

# Action n°31

Letter to Schneider Electric Shareholders



1 solutions  
provider

+



1 leader in the  
new economies

+



1 global  
company

=



# Schneider Electric's new company programme

Dear Shareholder,

New<sup>2</sup>, our company programme for 2005-2008, successfully transformed Schneider Electric into the global specialist in energy management. Today, we are no longer the same company. We've diversified our business portfolio, customer base and end markets. We've expanded our geographic coverage by building an extensive market presence in the new economies. And we're now in a strong position to capture opportunities arising from our planet's energy challenges more quickly and more effectively than ever before.

New<sup>2</sup>'s positive outcomes demonstrated Schneider Electric's ability to successfully drive change. The repositioning of our business portfolio has helped to structurally improve our growth profile. At the same time, we enjoy a significantly leaner cost structure and have reached our sustainable development goals. All of the new<sup>2</sup> financial targets for 2005-2008 were met, with organic growth of 10%, a solid EBITA margin of 15% and robust cash generation.

One, our new company programme for 2009-2011, will allow us to take our strategic transformation to the next level in the years ahead. Although it is different from the previous programme, One will also broaden and deepen the progress we have started to make with new<sup>2</sup>. Long-term trends in our businesses are favourable. While customer satisfaction and the development of our human capital remain our key fundamentals, One is launching strategic initiatives that will make us even more unique in the marketplace by enabling us to become one solutions provider and to make the new economies priority one, all whilst streamlining our processes so that we act as one global company.

Management is confident that Schneider Electric will emerge from One as an undisputed global leader in energy management solutions, while simultaneously delivering excellent operating and financial performance. In line with our dividend policy, the Management Board will ask shareholders at the next Annual Meeting to approve a dividend representing 50% of net profit for the year, or €3.45 per share, payable in cash or shares as from 29 May 2009.

Jean-Pascal Tricoire  
Chairman of the Management Board and CEO

# Understanding



## Company Programme Becoming a global leader in energy management

### > Energy is clearly one of the key challenges facing our planet

According to the International Energy Agency, energy demand will double by 2050\*. Given that 1.6 billion people still lack access to electricity, power generation alone could double by 2030, meaning that over the next 20 years, capital investments in power generation facilities are expected to equal the amounts spent during the entire 20<sup>th</sup> century.

At the same time, a major commitment is underway to curb CO<sup>2</sup> emissions in order to mitigate global warming. But even the rosier scenario expects that in 2030, 75% of the world's energy sources will still be carbon-based and therefore continue to emit CO<sup>2</sup>. To satisfy rising demand and ensure a reliable supply of energy, alternative solutions need to be found as quickly as possible.

By offering unrivalled end-to-end energy management solutions, Schneider Electric operates at a particular point in the energy value chain. We're not involved in the generation of wind, nuclear or any other kind of power, nor do we make anything that uses energy. Rather, we are the global specialist in managing energy from the factory to the end-user, from the power plant to the mains.

Today's customers want electric power that is of perfect quality, reliable, cost-effective, energy efficient and clean. That's why we offer to install solutions capable of cutting their energy costs and carbon emissions by 30%, regardless of the type of application, and to integrate renewables into their energy mix.

In other words, we can now deliver not only our decades-old expertise in securing power supply, but also reliability, efficiency, productivity and green energy. Schneider Electric is responding to these unique, complex needs by enabling customers make the most of their energy.

### > A transformation

Schneider Electric has undergone a major transformation in recent years, more particularly between 2005 and 2008 when our previous company programme, new<sup>2</sup>, enabled us to refocus our business base on the most promising markets.

- We doubled the size of the company in four years through sustained organic growth, averaging 10% a year, and strategic acquisitions.
- We changed our growth profile by developing new businesses, such as control and cooling systems, power transmission, building automation, security and renewable energies.
- We diversified our geographical exposure by expanding into the new economies, whose equipment and infrastructure needs far surpass those of the mature markets. We now employ 46,500 people in emerging markets, or 40% of the total workforce at year-end 2008.

This transformation has enabled us to acquire an integrated energy management portfolio, with a closely related range of strategic positionings aligned with highly specific market segments. Energy efficiency, the common green thread running through all of these businesses, allows us to respond to customer needs quickly and effectively and to capture opportunities arising from our planet's energy challenges.

\* Source: IEA 2007



## > One, our new company programme

Known as one, our new company programme is a change management process that is enabling us a) to rapidly align our actions with the shared goals vital to our success without sacrificing profit, b) to remain competitive and c) to quickly adapt to the business environment, especially during a recession. It was presented to shareholders, analysts and financial journalists last January 28 at our new head office.

One is based on two solid fundamentals: customer satisfaction and teamwork.

For our customers, we want to continue improving our fundamentals – the quality of our products, our delivery performance, our support services and our solutions. The rate of very satisfied customers has risen by 30% over the last four years and we hope to increase it another 20% over the next three. A happy customer is a loyal customer, who helps to enhance our reputation and enable us to distinguish ourselves from competition.

Schneider Electric is a global enterprise employing 126,000 people in more than 100 countries. To be seen by our customers as a single-source provider of end-to-end solutions, we have to work as a single, close-knit team, sharing knowledge and best practices among our country organisations, operating units and corporate functions, while fostering every employee's personal fulfilment and superior job performance.

These two fundamentals are the cornerstones of our strategic transformation. The One company program has launched three strategic initiatives that will make us even more unique in the global energy management marketplace.

- One solution provider: Schneider Electric will accelerate its drive to address end-user needs with customized solutions with strong energy efficiency benefits, thereby capturing a bigger part of the value chain. We will leverage our integrated portfolio of businesses through the use of a common architecture (EcoStruXure®), while aligning our organisation with end-user segmentation.

- One leader in the new economies: Schneider Electric will further expand its global footprint by broadening and deepening its presence in the new economies, as drivers for long term growth and cost competitiveness. We will emphasise local R&D and marketing to enhance response to local market features and needs. On the production side, we will continue to enjoy the benefits of local sourcing and manufacturing.

- One global company: The pre-requisite for most of our strategic ambitions is a single, aligned organisation, which is being driven by:

- Streamlining the support functions: designing One simple way of doing business, especially in the finance, human resources, and sales and marketing organisations, is expected to reduce corporate overheads by €600 million a year beginning in 2011.

- Improving manufacturing productivity: Building on its strong track record, Schneider Electric is committed to improving supply chain productivity to drive down costs by a total gross €600 to €800 million over three years.

These initiatives are designed to enhance our profile across a normal business cycle, with organic growth of GDP+3 points and a potential EBITA margin of 13% to 16%.



## The Hive: 35,000 sq.m of innovation

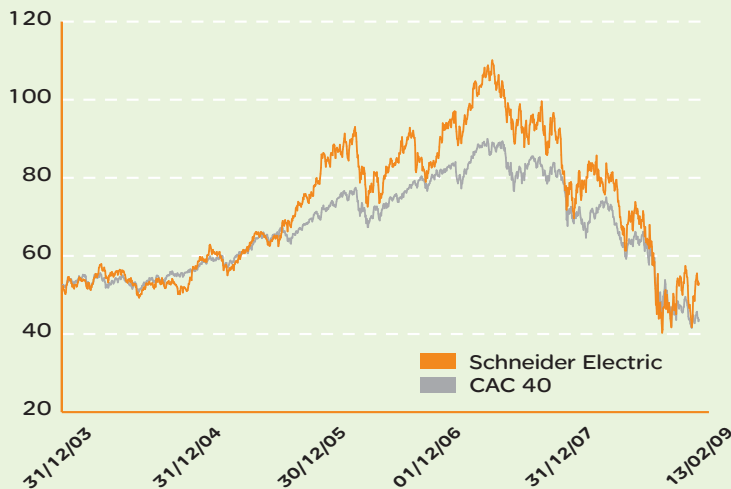
Known as the Hive, an acronym for the French words meaning "Hall of Innovation and Energy Showcase," Schneider Electric's new 35,000 sq.m head office houses 1,800 employees formerly based in seven different locations and can welcome up to 20,000 customers a year. It symbolizes our vision and corporate mission, of doing more while making less of an impact on the planet and of helping people to make the most of their energy. The entire building was designed in every detail to shrink our carbon footprint, improve our energy efficiency and lower costs. As an example, it uses just 50 kWh/sq.m of electricity per year, compared with 350 kWh/sq.m in the former head office buildings, which feeds through to around a 30% decrease in energy costs. Maintenance expenses have been reduced by 30% thanks to the deployment of seamless building management systems and technologies. Reliability has also been improved by about 30%.



# Our Company

## Shareholder agenda

### Schneider Electric share price/CAC 40 Index



- > ISIN: FR0000121972
- > Traded on the NYSE Euronext Paris stock exchange (compartment A)
- > Market capitalization at February 24, 2009: €12.25 billion



### Coming events

- April 23
  - First-quarter 2009 sales
  - Annual Shareholders' Meeting at the Espace Grande Arche, Paris la Défense
- May 4
  - Ex-dividend date (stock begins trading ex-dividend)

- May 4 to 19
  - Shareholders' decision to be paid in cash or in shares

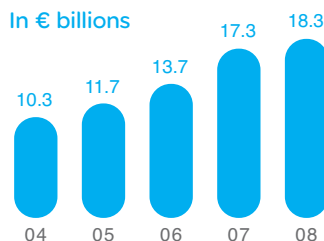
- May 29
  - 2008 dividend paid in cash or shares

- July 31
  - 2009 Half-year results
  - Second-quarter 2009 sales

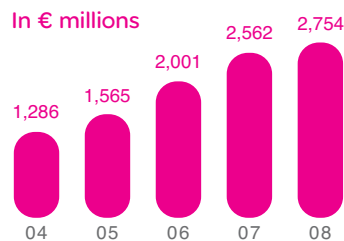
- October 22
  - Third-quarter 2009 sales

### > Growth and earnings in 2008

**+ 5.8%** Consolidated sales vs. 2007



**+ 7.5%** EBITA vs. 2007



Average annual organic sales growth reached 10% during 2005–2008 under the new<sup>2</sup> company program. In the fourth quarter of 2008, sales remained stable, down 0.4% on a like-for-like basis and assuming constant exchange rates.

This performance reflects the rapid deterioration of the economy late in the year, the slowdown in end markets in all geographical regions, the postponement of new investment by end users and a wave of destocking by a number of distributors.

However, thanks to Schneider Electric's ability to capitalise on its attractive business portfolio, growth was driven by solutions and services in all regions at year end.

EBITA increased for the fifth consecutive year to million €2,754, up 7.5% in 2008. The EBITA margin rose 0.2 percentage points to 15%, within the upper range of the new<sup>2</sup> program's targets. This improvement in earnings was driven by Asia Pacific, where profits rose 2.3 percentage points, as well as by Europe and the Rest of the World. In North America, earnings declined by 0.2 percentage points. Nonetheless, all activities (Electrical Distribution, Automation & Control, Secure Power) saw their margins improve.

\* EBITA : operating profit before amortization and impairment of purchase accounting intangibles.

*If you have questions or suggestions, please let us know!*

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