### Enhance

- Performance and results - Customer focused - Cooperation

### Develop

- Empowerment - Change - Talents

**We are committed to sharing the fruits of our growth with our stakeholders : customers, employees, shareholders and our community.**

# *Building* a **New Electric World**



# strategy

Our Strategy

## New Electric World

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# Schneider Electric

*Building a New Electric World*

# Building a winning strategic framework

We have unique assets to grab the opportunities presented by the **New Electric World** : these assets are **the foundations of our strategy**

Our strategy is a strategy of differentiation based on **four fundamental « pillars »**

Building on these pillars, we address two main strategic classes of actions :

- **Growing by pushing back our limits.**
- **Pushing back our limits in terms of efficiency and quality.**

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# Building a winning strategy

**GROWTH**

**EFFICIENCY AND QUALITY**

**Product  
differentiation**

**Access to  
market  
differentiation**

**High level  
services**

**Operational  
excellence**

**THE FOUNDATIONS : Our Unique Assets**

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for a New Electric World

GROWTH

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THE FOUNDATIONS : Our Unique Assets

# The foundations of our strategy

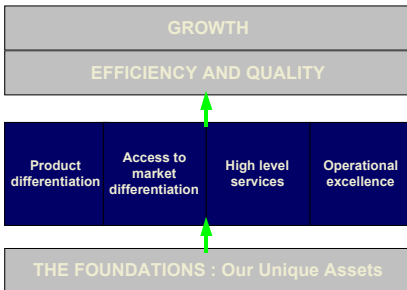
## We have unique assets...

- A robust financial situation
- A worldwide presence
- Products leadership position in our core markets
- A unique expertise thanks to our specialization in Power & Control
- Strong and recognized brands

... which places us ideally to grab the opportunities presented by the **New Electric World**.

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## The pillars : the fundamentals of our strategy

Our business model is a **differentiation model** (as opposed to “commodity” model).

We provide high values to customers : **safety, reliability, performance, economy, flexibility, comfort, aesthetics** through :

- 1. Product differentiation
- 2. Access to market differentiation
- 3. High level services differentiation
- 4. Differentiation through operational excellence

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THE FOUNDATIONS : Our Unique Assets

# The fundamentals of our strategy (continued)

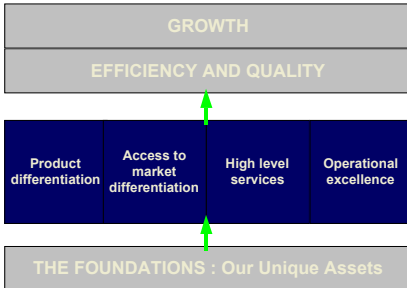
## 1. Product differentiation

**A wide and consistent offering of smart and communicating products :**

- enabling flexible and open architectures
- allowing the design of fully integrated solutions for each of our customers applications
- meeting the most demanding standards of performance and reliability
- designed to simplify and optimize the working practices of our intermediaries partners (installers, contractors, systems integrators, panel builders,...)
- providing a wide and complete range of product functions to the distributors

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# The fundamentals of our strategy (continued)

## 2. Access to market differentiation

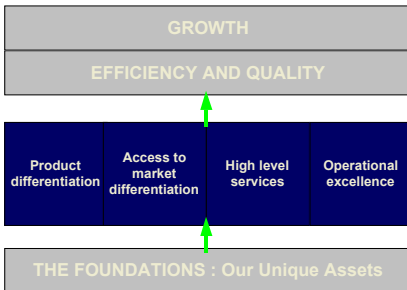
### Partners

**Build and animate a network of partners to serve more efficiently our customers :**

- by offering support and tools to selected “implementing” partners (System Integrators, Panel Builders, Installers,...) to help them to improve their competitiveness
- by using our network of “specifying” partners (engineering’s, architects, design institutes, ...) to promote and specify our products and services
- by adapting our distribution network to bring the types and level of services requested by the customers

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# The fundamentals of our strategy (continued)

## 2. Access to market differentiation (continued)

### Global

**Leverage the strength of a global company but make sure we fit with each local market :**

- through our presence in 132 countries, not only commercially but also in manufacturing and R&D
- through adaptation of our core products to local standards and practices
- through the network of our local intermediaries partners

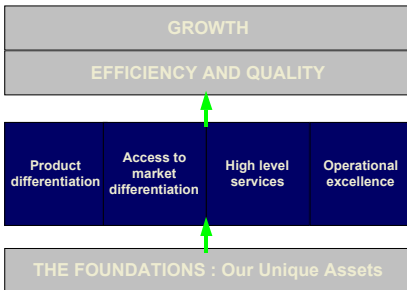
**Reinforce our specific approach to Global Strategic Accounts**

**Reinforce our “Most Advanced Customers” approach in order to :**

- innovate with customers
- strengthen our relationships with these key innovative customers

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## The fundamentals of our strategy (continued)

### 3. High level services differentiation

We support our customers during the entire life cycle of their installation and help them to optimize their installation thanks to a compelling services offering :

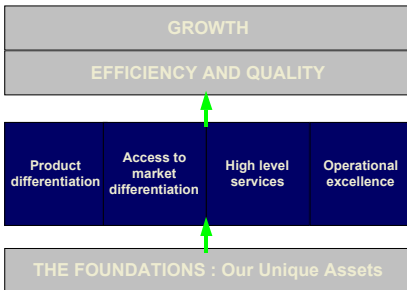
- consulting
- site and installation audits and diagnosis
- monitoring of existing installations
- after sales and maintenance support

When needed, we develop and support the selected “intermediaries” to bring these services to the customers.

We also provide these competencies and services through the Web, leveraging the concept of Transparent Ready™

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## The fundamentals of our strategy (continued)

### 4. Differentiation through operational excellence

- Design and manufacture a large catalogue of high quality, innovative and competitive key components aiming at worldwide leadership
- Seek permanently for excellence in all of our operations
- Develop partnerships with the best in class to optimize and accelerate our strategic development in all area (supply chain, product development, commercial,...)
- Seek permanently for productivity opportunities in order to get the means of our development

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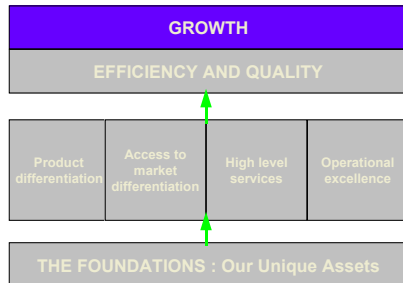
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# Growth strategy

Four main categories of actions which are themselves a combination of **organic growth and external growth** actions :

- 1. leverage our existing offering catalog through more intimate knowledge of our customers applications (“market approach”)
- 2. geographical expansion
- 3. expansion of our offering catalog
- 4. expansion of our portfolio of activities

This Strategy enlarges significantly our accessible market from **EUR 100 billion to EUR 210 billion.**



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# Growth strategy (continued)

## 1. Leverage our existing catalog

- sell more to existing customers by selling the full breadth of the catalog (products and services)
- sell to more customers by addressing some micro segments of our markets with specific catalogs

GROWTH

EFFICIENCY AND QUALITY

Product  
differentiation

Access to  
market  
differentiation

High level  
services

Operational  
excellence

THE FOUNDATIONS : Our Unique Assets

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## Growth strategy (continued)

### 2. Geographical expansion

- grab growth opportunities in new activities in countries where we already have strong positions (Western Europe, USA)
- grab opportunities in our core businesses in growth countries (Eastern Europe, Asia, South America...)
- grow aggressively with our Global Strategic accounts

GROWTH

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## Growth strategy (continued)

### 3. expand our offering catalog

- develop high value services
- take advantage of quick technology evolution (web technology, electronic detection, motion, ...) to improve and expand our product ranges
- implement an efficient product adaptation process to address specific needs of some markets and /or customers

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# Growth strategy (continued)

## 4. Expand our portfolio of activities

### Continue our penetration in new activities

- Voice Data Imaging (VDI)
- “Ultraterminal” (Wiring devices and Installation systems)
- Secured Power
- High Value Services
- Building Automation
- Power Consumer Interface

### Investigate new potential activities

- consistent with our business model and our strategic fundamentals
- adjacent to our existing businesses

GROWTH

EFFICIENCY AND QUALITY

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# From EUR 100 billion to EUR 210 billion

## Expand our accessible market by :

- expanding the range of products that we can offer to the same type of customers
- expanding the total accessible market by expanding the types of customers we can address

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## From EUR 100 billion to EUR 210 billion

EUR billion	PAM 2001	Targeted PAM 2004	Actions
Energy	24	35	PCI, Micro generation, Geography...
Buildings	28	52	VDI, UT, Building Automation, SGBD, Services,...
Residential	9	25	Geography, VDI, UT, security, Home automation
Industry	26	63	Catalog expansion, Competency centers, SGBD, Services, USA...
Infrastructures	14	35	Secured Power, Telecom, Geography, SGBD, Services,...
<b>TOTAL</b>	<b>101</b>	<b>210</b>	

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## Building a winning strategy

**GROWTH** : Leveraging the catalog, geographical expansion, catalog expansion, portfolio of activities.

**EFFICIENCY AND QUALITY**

Product  
differentiation

Access to  
market  
differentiation

High level  
services

Operational  
excellence

Financially robust  
Geographical Coverage

Leadership positions  
Strong Brands

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Our company program for a  
**New Electric World**

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## The purpose of the program is to :

- Share priorities across the company by 2004
- Align management and teams on common goals
- Facilitate cross-functional actions and accelerate implementation
- Enable the company to continuously reinvent itself in response to market demands
- Provide a framework for local action plans and local initiatives

## Stakeholders

## Challenges over the coming three years

## Financial Goals

**Discover NEW2004 !**

## Our four stakeholders

Our goal is to create wealth for our stakeholders :  
customers, employees, shareholders and our community.

**Customers**, *because they determine our revenues.*

**Employees**, *because they make the difference.*

**Shareholders**, *because we manage their investment.*

**The Community**, *because it's our responsibility  
to help improve the quality of life of current and future  
generations concerned with global issues.*

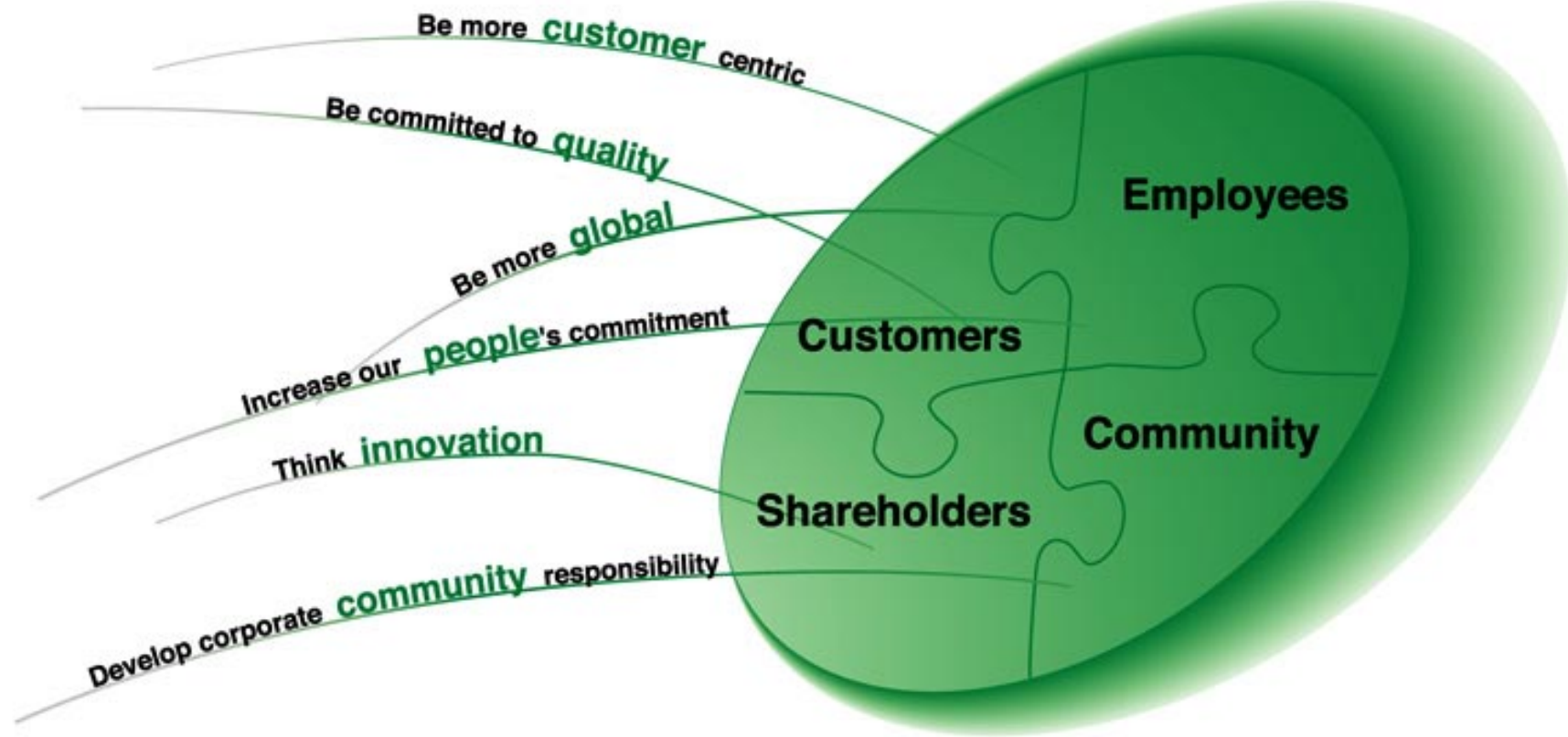
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**Our six challenges**



**Our stakeholders**



**NEW2004 = Growth & Efficiency**

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# Our 2004 Financial Goals

Schneider Capital Market Day - March 28, 2002



# Our 2004 Financial Goals

## Dedicated to Growth and Efficiency

### 1. Sales : EUR 12 billion

- EUR 11 billion in organic growth : two points above the market every year, for annual growth of 4%.
- EUR 1 billion in growth through additional sales generated by acquisitions.

### 2. Gross margin : 43.5% of sales

- Increase Gross Margin on Sales by One point a year

### 3. Operating margin : 14% of sales

### 4. Earnings Per Share (EPS) : growth of X% per year \*

\* The target  
will be set after the  
Legrand divestment.

## Our 2004 Financial Goals (continued)

- **Align our reporting methods with a global business approach by :**
  - ➔ switching from local statutory accounting to global managerial reporting
  - ➔ replacing the annual intangible budget by a more flexible and adapted set of forecasting and measurement tools
  - ➔ introducing a balanced scorecard at group level.
  
- **List Schneider Electric on the New York Stock Exchange in 2002.**

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## Our six Challenges

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# Our six challenges

## 1. Be more Customer centric

Because many improvements still have to be made to fully satisfy our customers, we have to better incorporate the customer's expectations into the way we think and act.

We will be a total customer-driven company.

### Goals for 2004 :

- Reduce the percentage of dissatisfied customers by 50%.
- Increase the percentage of very satisfied customers by 20%.
- Achieve a response time of less than 12 hours for 100% of Schneider Electric Internet and Extranet web sites.



## Our six challenges

### 1. Be more Customer centric (continued)

#### Actions :

- Measure the quality and speed of our responses to customer needs received via online technical support : the Internet, call-centers, complaint management processes and quotation requests.
- Reinforce access to customers through existing channels and strengthen ties with distributors.
- Expand the executive global customer sponsorship program and have each entity implement its own program.

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## Our six challenges

### 2. Be more Global

Because our customers, partners and suppliers are accelerating their globalization, the world is now our strategic playing field. We need to be a truly global company, leveraging the advantages offered by the diversity of nationalities, cultures and differences and putting global interests ahead of local ones.

#### Goals for 2004 :

- Grow twice as fast with Schneider Global Business Development (SGBD).

#### Action :

- Reinforce our Schneider Global Business Development (SGBD) approach by tracking revenue and profitability to tighten our focus and be assertive where it counts.

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## **Global Customer Development Mission**

**Select and serve customers among world's top companies determined to optimize strategic relationships with global suppliers.**

**Schneider Electric commitment to these customers includes : Coordination of worldwide network of resources offering global product platforms and leveraging local solutions,**

**Enabling these customers to reduce their overall costs and enhance their ability to focus on their core competencies.**

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# Global Customer Development Ambitions

## GLOBAL END USER

- Organize customer portfolio around industry specific clusters so that customer and supply chain can benefit from Schneider dedicated team orientation, focused developments and acquired expertise.
- Focus on reducing customer long term cost of ownership (life cycle cost) while maximizing return on asset investment.

## GLOBAL OEM

- Organize customer portfolio around critical application mastery so that customers can benefit from focused development activity, acquired expertise, and proven solutions.
- Develop tools and services enhancing the degree to which OEM customers can improve machinery performance and overcome logistical challenge associated with end use installation.

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# 86 Global End Users in 2002



 Alcan  
Bombardier  
Magna  
SNC Lavalin

 Nestlé  
Omya  
Novartis

 Ferrero  
Fiat  
Parmalat  
Pirelli


 Philips

 Endesa


 TSMC

 Caltex

 Astra Zeneca  
BP Amoco  
Cadbury Schweg.  
Cussons  
ICI  
GlaxoSmithkline  
Tesco  
Unilever

 Bayer  
BASF  
Haribo  
Jenoptik  
Mercedes  
Robert Bosch  
Sudzucker  
Thyssen  
VW Group

 South African  
Breweries

 Abbott  
Agilent  
AHP  
B- M. S  
Cargill  
Chrysler  
Delphi  
El Dupont  
Exxon-Mobil  
Flextronics  
Ford Group  
G.M./Opel  
Hewlett Packard  
IBM  
Intel  
J & Johnson  
Kimberly Clark  
Lucent Tech.

Mars  
McDonalds  
Merck  
Motorola  
Pharmacia  
Philip  
morris  
Pfizer  
P&Gamble  
UPS  
Visteon

 Accor  
Air Liquide  
Alcatel  
Altadis  
Auchan  
Aventis  
Carrefour  
Danone  
E. Beghin Say  
France Telecom  
Lafarge  
Michelin  
Pechiney  
Perrier-Vittel  
Peugeot  
Renault  
Rodhia  
Saint Gobain  
STMicro  
Sanofi  
Suez  
Total Fina Elf  
Usinor  
Valeo  
Vivendi

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# Experience in selected Clusters & Activities



**Microelectronics**  
(IBM, Intel, Jenoptik...)



**Pharmaceutical**  
(Abbott, Aventis, GSK...)



**Food & Beverage**  
(Danone, Unilever...)



**Automotive**  
(Chrysler, Ford, PSA...)



**IDC**  
(Exodus, France Telecom)



**Mining**  
(project approach)



**General Industry**  
(Lafarge, Pirelli, UPS...)



**Marine**  
(project approach)



**Oil & Gas Chemical**  
(BP, Caltex, Exxon...)



**Multisite Commercial Users**  
(Accor, Carrefour, McDonalds...)



**Water**  
(Suez, Vivendi)

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# 36 Global Multi-Site OEMs in 2002



KCI  
Kone  
Wartsila  
Ascom



Bobst  
Schindler  
SIG



Van Der Land

Vestas  
NEG Micon



Heidelberger  
Karcher  
Klockner Werke  
G.E.A.  
Mannesmann  
Siempelkamp  
Thyssen



Alfa Laval  
Tetra Pak AB  
FMC



Powec



APC  
Applied Materials  
Cummins Onan  
Emerson  
FKI  
Invensys PowerSystems  
Trane  
U.T.C.



ACE Airwell  
Lennox  
MGE UPS System  
NSC  
Potain  
SDMO  
Sidel

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# Targeted application segments from Market Organizations



**Energy  
& Infrastructures**

Backup Power, Wind mills, Gas turbines  
Data Center & Telecom markets  
**Cummins, SDMO, APC, MGE UPS....**



**Industry**

Packaging , Conveyors, Printing , HV/AC,  
Lifts & Cranes  
Metal working, PCB Mounting,  
Plastic and Rubber working, Textile...  
**Schindler, SIG, Alfa Laval....**



**Buildings**

OEMs involved in Marine activity.

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## Our six challenges

### 2. Be more Global (continued)

#### Goals for 2004 :

- Raise Schneider Electric brands spontaneous awareness by 14%.

#### Action :

- Define a global brand policy to be implemented over the next three years.

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## Our global brand policy

**Company  
brand**



**Master  
brands**



**Local  
brands**



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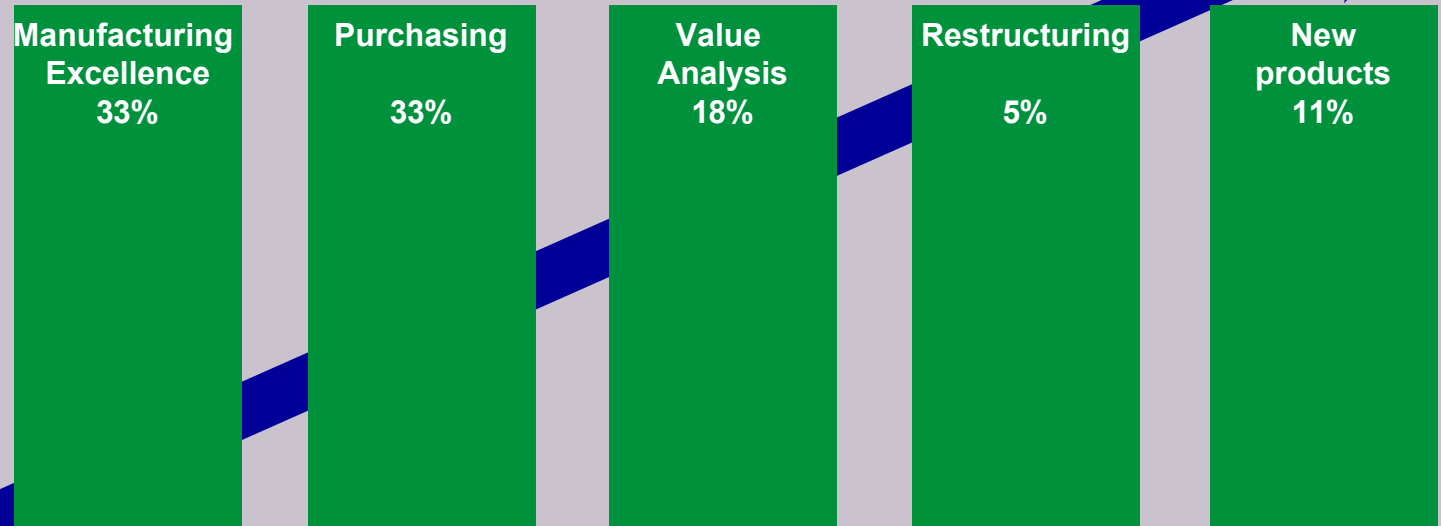
## Our six challenges

### 2. Be more Global (continued)

#### Goals for 2004 :

- Achieve a net industrial productivity of 5% per year.

#### Actions :



SIX SIGMA

## Our six challenges

### 3. Be committed to Quality

Because improved productivity and quality are crucial to achieving sustainable growth, we need to shorten time to market for products, respect our delivery commitments and offer reliable products.

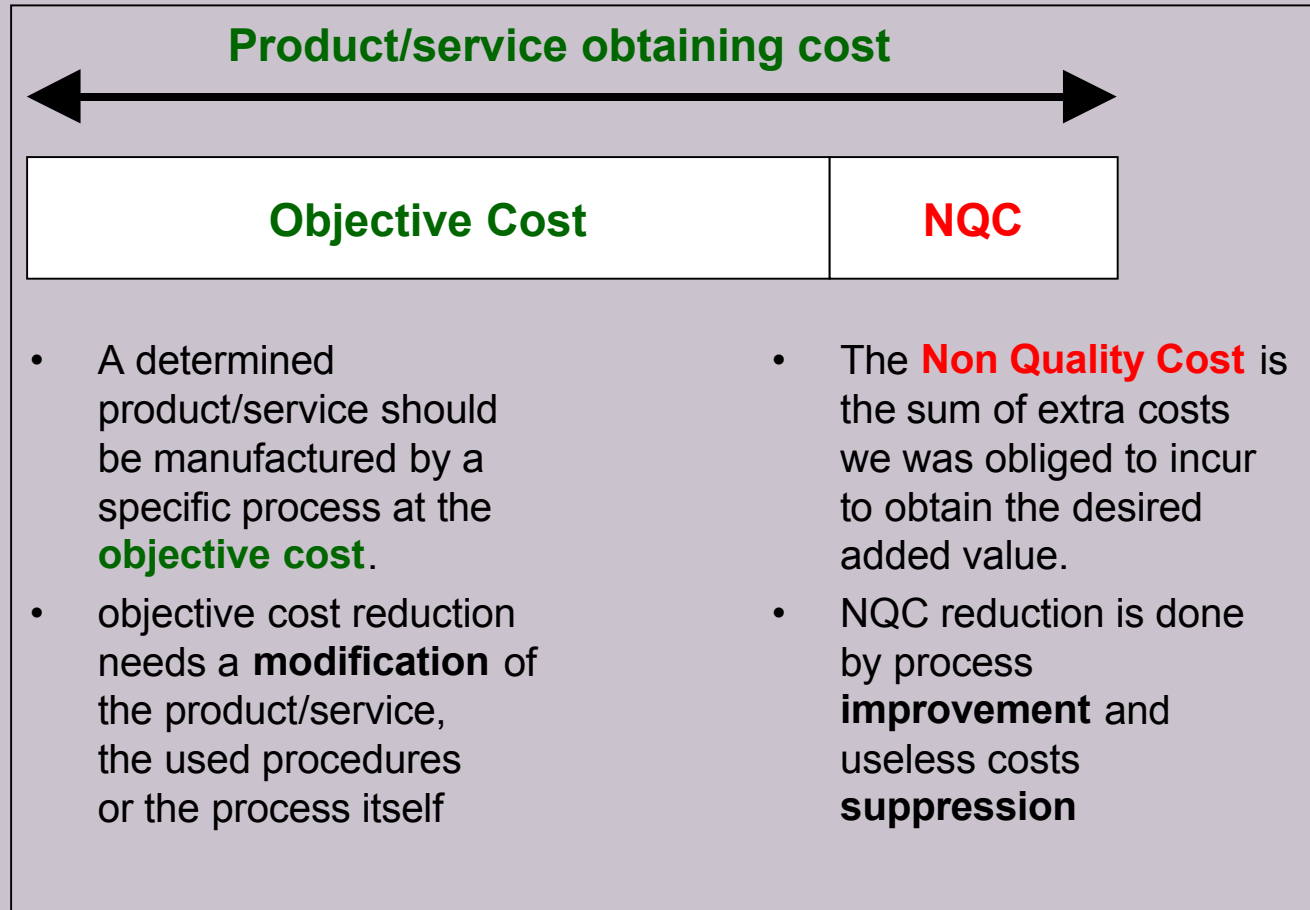
#### Goals for 2004 :

- Reduce non-quality costs by 50%.
- Achieve a maximum deviation from time to market (TTM) targets of 15%.
- Reduce time to market (TTM) for new products development by 50%.



# Our six challenges

## 3. Be committed to Quality (continued)



## Our six challenges

### 3. Be committed to Quality (continued)

#### Why 6 SIGMA ?

- We want to increase our customer satisfaction , and Six Sigma focuses on **customer requirements**.
- We want to **decrease our costs**, and the **returns** of Six Sigma are far greater than investment.
- We want to improve the **competencies** and **behaviors** of our employees, and Six Sigma requires rigor and training on statistical and quality tools.
- We want to focus more on **transverse processes** than on hierarchical organization, and Six Sigma has applications on all the processes.
- Six Sigma methodology has **world-wide references**.

# Six Sigma in NEW 2004

## 3. Be committed to Quality (continued)

### Six Sigma in NEW 2004

- From 2002 to 2004, the objectives of the Schneider Electric Six Sigma project is :
  - To train 300 “black belts” (4 weeks) and 1500 “green belts”
  - To fulfil 3.000 six sigma projects
  
- According to the worldwide specialists of this method, the objective of **cumulative savings** is, in three years **350 M€** (250 K€ per Black belt project, 50 K€ per Green Belt project), and the cumulative cost 32 M€
  
- Origin of the savings :
  - Reduction of scraps, correction of internal and customer defects, reduction of base costs linked to recovery, rework, replacement of products, etc...
  - Increase of service to customer, customer satisfaction, ...

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## Our six challenges

### 4. Think Innovation !

Discover  with Isabelle Guillaume.



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## Our six challenges

### 4. Think Innovation !

Because innovation provides leadership and profitable growth, we will develop our capacity to think outside the box and always be more innovative across the company.

The **New Electric World** offers us tremendous opportunities.

#### Goals for 2004 :

- Grow our Services business by 15 % a year
- Increase our operating margin on sales for the Services Business by 8 points.
- Expand our potential accessible market (PAM) from EUR 100 billion to EUR 210 billion.



## Our six challenges

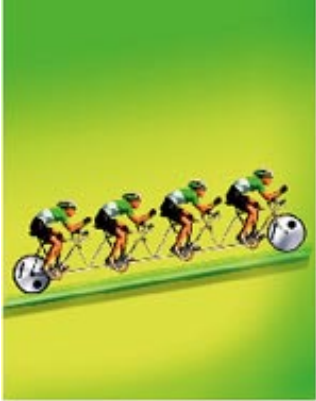
### 4. Think Innovation ! (continued)

#### Actions :

- Grow with an innovative and profitable Services business.
- Develop new growth opportunities through a market approach.
- Constantly improve the product offer and renew products frequently.
- Build alliances to move faster and more efficiently.
- Improve our processes with new technologies.

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## Our six challenges

### 5. Increase our People's commitment

Because our performance is built on the performance of our people, we need to constantly improve our practices and attitudes to achieve the targeted improvements.

We rely on strong professional skills, attitudes, behaviors and leadership.

#### Goals for 2004 :

- Achieve inter-country mobility rate for international exempts of 20%.
- Implement a variable salary component linked to both local and global company results for 100% of employees.
- Survey 100% of employees every two years.

## Our six challenges

### 5. Increase our People's commitment (continued)

#### Actions :

- Encourage employees to become Schneider Electric shareholders through regular worldwide employee stock ownership plans.
- Attract, develop and retain talented individuals.
- Communicate our Vision and NEW 2004 Company Program to all employees, and demonstrate the contribution of each entity to the overall company goals.
- Improve the performance of our leaders through use of the 360° assessment tool at least every three years.

## Our six challenges

### 6. Develop corporate Community responsibility

We are convinced that the attitude of the Company regarding the civil society is a key lever to improve the internal commitment and to ensure the global success of the company;

#### Goals for 2004 :

- Ensure that 100% of our manufacturing units comply with ISO 14001.
- Ensure that 80% of sites have a long term commitment with the Schneider Electric Foundation.

## Our six challenges

### 6. Develop corporate Community responsibility

(continued)

#### Actions :

- Define and implement a Corporate Community Responsibility guideline in 2002 (people, community, planet)
- Establish the criteria to follow the implementation of the guideline in each entity around the world
- Launch this year a new action of the Schneider Electric Foundation in favor of the young people in difficulty around the world.

new 2004

Our company program  
for a New Electric World

The previous pages describe our company program to 2004 and give you a clear picture of the ambitious initiatives that we will be undertaking together over the next three years.

Three years to grow, innovate, create and facilitate the emergence of an increasingly **New Electric World.**

**Three years to make it happen.**

# Schneider Electric Capital **M**arket **D**ay

March 28, 2002

Merlin Gerin

Modicon

Square D

Telemecanique

**Schneider**  
 **Electric**  
*Building a New Electric World*