# Full-year 2008 Results

February 19, 2009

# Disclaimer

All forward-looking statements are Schneider Electric management’s present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

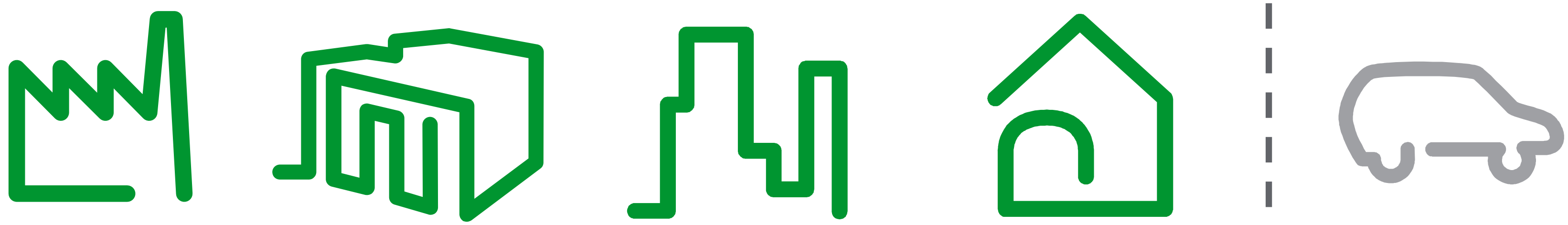
# Overview

# Schneider Electric is the global specialist in energy management

| Energy production | Energy Management | Energy Usage |
| --- | --- | --- |
| Thermal<br>Nuclear<br>Genset<br>Hydro<br>Solar<br>Wind | Making energy:<br>Safe<br>Reliable<br>Efficient<br>Productive<br>Green | Appliances<br>HVAC<br>Lifts<br>Motors<br>Machines<br>Conveyors<br>IT servers |

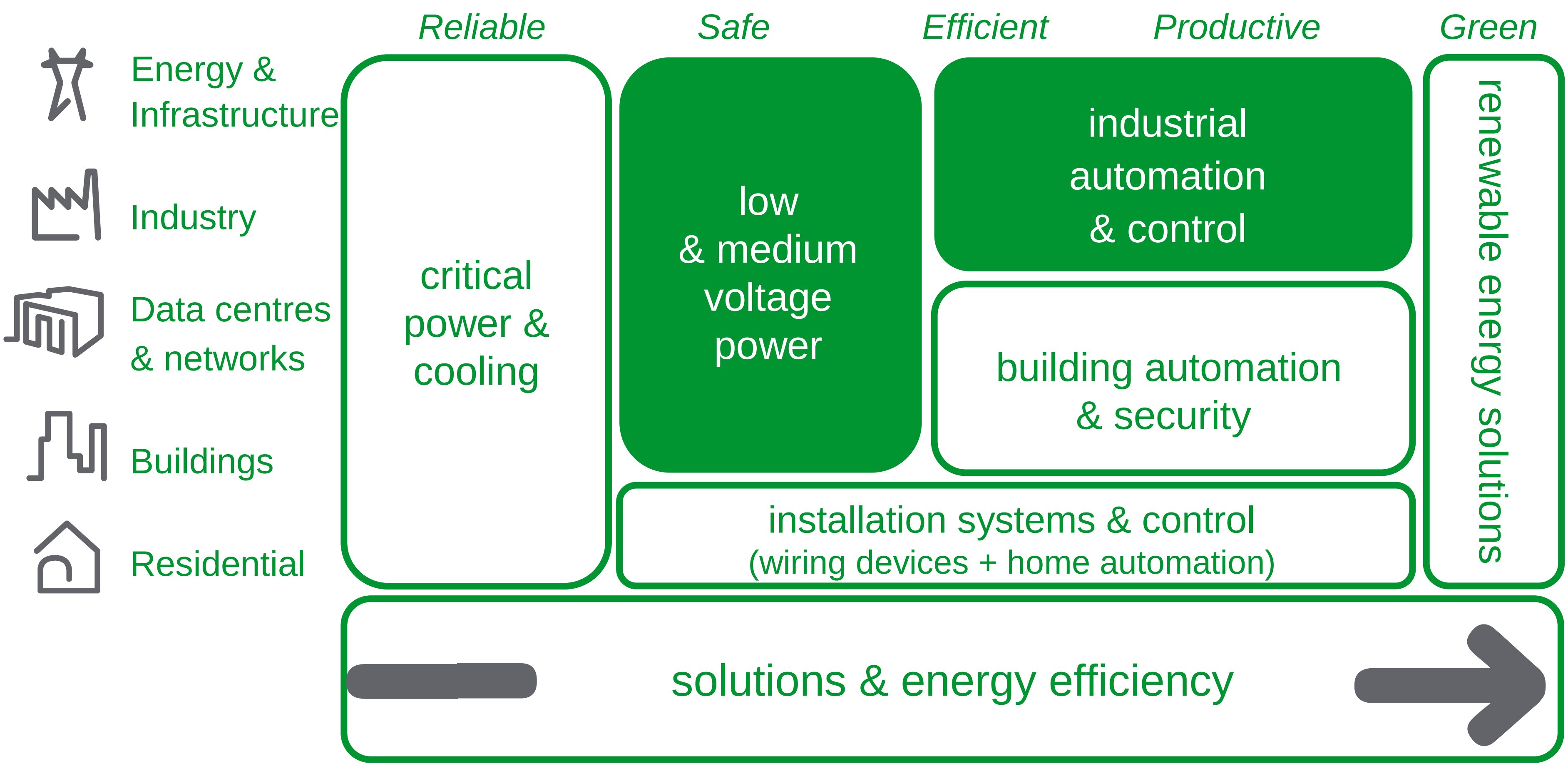
We help our customers achieve more while using less of our common planet

# Our businesses address 72% of the world’s energy consumption



| | | | | |
|---|---|---|---|---|
| **31%** | **>2%** | **18%** | **21%** | **28%** |
| Industry & Infrastructure | Data centres & networks | Buildings | Residential | Transportation |

# We have the most comprehensive and integrated portfolio in energy management




Historical presence
New businesses

# 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 | Schneider Electric | Legrand | Schneider Electric | Siemens | Honeywell | SMA |
| n°2 | ABB | Schneider Electric | Emerson | Schneider Electric<br>Rockwell | Siemens | Fronius |
| n°3 | Siemens | Panasonic | Eaton | | JCI | Schneider Electric |
| n°4 | | | | Mitsubishi | Schneider Electric | |

**Leader in Energy Efficiency**

# 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

# new$^2$: a successful transformation (2005-2008)

# 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. | |

# Our footprint is now global and diversified

**North America**
€ 27%
28,000

**Europe**
€ 44%
48,000

- Presence in more than **100** countries
- More balanced exposure by region
- New economies sales **x2.2** since 2004

**Rest of the world**
€ 10%
9,000

**Asia-Pacific**
€ 19%
29,000

# We built on our attractive product offers to accelerate our solution business

**Schneider Electric solutions offer**
€5.7bn[1] orders, ~30%[1] of group

**Product** + Package + Independent system + Integrated system

**End-user need:** Multi-function | Process/system performance | Business Performance

**Energy Efficiency as a key feature**

[1] Figures in 2008

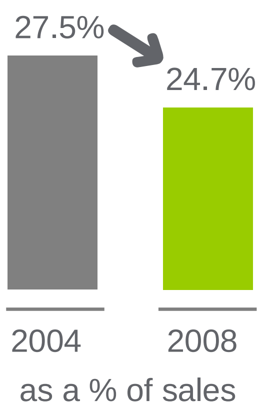
# We have a strong track record in driving operational efficiency

## Productivity


Gross industrial productivity:
**4.4%** of product COGS on average

€920m of **savings** net of labour inflation or **5pts margin gain**

## Support function costs



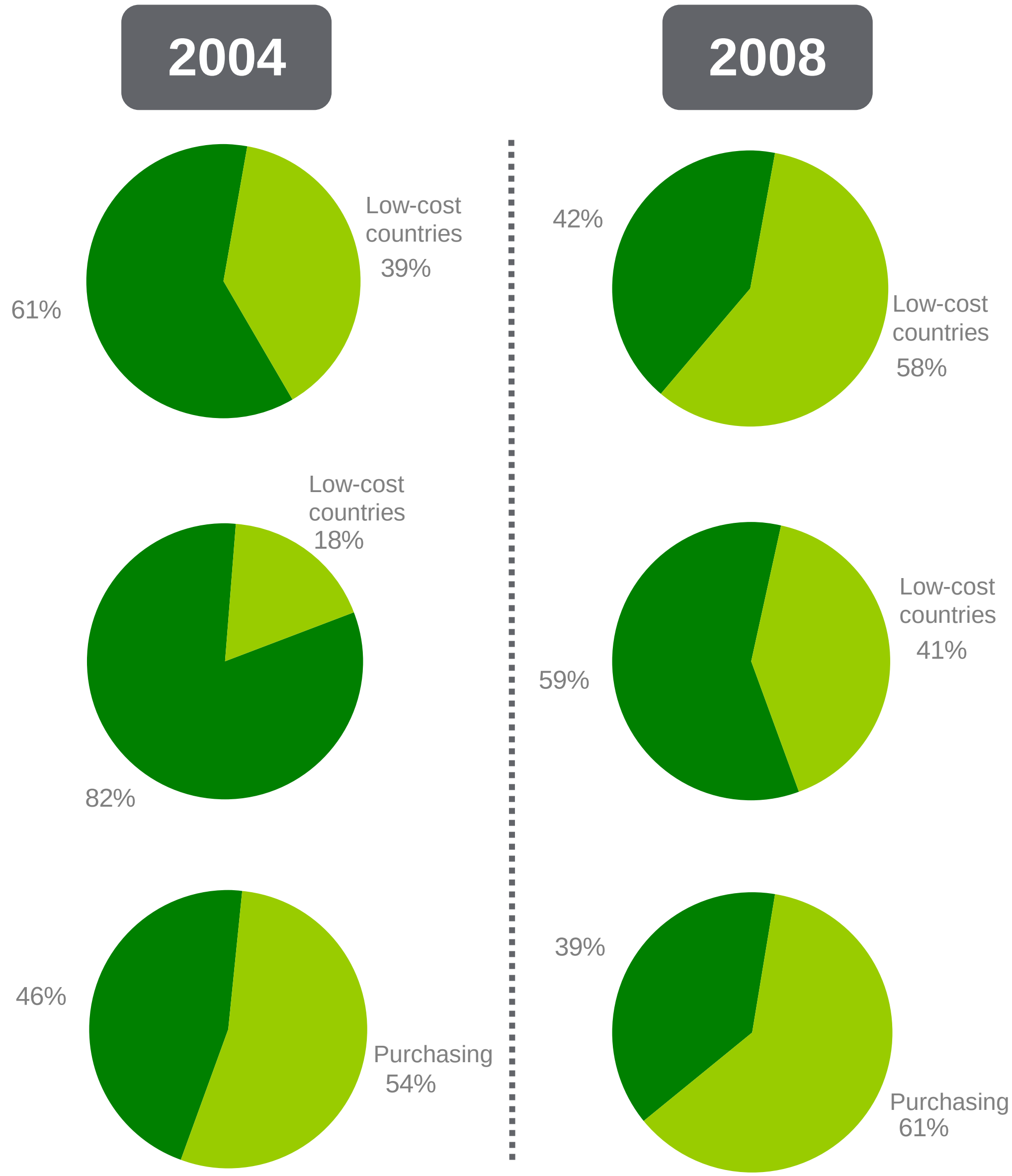

Support Function Costs as % of sales **down ~3pts**, despite…

… investments in growth:

| | 2004 | 2008 |
|---|---|---|
| **new businesses** % share | **36%** | **~50%** |
| **new economies** % share | **27%** | **32%** |

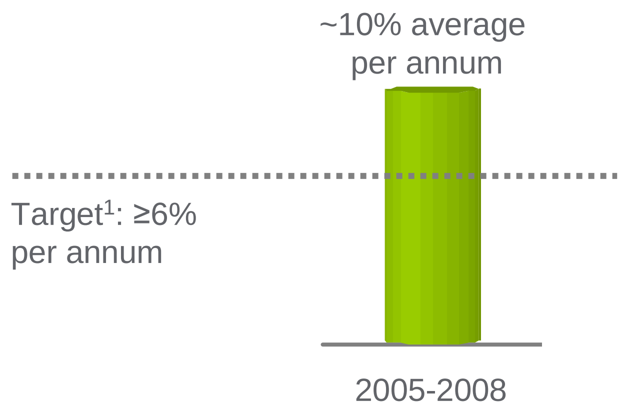
# Our cost structure is flexible and rebalanced

- **58%** of manufacturing headcount in low cost countries
- **41%** of COGS in low cost countries
- **61%** of COGS outsourced and up to 70% variable

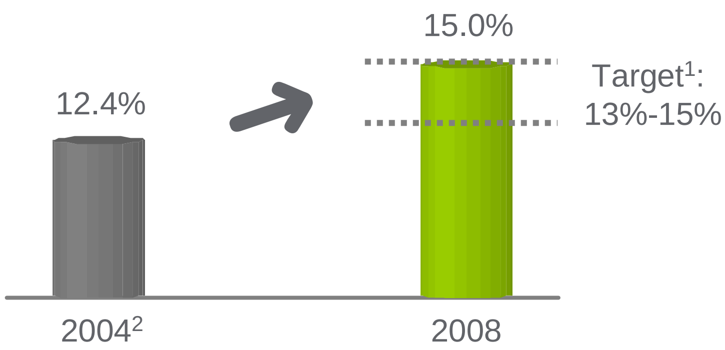


# We have met all new² financial targets

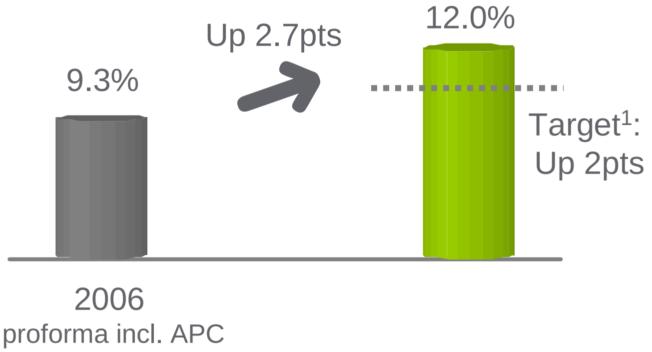
## Organic growth



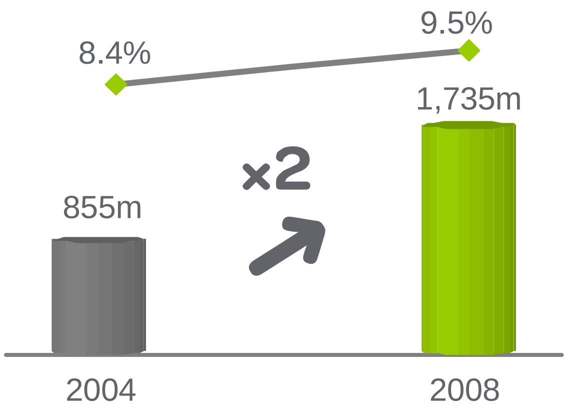

## EBITA margin




## ROCE




## Cash generation
(Free cash flow in €m & as % of sales)




1 Targets upgraded in Feb. 2007. Initial targets issued in Jan. 2005 were >5% | 12.5%-14.5% | up 2 to 4pts vs. 2004

2 EBIT margin

# Finance presentation

# New economies and new businesses driving 2008 organic growth

**Sales organic growth by region**

| | 2008 |
|---|---|
| Europe | +6.0% |
| North America | +1.5% |
| Asia-Pacific | +9.6% |
| Rest of the World | +19.2% |
| Group | +6.6% |
| *New economies*[1] | *+14%* |

**Sales organic growth by business**

| | 2008 |
|---|---|
| Critical Power[2] | +7% |
| Building Automation | +12% |
| Ultra Terminal | +1% |
| Services | +20% |

1 Asia (excluding Japan), Africa and Middle East, Latin America and Mexico, Eastern Europe (incl. Russia)

2 This figure indicates the sales performance of the Critical Power & Cooling Services “business unit” on a proforma basis (excluding MGE Small Systems in 2007 and excluding Gutor in 2008)

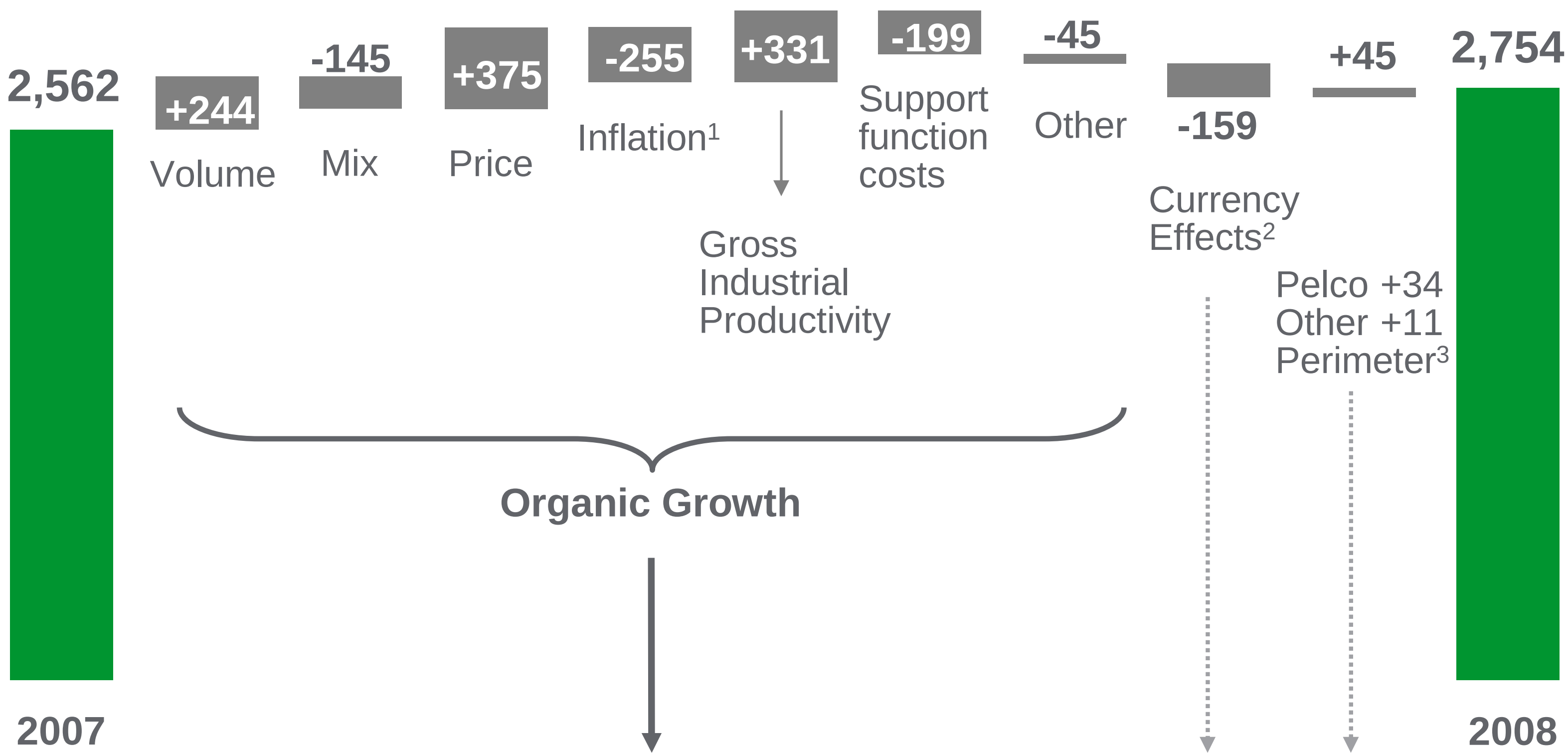
# EBITA margin at the new[2] target of 15.0%, EPS reaching 7.0 euros

| In m€ | FY 2007 | FY 2008 | Change |
|---|---|---|---|
| Sales | 17,309 | 18,311 | +5.8% |
| *Organic growth* | | | *+6.6%* |
| EBITDA | 3,114 | 3,331 | +7.0% |
| *Margin %* | *18.0%* | *18.2%* | *+0.2pt* |
| EBITA[1] before restructuring | 2,660 | 2,918 | +9.7% |
| *Margin %* | *15.4%* | *15.9%* | *+0.6pt* |
| Restructuring costs | (98) | (164) | |
| EBITA[1] | 2,562 | 2,754 | +7.5% |
| *Margin %* | *14.8%* | *15.0%* | *+0.2pt* |
| Net financial expense | (266) | (314) | |
| Income tax | (600) | (555) | |
| Net income | 1,583 | 1,682 | +6.3% |
| *Earnings per share* | *6.78* | *7.02* | *+3.5%* |

[1] Before amortization and impairment of purchase accounting intangibles of €174m in 2008 (€79m in 2007), of which €70m impairment related to Customized Sensors business unit

# Solid organic growth in EBITA driven by price and productivity

Analysis of change in EBITA (in €m)




| △ 08/07 | +11.9% | -6.2% | +1.8% | +7.5% |
|---|---|---|---|---|

[1] Of which Raw materials: -149, Production labour & other Costs: -106

[2] Of which translation: -89, transaction: -70

[3] Including APC: +22, MGE small systems: -43, others +32

# Purchasing savings driving 2008 improvement in industrial productivity

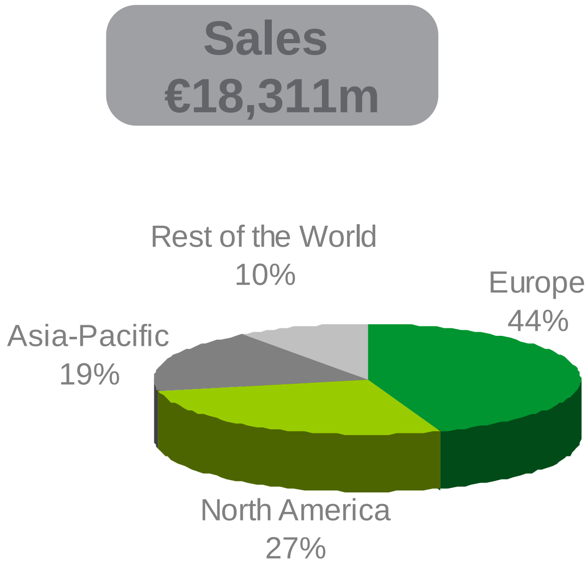
Breakdown of productivity gains (in €m)

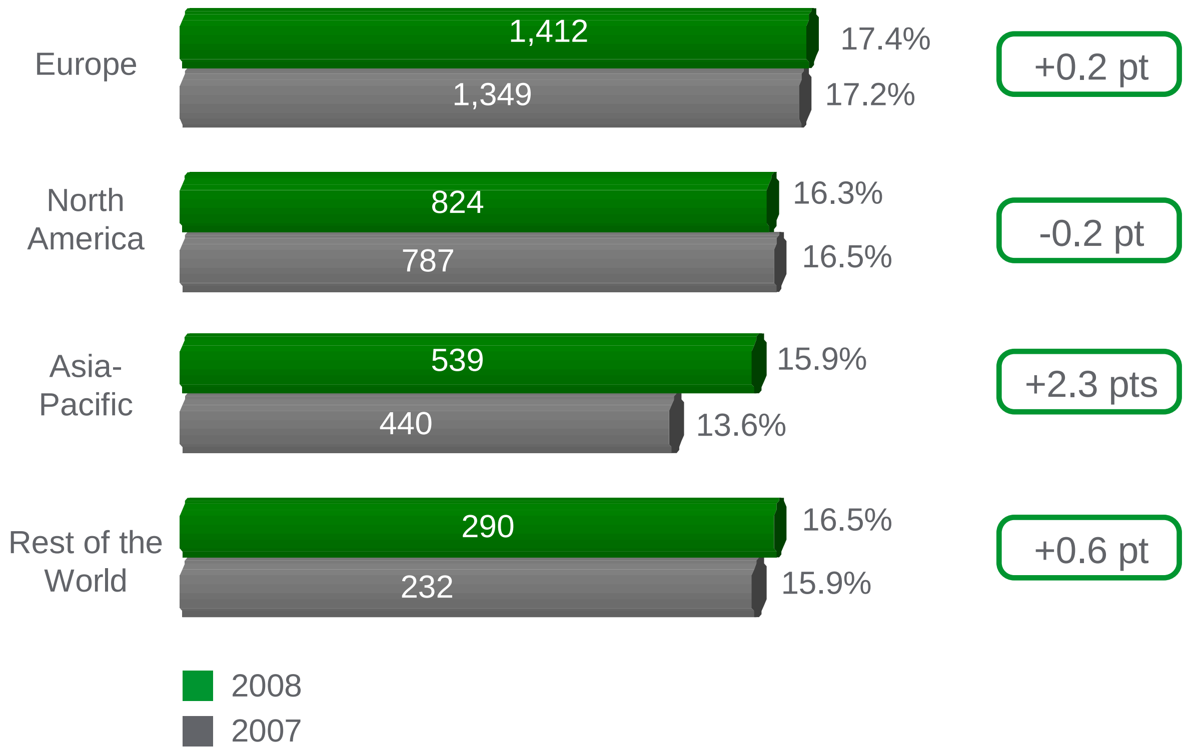
| | 2007 | 2008 |
|---|---|---|
| Purchasing | 124 | 165 |
| Lean Manufacturing | 55 | 50 |
| Rebalancing | 72 | 65 |
| Other plans | 44 | 51 |
| Gross industrial productivity | 295 | 331 |
| *as % of products' cost of sales*[1] | *4.0%* | *3.6%* |

[1] Excluding cost of sales for services and related businesses

# All geographies at healthy margins above 15%

Breakdown by region
(before corporate costs[1])

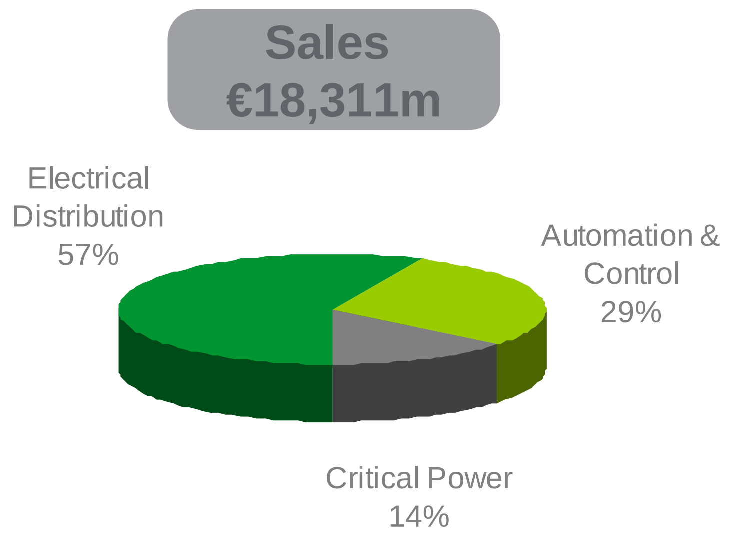


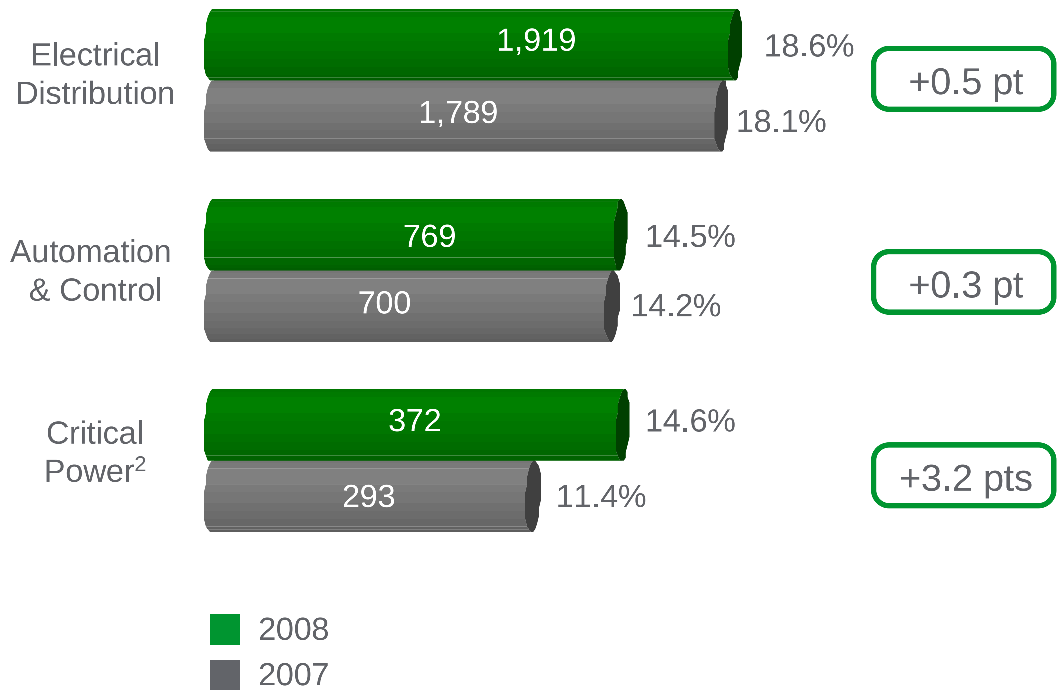




[1] Corporate costs of -1.7% of Group sales in 2008 (-1.4% in 2007)

# All businesses with strong margins after the recovery of Critical Power

Breakdown by business
(before corporate costs[1])




1 Corporate costs of -1.7% of Group sales in 2008 (-1.4% in 2007)
2 Results of the business unit on a proforma basis (excluding MGE Small Systems in 2007 and excluding Gutor in 2008)

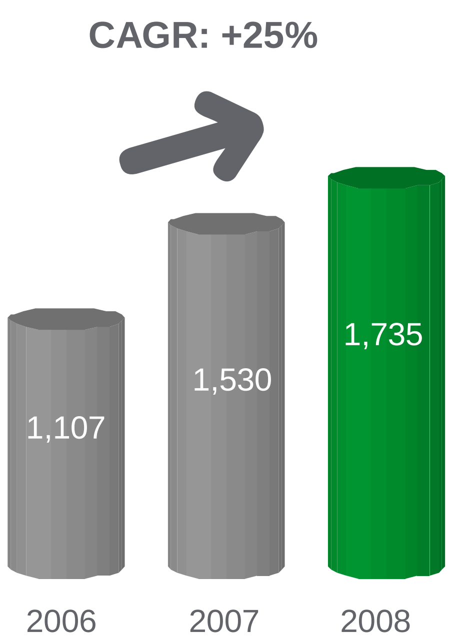
# Continued improvement in free cash flow leading to debt reduction

| Analysis of debt change in €m | 2008 |
|---|---|
| Net debt at January 1 | (4,936) |
| Operating cash flow | 2,500 |
| Capital expenditure – net[1] | (693) |
| Change in operating working capital | (86) |
| Change in non-operating working capital | 14 |
| Free cash flow | 1,735 |
| Dividends | (796) |
| Acquisitions | (615) |
| Capital increase | 144 |
| Other[2] | (85) |
| Decrease in net debt | 383 |
| Net debt at December 31 | (4,553) |

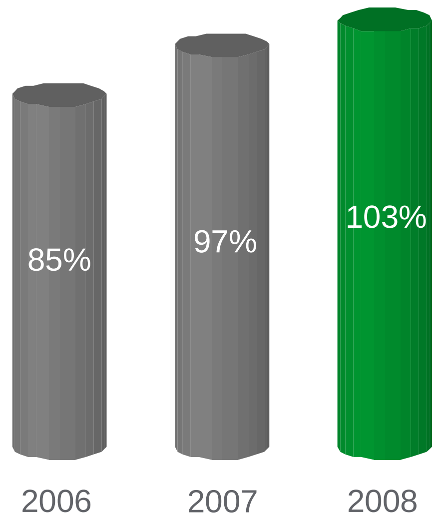
1 Including R&D capitalization of €195m (€131m in 2007)
2 Including purchase of treasury shares of €(70)m and USD-related debt conversion effect of €(60)m

# Cash conversion significantly enhanced over the past few years

Free cash flow in €m




Cash conversion
(Free cash flow / net income)



# Capital employed under control thanks to WCR management and a low capital intensive model

| | | |
|---|---|---|
| Days of receivables[1] | 58.0 d | -4.3 d |
| Days of inventories[1] | 50.2 d | +1.2 d |
| Days of payables[1] | 42.5 d | +0.6 d |
| WCR[2] | 20.8% | -1.0pt |
| CAPEX[2] | 3.8% | +0.6pt |

**CAPITAL EMPLOYED**

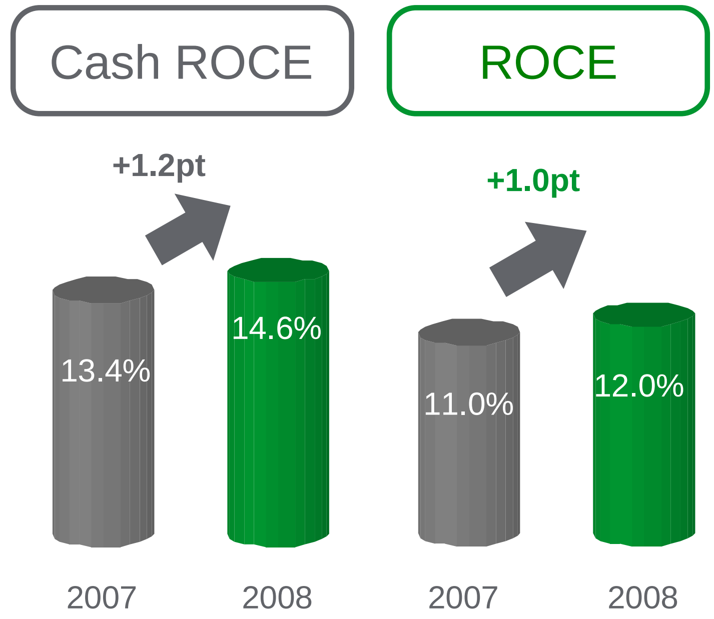
€ 17,257m

+1.8%

[1] Days: of sales
[2] % of sales

# … leading to further progress in ROCE

| €m | 2008 | Change |
|---|---|---|
| Capital Employed | 17,257 | +1.8% |
| EBITDA | 3,331 | +7.0% |
| EBITA | 2,754 | +7.5% |

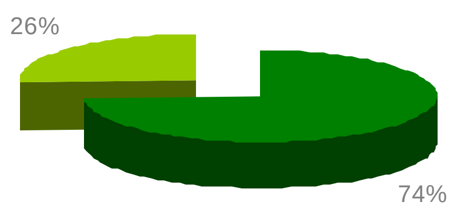


# Extended debt maturities despite credit markets turbulences

## Gross debt structure as of Dec 31, 2008

**Fixed debt Vs Floating debt[1]**

100% = €6.2bn



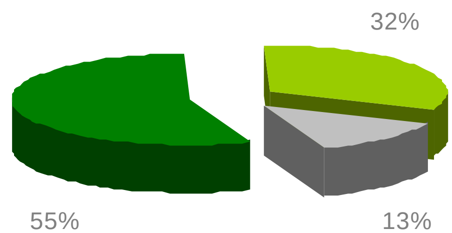

Fixed debt

Floating debt

[1] After SWAP

**By currency[1]**

100% = €6.2bn




Euro

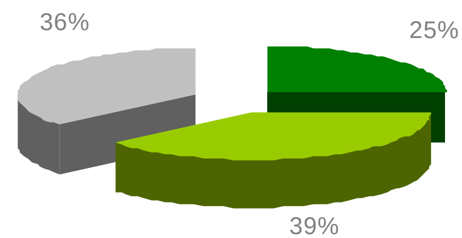
US dollar

Others

[1] After SWAP

**By maturity**

100% = €6.2bn




<1 year

1 y < Debt < 5 y

> 5 years

- €1.7bn of cash and cash equivalents
- €2.3bn of additional available backup of facilities
- €1.0bn new finance raised in January 2009, including bond issue
- As of end-January 2009, debt maturing within 1 year = 10%

# Credit ratios clearly strengthened over the past 12 months

Financial ratios in €m

| | 2007 | 2008 |
|---|---|---|
| Consolidated shareholders' equity | 10,314 | 11,051 |
| Net debt | 4,936 | 4,553 |
| Net debt-to-equity ratio | 48% | 41% |
| Interest coverage (EBITDA/Debt costs) | 13x | 14x |
| Operating cash flow/net debt | 45% | 55% |
| Funds from operations/net debt[1,2] | 38% | 42% |
| S&P rating | BBB+ | A- |
| Moody's rating | | A3 |

[1] According to S&P definition
[2] Despite a €470m of pre-tax increase in provisions for pensions

# APC-MGE at 15% EBITA margin before restructuring costs

| (in $m) | 2007 Proforma[1] | 2008 | Change |
|---|---|---|---|
| Sales | 3,520 | 3,747 | +6% |
| *Organic growth* | | | *+7%* |
| EBITA before restructuring | 440 | 569 | +29% |
| *Margin %* | *12.5%* | *15.2%* | *+2.7pts* |
| EBITA | 402 | 547 | +36% |
| *Margin %* | *11.4%* | *14.6%* | *+3.2pts* |

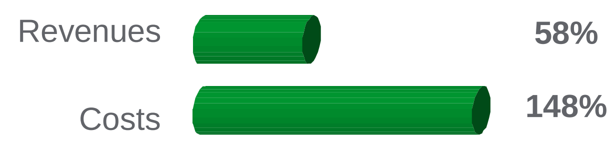
- Solid year despite weakening end markets in fourth quarter
- Profitability improvement driven by operational efficiencies in purchasing, logistics, commercial reorganization, G&A expenses

[1] Results of the APC-MGE business unit on a proforma basis (excluding MGE Small Systems in 2007 and Gutor in 2008)

# Significant margin improvement for Pelco in first full-year within the Group

| (in $m) | 2008 | Chg vs. proforma[1] |
|---|---|---|
| Sales | 608 | (1%) |
| EBITDA[2] | 106 | +43% |
| Margin % | 17.5% | +5.4pts |

Synergies vs. plan

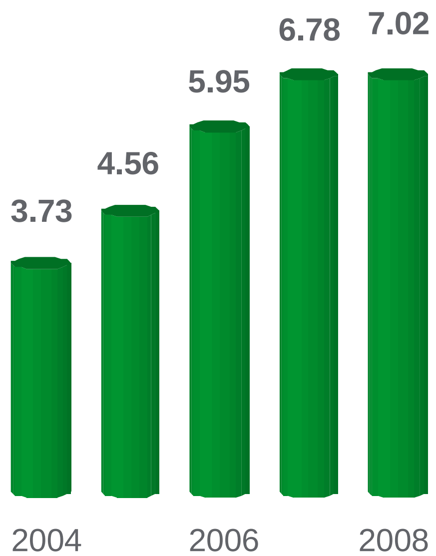



- 2008 EBITDA margin above target
- Acceleration of cost synergies, notably in purchasing, and additional efficiencies more than offsetting the less favourable volumes
- Introduction of next generation IP-based range in early 2009

[1] Including Integral merged with Pelco
[2] Before restructuring costs

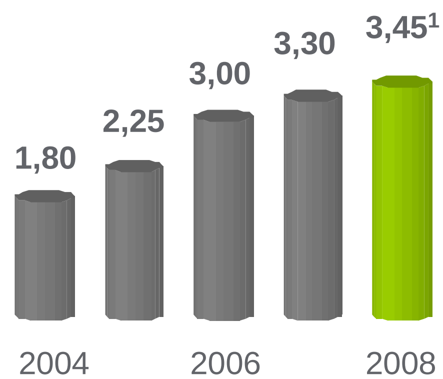
# Sustained increase of EPS and dividend

Earnings per share




+17% p. y.

Dividend per share




+18% p. y.

[1] Subject to shareholder approval on April 23, 2009

one

company program

(2009-2011)

# The Case for Change: 4 radical transformations

| | |
|---|---|
| From power and control… | … to energy management |
| From a product play … | … to a product and solution play |
| From leader in mature … | … to leader in mature and new economies |
| From multi local & complex | … to global and simple organisation |

# Strategic initiatives supported by 2 strong fundamentals and 3 key transformations…


Long term **growth drivers**

Positioned for **lower cost structure**

## … leading to :

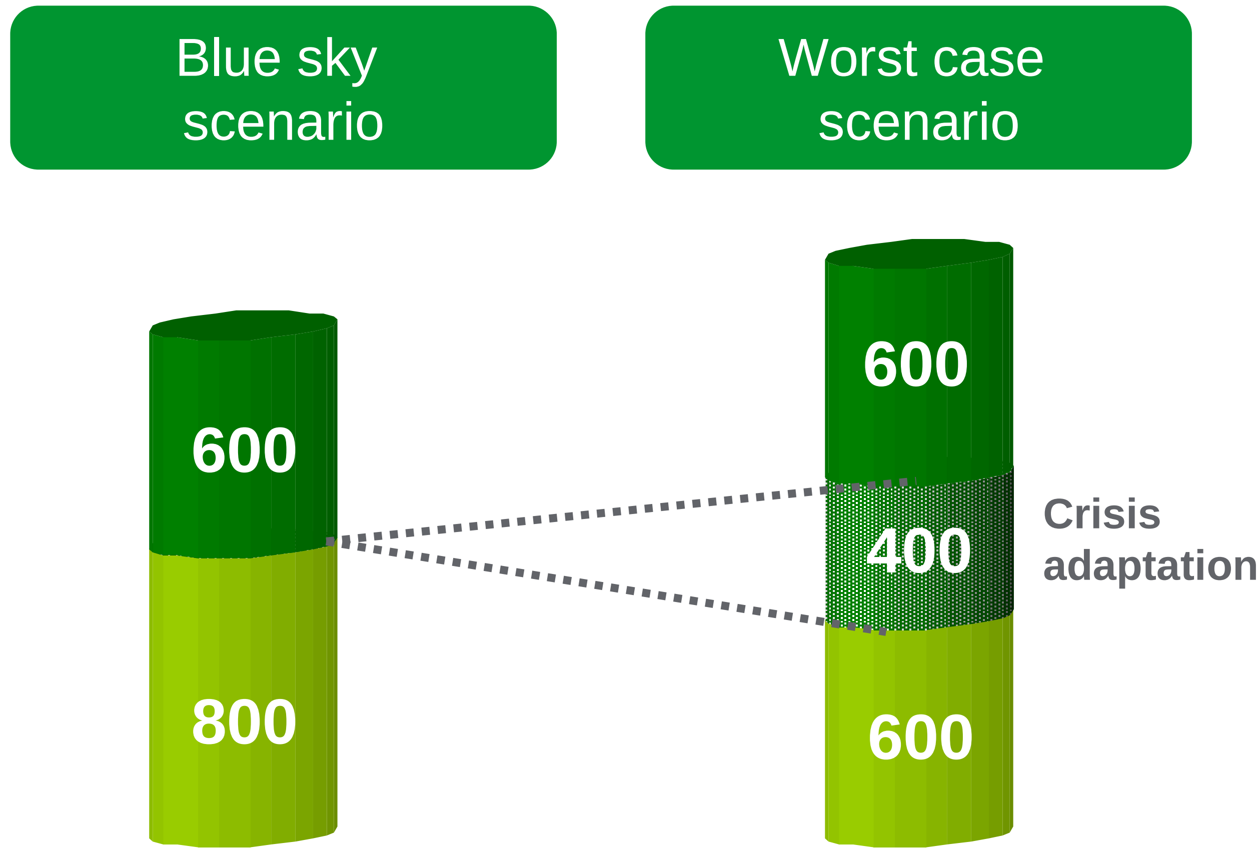
- superior organic growth across the cycles
- lower cost structure in the near term & beyond

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

€m savings[1]

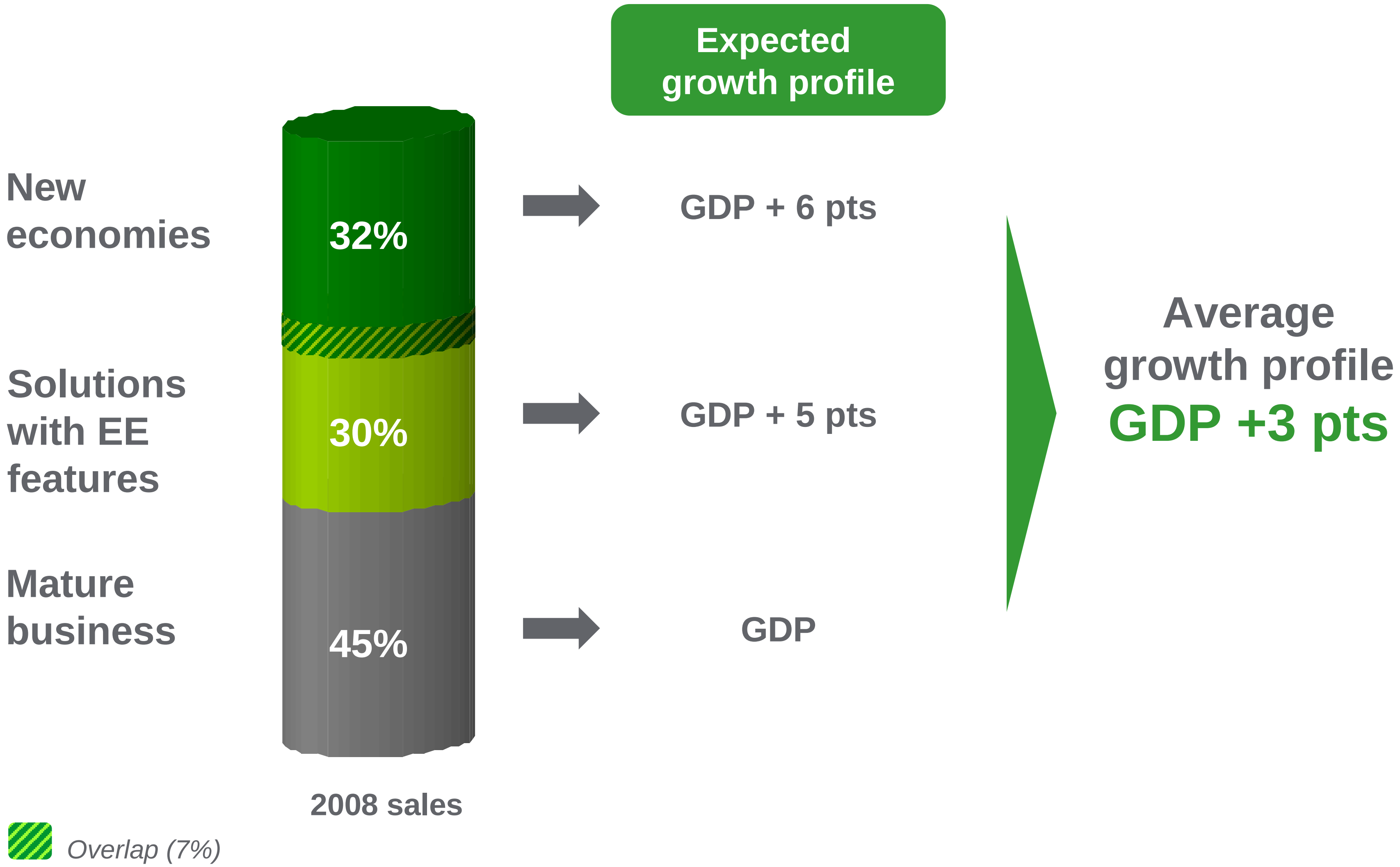
**One**
**simple way**

**One**
**lean supply chain**




[1] Before restructuring costs of up to €660m over 3 years

# 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

**new² target: EBITA range 13%-15%**
**2008 upcycle achievement: 15% margin**

| + | - |
|---|---|
| One solution provider | Global IT system Deployment (€150m) |
| Leader in new economies | Salary and general cost inflation |
| One simple way Structural savings of €600m | Mix effect |
| One lean supply chain productivity of €600 – 800m | |

**In a normal cycle, Schneider Electric is able to generate an EBITA margin range of 13%-16%**

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

| Environment | Management Response | Outcome |
|---|---|---|
| Low visibility | Flexibility | Resilience |
| **High uncertainty** on the severity of the downturn<br><br>Impact on organic growth difficult to forecast<br><br>Our scenario is a range of **-5% to -15%** growth in 2009 | We are geared to manage the worst case scenario:<br><br>- **Intensification** of support function costs reduction<br>- **Conservative cash management** (capex reduction, active working capital management)<br>- Restructuring costs up to **€660m** over 3 years | Under these conditions, we want to deliver:<br><br>- Support function costs savings of **€0.6-1.0bn**<br>- **EBITA margin floor at 12%** before restructuring costs in the worst case<br>- 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

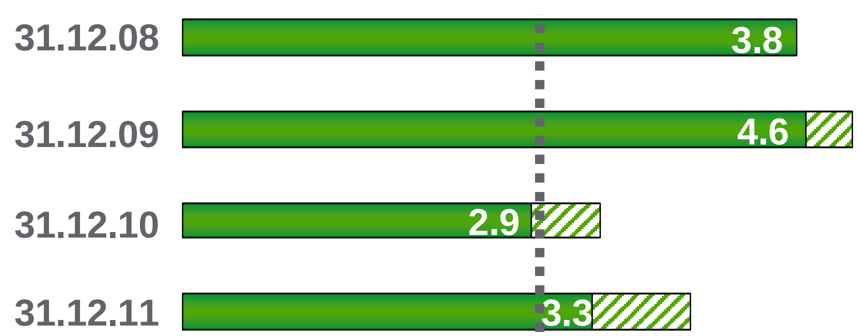
**Commitments**

- **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 | Activity | Structure |
| --- | --- | --- |
| Diversified end-markets | Capture additional value in the market through solutions and services | Flexible cost structure (70% of COGS variable) |
| Diversified geographic exposure | Increased presence in new economies | Production in low cost countries (41% of COGS) |
| Multiple accesses to markets | Exposure to government stimulus plans | Simplification (support function costs reduction) & lean supply chain |

# Appendices

# 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

# Contacts & agenda

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**Grégoire Rougnon - IR manager - gregoire.rougnon@schneider-electric.com**

| | | |
|---|---|---|
| 23 April | Q1 2009 Sales | Conference call 9:00am |
| 23 April | Shareholders' Meeting | |
| 31 July | 2009 Half-Year Results | Conference call 9:00am |
| 22 October | Q3 2009 Sales | Conference call 9:00am |

# Help people make the most of their energy