

# Letter to the Shareholders



## Dear Shareholder,

A little over a year ago, I had the great pleasure of announcing a major project: the merger between Schneider Electric and Legrand. This project, which offered **substantial industrial and strategic benefits**, was welcomed enthusiastically by both companies' partners.

As you know, the European competition authorities did not approve the proposed merger. We regret and challenge this decision, which we are appealing in the European courts. I continue to believe that

the only way to build a full-fledged, independent Europe is to have a powerful economic base. This requires powerful, strong companies that are leaders in their industries.

That said, I think it is now in both companies' best interest to turn the page as quickly as possible.

On January 30, the European Commission defined the separation procedure, leaving us three possibilities: sale, re-floatation or de-merger. I want to assure you that as we review these solutions, we are focusing on optimizing your interests.

In this situation, and to comply with prudent accounting principles, we had to estimate the value of our Legrand shares at the end of December 2001. The valuation takes into account the different separation scenarios, as well as the financial markets' decline in 2001. Also, the price offered for Legrand included a premium for control of the company that was justified by the substantial synergies generated by the merger. All of these factors led us to write an **exceptional provision** of 1.4 billion euros for the year ended December 31, 2001. This provision does not in any way affect our **financial strength**, as it has no impact on cash flow, cash or debt. Schneider Electric's shareholders' equity remains high at 8.5 billion euros, and we enjoy a comfortable debt-to-equity ratio of 27%.

Concerning business, 2001 was a difficult year for Schneider Electric, as for almost all manufacturers. It was shaped, of course, by the economic downturn, which was particularly strong in North America. On the other hand, business held up relatively well in Europe and the emerging economies thanks to our solid positions there. Total sales rose 1.4% from the year before. Excluding North America, and at constant structure and exchange rates, the increase came to 4.5%. Our consolidated operating margin narrowed in 2001, primarily due to a lower margin in North America (8% versus 14% in 2000). Nevertheless, it stands at 11.4%, which remains high compared with our peers.

Efforts to control inventories and investments at all levels of the Company drove a very strong increase in free cash flow in 2001. We also took disciplined measures to improve productivity and implemented rightsizing programs that reduced the workforce by 7.5%, or 6,000 jobs, half of them in North America. The reduction in base costs, which began in 1998, continued in 2001. In all, this program generated savings of 373 million euros over three years, exceeding the Schneider 2000+ target of 305 million euros. We will pursue base cost reduction in 2002.

More than ever, I am convinced that **electricity is the energy of the future**. Electricity plays an essential role in our daily lives and is critical to the production of virtually every product and service we use. Schneider Electric's fundamentals remain extremely solid. Your Company is ready for action, and we have the drive and potential to pursue our growth.

The Board of Directors has decided to propose a dividend of 1.30 euro per share for 2001 at the Annual Shareholders' Meeting, reflecting its confidence in Schneider Electric's underlying strength.

I am pleased that you share its confidence in the Company's future. This past year, Schneider Electric has demonstrated its endurance and responsiveness in an exceptionally difficult environment.

Henri Lachmann  
Chairman and Chief Executive Officer

Merlin Gerin  
Modicon  
Square D  
Telemecanique

**Schneider**  
 **Electric**

*Building a New Electric World*



## 2001 Financial Results

### *Solid operating performance*

**Sales: 9,828 M€**

*Up 1.4%*

**Operating income: 1,116 M€**

*i.e. Operating margin of 11.4%*

**Free cash flow: 538 M€**

*(Net cash provided by operating activities – capital expenditure – change in working capital)*

*compared with 243 M€ in 2000*

**Net loss: 986 M€**

*(excluding this provision, net income totaled 414 M€) impacted by an exceptional provision for Legrand shares*

**Proposed dividend: €1.30 per share**

### **A strong balance sheet**

- *Debt-to-equity: 27%*
- *Interest coverage: 12x*

*(EBITDA/net interest expense)*

The Board of Directors will propose to the Annual Shareholders' Meeting a dividend of **1.30 euro per share**, in form of a share premium reimbursement. The repayment does not give rise to a tax credit, but it is not considered as taxable income.



## Interview with ...

**Antoine Giscard d'Estaing**

Executive Vice-President and Chief Financial Officer



### **What were the main business trends in 2001?**

Business was shaped by a more difficult market environment than in 2000, notably in North America. The decline in capital spending severely affected our industrial control and automation activities. Nevertheless,

the Company continued to benefit from its strong market positions in Europe and the emerging economies.

### **Why did the Company record a loss for 2001?**

Schneider Electric's operating margin narrowed in 2001, but it is still high at 11.4%. Even more than in 2000, the Company demonstrated its strong ability to generate cash flow. Our bottom line was negatively affected by an exceptional 1.4 billion euros provision for Legrand shares, made

necessary by our pending divestment.

### **What about Schneider Electric's fundamentals?**

The Legrand episode has not and will not deteriorate Schneider Electric's excellent fundamentals, which include the ability to innovate, worldwide coverage, well-known brands, skilled teams and capacity for developing partnerships. Schneider Electric intends to pursue its growth by leveraging these strengths.



## NEW2004 program

New frontiers, new growth horizons, new ambitions : that's what Schneider Electric aims to reach through its vision for a **New Electric World**. This vision is part of the Company's strategic priority of generating sustainable and profitable growth by leveraging its competitive strengths, optimizing efficiency and taking advantage of development opportunities.

The NEW2004 program, which builds on the successes of Schneider 2000 and Schneider 2000+, has been launched in response to the constantly changing business environment. The program defines challenges and targeted objectives for the medium term.

### **Our six challenges**

- Be more customer centric
- Be committed to quality
- Be more global
- Increase our people's commitment
- Think innovation
- Develop corporate community responsibility

### **Our financial objectives**

Sales: - Organic growth two points above the market  
- 1 billion euros in additional sales through acquisitions

Gross margin: up 3 points

2004 operating margin: 14% of sales.



## General Management: *younger and ready for action*

A new organization was introduced at the end of 2001. More compact, its fits in with the objectives of the NEW2004 program. It features:

- **Stronger corporate functions** for Development-Industry

(purchasing, quality and industrial organization) and Strategy-Markets (e-business, services).

- **Simplified geographic operations**, with three divisions (North America, Europe including France and International).



### Schneider Electric products in unexpected places...



Since last December, visitors to the Sea World resort in Queensland, Australia, have been treated to the new Polar Bear Shores exhibit, which features incredible special effects that recreate a natural habitat for Kanook and Ping Ping, the two happy polar bears who live there. The effects are entirely managed by Schneider Electric equipment. "It took three years of work to design and build the polar bear enclosure" explains Mark Lawrence, manager of electrical installations at Sea World.

The completed enclosure reflects the work that went into it. Measuring 1,400 square meters with a 600,000-liter pool, it is the

largest and most advanced exhibit of its type in the world. An electronic system recreates an arctic tundra climate by controlling water and air temperature, generating wind at speeds of up to 50 knots, creating fog of all thicknesses using 300 liquid spray diffusers and producing light to pouring rain.

To maintain this perfect polar bear environment, the weather-making system relies on five Altivar 18 speed drives, which are connected to a control panel through Harmony ZB4 control and signaling units. The panel comprises a series of Harmony ZB4 switches and pilot lights that allow users to operate each ventilator separately, as well as the other system components.

"Several other areas of the resort also use Schneider Electric equipment," says Steve Boehme, a Schneider Electric engineer. "Sea World is a very interesting site, and it's nice to know that our products are helping to entertain a large audience." "For us", concludes Sea World's Lawrence, "Schneider Electric offers rock-solid support in terms of product reliability, service and assistance. They're always there when you need them."



### Geronimo

*The first chapter in the adventure to break sailing records along the world's most prestigious routes began on February 18. During the next four years, skipper Olivier de Kersauson and his team, backed by Cap Gemini Ernst & Young and Schneider Electric, will measure themselves against the record books aboard the Geronimo trimaran.*

*Among those, the Jules Verne Trophy, around-the-world race by the three capes : the program, 40 000 km and 17 weather systems, to pass through or around.*

### Latest news...

*On Friday, March 1, as it was off the north coast of Brazil at 10° south, Geronimo had to abandon its bid to break the Jules Verne record due to a steering problem that has made the trimaran unmaneuverable at high speeds. Because the problem cannot be repaired at sea, Kersauson, the current record-holder, has decided to sail back to Brest.*

*To be followed...*

*To find out more:  
[www.grandsrecords.com](http://www.grandsrecords.com)*



## Shareholders' Relations Committee

On February 12, the Shareholders' Relations Committee met for the third time since it was created in 2001. During the meeting, the Committee set its agenda for 2002 and discussed two main topics:

• **The Annual Shareholders' Meeting:** The Committee wants to serve as the "ambassador" for individual shareholders. It has offered to collect

questions from shareholders at a toll-free number and submit them directly to the Chairman at the meeting.

• **Plant tours:** The Committee visited the Vaudreuil contactor plant and validated the idea of offering plant tours for shareholders. The project's main aspects were defined, including number of tours per year, number of participants per tour and registration procedures.

The Committee reminds shareholders that it is available at all times to present their concerns to Schneider Electric management.

Shareholders can contact the Committee at a toll-free number in France (0 800 20 55 14) or via the Schneider Electric website: [www.schneider-electric.com](http://www.schneider-electric.com) Investor's corner.



## Shareholders' Agenda

### Schneider Electric Share/CAC 40 Index

From February 15, 2001 to February 14, 2002

At February 14, 2002, the Schneider Electric share was down 22.7% year-on-year. During the same period, the CAC 40 index lost 22.4%. Although economic indicators are starting to show some positive signs, the stock market environment remains uncertain in France and the rest of the world.

#### Share data February 2002

- Shares outstanding: 240,260,029
- Euroclear code: 12197
- Listed on: First Market of the Euronext Paris market (deferred settlement service)
- Par value: € 8.00
- Market value: € 13.0 billion



### French tax information concerning the Legrand exchange offer

(Directive of July 3, 2001 – This information only concerns shareholders whose tax home is France. Other shareholders should contact their tax authorities.)

#### Legrand common shares tendered to the offer

Payment of the capital gains tax on any gains realized during the exchange offer has been automatically deferred, because the share swap is not considered as the final sale of previously purchased securities. As such, it is not taken into account in the calculation of the annual FF 50,000 ceiling below which French investors are not liable to capital gains tax on the amount realized. This means that no capital gain is recognized or reported for the year in which the swap occurred. If Schneider Electric shares received during the swap are sold, the acquisition value of the Legrand shares tendered has to be used to calculate the capital gain.

#### Legrand preferred shares tendered to the offer

In that case of a cash payment exceeding 10% of the par value of the shares received, the entire capital gain is taxable. To calculate the capital gain, the opening Schneider Electric share price on August 6, 2001 has to be used, i.e., €64.10. This was the date on which the result of the offer was published in the market's official journal.

Example : A shareholder tendered one Legrand preferred share bought for €125 in 1999 and received two Schneider Electric shares plus a cash payment of €55. The taxable capital gain is calculated as follows:  
 $2 \times 64.10 + 55 - 125 = €58.20$  (To simplify, the example does not take into account brokerage fees, which reduce the realized capital gain).

### Investor calendar

April 23, 2002	First-quarter 2002 sales
May 27, 2002	Annual Shareholders' Meeting (Carrousel du Louvre, Paris)
May 31, 2002	Dividend payment
July 23, 2002	Half-year 2002 sales
September 5, 2002	Half-year 2002 results
October 22, 2002	Nine-month 2002 sales

### Want to know more?

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



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