

Fitch Places Schneider Electric on RWN on Areva Announcement

Fitch Ratings-London/Paris-01 December 2009: Fitch Ratings has today placed French-based Schneider Electric SA's (Schneider) Long-term Issuer Default Rating (IDR) and senior unsecured rating of 'A-' on Rating Watch Negative (RWN). The Short-term IDR has been affirmed at 'F2'. This follows Schneider's announcement on 30 November 2009 that the company, in partnership with Alstom SA, has moved into exclusive negotiations with Areva SA regarding the purchase of its transmission and distribution businesses for approximately EUR4.1bn. Under the proposed terms of the deal, Schneider will receive Areva's distribution unit, while Alstom will receive the transmission unit.

The RWN reflects Fitch's concern that the deal - if successfully completed - could result in Schneider's leverage (net debt/EBITDA) rising to a level no longer commensurate with the current ratings. Although details are still pending on how the purchase price will be split between Schneider and Alstom and on how the proposed acquisition will be financed, Fitch estimates that the deal may cost Schneider approximately EUR1.0bn-1.4bn. As a result, Schneider's leverage could move to as high as about 2.2x, depending on the amount of debt used to finance the purchase. As of end-H109, Schneider's leverage stood at 1.9x (on a last-12-months basis), up from 1.3x at FYE08 due to weak trading conditions. Fitch would view leverage in excess of 2x as being more consistent with a Long-term IDR of 'BBB+' rather than the current 'A-', and therefore it is possible that the ratings will be downgraded by one notch if the deal is primarily debt-funded.

Fitch notes the proposed deal should bring some mild operational benefits to Schneider, notably by strengthening the company's market position in the medium-voltage distribution market, with the new entity becoming a market leader alongside competitor ABB Ltd. ('BBB+' / Positive). However, this in itself is unlikely to offset the expected negative impact that the proposed deal will have on Schneider's credit profile through increased leverage. The agency also notes that the extraction of synergies may be limited by Schneider's commitment to maintain all European sites for a three-year period (hence preventing any cost savings through rationalisation programmes) and not to implement any layoff programme except for voluntary termination (unless the economic environment deteriorates significantly).

The proposed deal has yet to be finalised, and remains dependent on the completion of negotiations with certain stakeholders (such as labour representatives) and anti-trust approval. Fitch will seek to resolve the RWN as and when the deal has been completed and financing details are known. The agency will be seeking further guidance from Schneider's management over the coming days.

Schneider is a leading global manufacturer of power distribution and automation equipment and control systems. The company is headquartered in Rueil Malmaison, France. In FY08, Schneider generated sales of EUR18.3bn, with operations in more than 102 countries.

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