

# Letter to the Shareholders



## Half-year results at June 30, 2002



**Henri Lachmann**  
*Chairman and Chief  
Executive Officer*

Dear Shareholder,

Since the beginning of the year, our Group continues to face challenging economic conditions. Although global economic indicators appear to have stopped deteriorating, the global level of industrial investment and construction, that impact our markets, remains low. In this economic context, **business activity experienced its lowest level to date** in the first quarter 2002 followed by a modest improvement in sales. Sales amounted to €4.58 billion in the first half of the year, down 7.2% compared to the same period in 2001.

Despite this, the Group's operating margin increased slightly to 10.8% compared to 10.5% in the previous half-year, with operating income at **€493 million**. This **achievement** was possible thanks to the commitment of all our people, through proactive action plans defined in the **NEW2004** program launched in January: sales prices maintained in several countries, increased selectivity in order intake, base costs reduction, industrial rationalisation and productivity improvement (notably through purchasing).

These actions are beginning to **bear fruit**, despite economic conditions. I would like to take this opportunity to congratulate and thank all Group employees who have actively participated to this new program. Actions performed within the framework of **NEW2004** should enable us to maximise the benefits of an improvement in the economic situation over the coming months.

The first half of 2002 was also marked by **significant progress** in the Legrand divestiture. The process was secured in July thanks to the agreement signed with the Wendel consortium and the investment fund KKR. The terms of this agreement are a firm and final price for our 98.1% stake in Legrand of €3.63 billion. The transaction is expected to be finalised by December 10, 2002 at the latest and have a slightly positive impact on our consolidated accounts.

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Merlin Gerin  
Modicon  
Square D  
Telemecanique

**Schneider**  
 **Electric**

*Building a New Electric World*

# Half-year results

at June 30, 2002

**Sales : €4.58 bn**

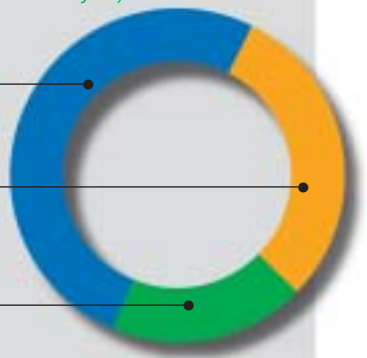
## Sales breakdown by geographical region

(in billion euros - change at current scope in % compared to the same period last year)

Europe  
**2.33**  
-6.4%

North America  
**1.37**  
-12.1%

Rest of the World  
**0.88**  
-1.1%



Business activity was stable in Europe in the second quarter, and the Iberian and Northern European regions resisted well. A slight improvement is observed in North America in the second quarter compared to the first, but without significant recovery in the industrial investment and non-residential building markets. In the Rest of the World, business activity trended generally upward with sustained sales in Africa, the Middle East and the Pacific regions.

**Operating income: €493 mn**

i.e. an operating margin of 10.8% of sales

**Operating cash flow : €464 mn**

i.e. 10.1% of sales

**Net income : €176 mn**

## A sound balance sheet

- Net debt/shareholders equity : 33%
- Debt coverage ratio: 10.1 x

(EBITDA/net interest expense)

...

This agreement upholds Schneider Electric's rights as regards the appeal filed in the European Communities Court of First Instance. If the European Commission's veto is cancelled by the Court when it rules in October 2002, Schneider Electric can maintain ownership of Legrand, subject to payment of a break-up fee. For its part, and as usual in this type of agreement, the consortium may withdraw its offer for Legrand should there be any "Material Adverse Change" preventing it from setting up or materialising the funding of the operation.

Given the current economic situation, we are anticipating that 2002 full-year sales should fall back moderately compared to last year. The Group will continue its actions aimed at improving the operating margin within the framework of the **NEW2004** program, and developing its offering of solutions in electricity technology, the **energy of the future**, for its markets: Residential, Buildings, Industry and Energy & Infrastructures.

I thank you for your continued support and confidence in us.

## Divestiture of *Legrand*

➤ **The Legrand divestiture process was secured with the signing of an agreement with Wendel and KKR on July 26, 2002.**

Schneider Electric and the Wendel Investissement and Kohlberg Kravis Roberts & Co L.P. (KKR) consortium signed a sale agreement for Legrand last July 26.

Out of the three possible options to divest Legrand (sale, public offering or spin-off), Schneider Electric chose the one which maximizes the interests of shareholders, while contributing to the Group's growth and maintaining its rights as regards the appeal filed in the European Communities Court of First Instance.

The firm and final price which values Legrand's equity at €3.7 billion for 100% of its capital is €3.63 billion for the 98.1% interest held by Schneider Electric. The transaction will be paid in cash

at the time of the actual transfer of the shares, by December 10, 2002 at the latest. The agreement is dependent upon approval from the European competition authorities regarding merger control.

If the sale of Legrand goes ahead, it will have a neutral impact on 2002 consolidated accounts since the capital loss on the shares has been offset both by the provision for Legrand shares set aside in 2001 and a positive tax impact.

Schneider Electric is studying carefully at how it can optimize the funds that should be obtained from the transaction in order to pursue its development and reduce the dilutive effect of its net earnings per share: strategic acquisitions, share buy-back, optimization of the Group's financial structure.



## Schneider Electric share / CAC 40 index

Since December 31, 2001, the Schneider Electric share has resisted rather well to the slump in the stock market, which continues to be affected by adverse worldwide economic conditions. The stock is down 13% compared to more than 25% for the CAC 40 index.

Over the past five years, the Schneider Electric share has achieved average annual growth of 4% compared to 7% for the CAC 40.

### Share data - Sept. 2002

- Shares outstanding: 240,700,460
- Euroclear code: 12197
- Listed on: First Market of the Euronext Paris market (accessible to deferred settlement service)
- Par value: euros 8
- Market value: euros 11.6 billion

### Investor calendar

#### September 5, 2002

2002 first-half results

#### September 24, 2002

Shareholders meeting (Annecy)

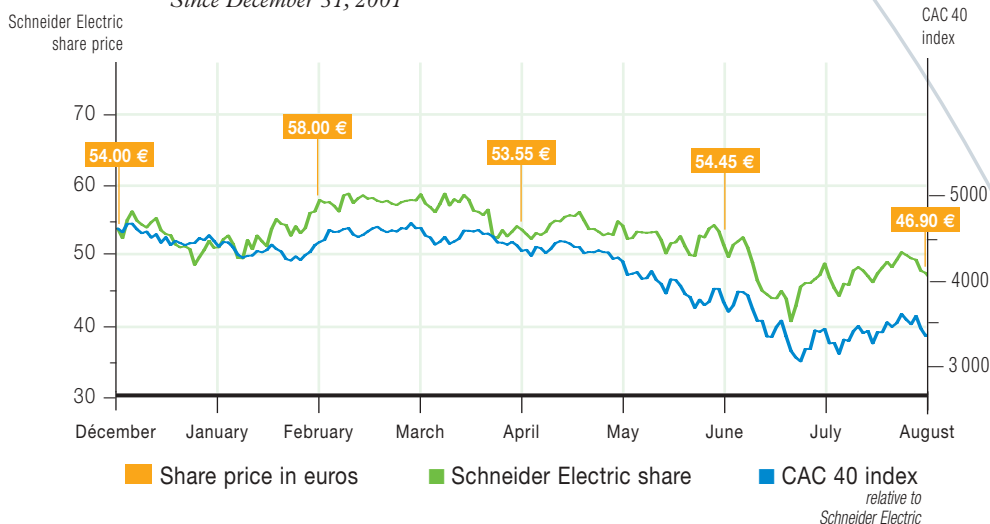
#### October 22, 2002

Sales at end of September 2002

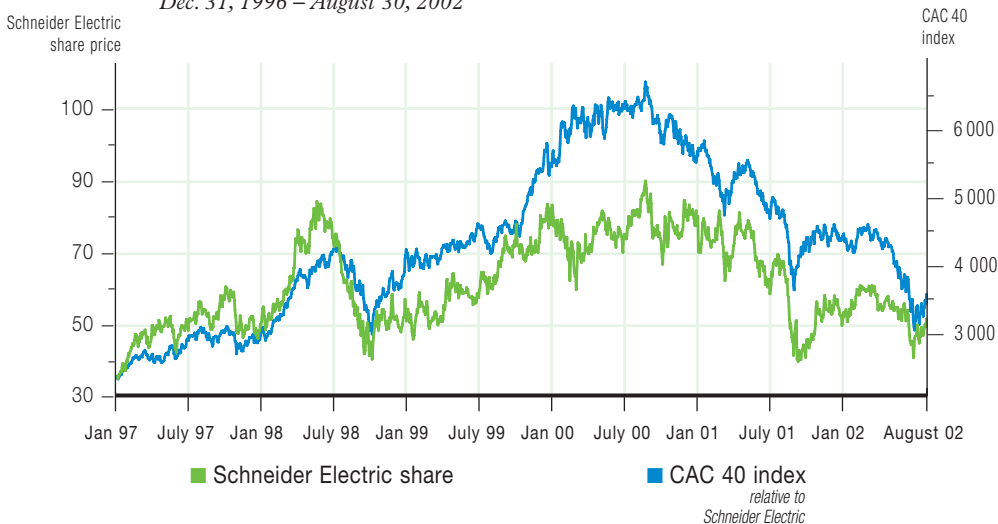
### Schneider Electric meets its shareholders in Annecy

Schneider Electric is attending a conference along with CNP Assurances on September 24, 2002 in Annecy organized by FFCI (French Federation of individual Investors). If you would like to participate, please ring the toll-free number (from France only) for an invitation. Drinks will be served after the conference.

### One year Since December 31, 2001



### Five years Dec. 31, 1996 - August 30, 2002



Want to find out more ?

**N° Vert 0 800 20 55 14**

[www.schneider-electric.com](http://www.schneider-electric.com)



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Incorporated in France with limited liability and issued capital of €1,925,603,680. Registered in Nanterre B 542 048 574

## For your information...

### Investor relations rating

A survey conducted by Thomson Extel ranks European companies in every sector according to the quality of their professional investor relations. This survey focused on 33 companies in the capital goods sector. They were rated by brokers and investors. Schneider Electric was ranked **second** by brokers and **third** by investors. For several years Schneider Electric has strived to build a relationship based on trust with

financial market players. The results of this survey put the group in an advantageous position as regards its main direct competitors.

### Sustainable growth

Since September 4, 2002, Schneider Electric has entered two reference indexes on sustainable development, the Dow Jones Sustainability World Indexes and the Dow Jones Stoxx Sustainability Indexes.