

Letter

to the Shareholders

Number 5 - september 1999



Ph.: Bruno Paget

Dear Shareholder,

The results of the first half of 1999 are very encouraging as indicated by the figures presented herein. I can draw two lessons from these results.

The first is Schneider Electric's capacity for generating profitable growth. Since the beginning of the year the gross operating margin has progressed by almost one point to 12.1%, which is high for an industrial company like ours.

At this rate, the Group will reach its objective of an operating margin of 13.4% at the end of 2001.

The second lesson is the speed of implementation of the strategic initiative announced last March. On the subject of external growth, I would note the speed with which Lexel has been integrated, providing the group with front rank positions in the European ultraterminal field, particularly in northern Europe. On cost reduction, the reorganisation and restructuring plan for our Industrial Automated Control Systems Division is almost complete. We have also decided to move the business group head office to Rueil-Malmaison which will save us 35 million francs per year. Over the full year, Schneider Electric business and profitability should continue to progress. The Group expects growth of about 10% in sales and a continued increase in operating margin, in accordance with the objectives of the Schneider 2000+ plan.

During this first half, the whole company was clearly motivated to attain this growth requirement. These first half results show their capacity for creating value reflected in the Schneider Electric share price, which has gained 32% since the beginning of the year.

The board meeting of 8 September finalised accounts for the first half of 1999.

■ **The consolidated turnover** of Schneider Electric SA amounted to 26.3 billion francs at the end of June 1999, a growth of +7.5% (not including real estate in '98) after integration of Lexel's activities.

■ On a constant consolidation scope and currency basis, sales rose by +0.3% during the first half (+2% excluding the High Voltage contract invoicing).

■ The first half saw several commercial successes with our major accounts (IBM, SmithKline, Lafarge, Toyota, Carrefour...) representing a major area of development – and the renewal of some of our product lines – and faster implementation of new technology to serve the customer.

■ As far as the growth by acquisition aspect of the Schneider 2000+ plan is concerned, several acquisitions were made during the first half: Electric Switchgear (USA), Veris Industries (USA), Plasnavi (Argentina), Manelsa (Peru).

Continued improvement in operating margin

■ The Group operating income totalled 3.2 billion francs (484 million Euros) during the first half of '99 - an increase of +17%.

This significant improvement is the result of strong resistance in terms of gross margin, favourable changes in the product mix and the first effects of the structural cost reduction initiatives implemented within the Schneider 2000+ plan.

The operating margin (measured by the operating result/turnover results) thus rose from 11.2% (end '98) to 12.1% (11.9% excluding Lexel).

The Schneider 2000+ plan includes a 2-billion franc 3-year overhead cost-cutting plan. Accordingly, we have set a target of a 2-point increase in operating margin. It led us to set a target of improving the operating margin by 2 points (compared with '98).

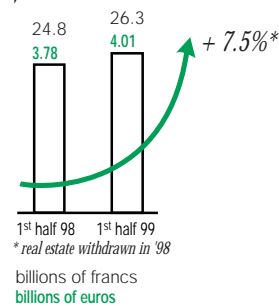
Schneider Electric results at the end of June '99 coincide with this objective.

Net earnings per share: +18% (before goodwill)

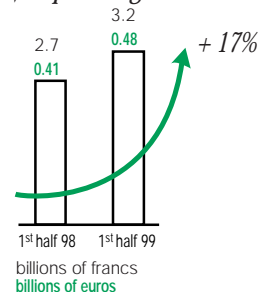
■ The net group income (before goodwill) totalled 1850 MFF (282 million Euros) at the end of June '99, an increase of +15% over the equivalent period in '98. Integrating the share buybacks carried out by the company, net earnings per share (before goodwill) rose by +18%.

First half-yearly results 1999

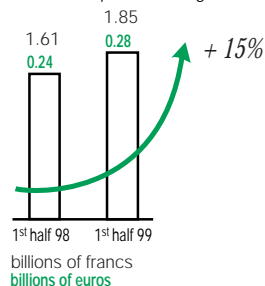
Turnover



Operating results



Net result group share before depreciation of goodwill



Merlin Gerin

Modicon

Square D

Telemecanique

Henri Lachmann

Schneider
Electric

Who does as much for electrical progress?

Schneider Electric completes the acquisition of Loxel... and becomes number two in Europe for ultraterminal distribution

Schneider Electric completed the acquisition of Loxel in June. The Scandinavian group, specialising in ultraterminal electrical distribution (connectors, switches, routings and other accessories), works mainly in northern Europe, as well as eastern Europe, Germany, France and the United Kingdom. Schneider thus confirms its determination to

globalise its electrical distribution range and reinforce its presence in the ultraterminal field. This acquisition also extends its European coverage.

Schneider Electric began to develop in this low voltage sector about ten years ago, generating at the time sales of 700 million francs (110 million Euros) with Feller (Swiss market

leader with 70% of the market), Eunea (Spain), Schyller (Italy) and part of Sarel (France).

With the acquisition of Loxel, Schneider Electric assumes a major position as number two in Europe for ultraterminal electrical distribution while strengthening its position as world leader in terminal low voltage. In 1998, Loxel generated sales of 3.5 billion francs (535 million

Euros) with a workforce of 6000. During the first half of 1999, Loxel's consolidated sales totalled 1.8 billion francs (270 million Euros) a 1.8% increase. Loxel's profitability is high, with an operating margin of 14.9% on 30.06.99.

Schneider Electric acquired Loxel for 6.1 billion francs (900 million Euros) and financed the operation via a bond issue.

Schneider 2000 is now Schneider 2000+

Launched in February 1996 by Didier Pineau-Valencienne, the Schneider 2000 project mobilised the men and women of Schneider for the same objectives of value creation for the customer, staff and shareholder. Backed by this mobilisation and given the first encouraging results, Henri Lachmann gave a new impetus to this project by deciding that it would continue beyond the year 2000 and strengthening the initiatives supporting the objectives of the project that he symbolically renamed Schneider 2000+ to underscore this strengthened ambition:

■ Detailed plans of action for organic growth and growth by acquisition have been developed in each entity.

■ Detailed plans of action for **cost-cutting** have been developed in recognised sources of cost-cutting: control of staff turnover, reduction in travel expenses, real estate investments, telecommunications, use of external consultants, etc.

■ **Customer satisfaction** is measured in each country by regular polling conducted by

independent organisations. The results are analysed and progress plans are drawn up to significantly increase the number of satisfied customers.

■ **Employee satisfaction** inquiries in each entity help create an atmosphere of achievement within the company.

■ **Speed is a key factor** for success in our company. Initiatives for process optimisation are designed to spectacularly improve the speed and reactivity of all our processes: development and commercialisation of new products, responding to customer demand...

■ With the necessary **internationalisation** of our company we shall continue to outperform our competitors through an optimal world-wide presence: the internationalisation of our research and development laboratories, the globalisation of our purchasing and industrial systems, the installation of a commercial division dedicated to major international customers are all included in action plans and specific follow-up within the Schneider 2000+ project.

Schneider Electric continued its policy of growth by acquisition with several new companies completing its range and its geographic coverage

➤ **Acquisitions during the first half of 1999:** ■ Electrical Switchgear (USA): services ■ Veris Industries (USA): power monitoring ■ Plasnavi (Argentina): ultra terminal ■ Manelsa (Peru): distribution of low voltage products and equipment.

➤ **1998 acquisitions integrated:** ■ Mafelec (France): man-machine dialogue ■ Schyller (Italy): industrial connectors ■ Gentle Power Services (USA): services ■ ERM (USA): services.

Shareholder's diary

The ACTIONARIA Show 19 and 20 November (at the Paris Convention Centre)

Organised in partnership with Le Figaro and Investir, Actionaria is the venue for all the stock market players to meet listed companies.

At its first edition in November, 1998, Actionaria drew in more than 21,000 individual shareholders, keen to meet listed companies and attend the lectures and discussions.

For the second consecutive year Schneider Electric will be at the Actionaria Show.

We will be happy to welcome you to our booth and provide you with the latest information and answers to your questions.

Important upcoming dates:

- 28 October, 1999 : sales on 30.09.99
- 19 and 20 November, 1999 : Actionaria Show

Indicators as of 30.06.99

- Shares in circulation: 156,849,593
- Sicovam Code: 12 197
- Quota: 1
- Negotiation: monthly settlement
- Nominal value: 50 FF
- Market capitalisation end of August '99: 65 billions FF i.e. 10 million Euros
- CAC 40 index value: 1.3%
- Autre place de cotation : Londres (SEAO)

The Schneider Electric share

- Price on 06.09.99: 68 Euros, i.e. +32% compared with 30.12.98
- CAC 40 variation compared with 30.12.98: + 18%

www.schneider-electric.com
www.prline.com

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