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## Fitch Affirms Schneider Electric at 'A-'; off RWN; Assigns Stable Outlook

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Fitch Ratings-London/Paris/Warsaw-12 April 2010: Fitch Ratings has today affirmed French-based Schneider Electric SA's (Schneider) Long-term Issuer Default Rating (IDR) and senior unsecured rating at 'A-', respectively, and its Short-term IDR at 'F2'. Fitch has simultaneously removed the Long-term IDR from RWN, effective since December 2009, and assigned a Stable Outlook.

The removal of the RWN and assignment of a Stable Outlook reflects Fitch's reduced concerns about the financial impact of Schneider's proposed acquisition of Areva Distribution (AD), which is expected to close during Q210 with a cash cost of EUR1.1bn. Schneider's strong free cash flow (FCF) of EUR1.8bn during 2009 has provided the company with a more robust balance sheet than previously expected, including cash balances of EUR3.5bn (as of FYE09). This should provide the company with a greater ability to absorb the AD acquisition as and when it closes without it materially affecting key credit metrics. Based on revised forecasts, which now fully reflect 2009 actual trading and a slightly more positive view of market conditions, Fitch expects net leverage (lease adjusted net debt to operating EBITDAR) to rise only slightly once the deal closes, reaching about 1.3-1.4x by FYE10 compared to 1.3x at FYE09, as opposed to a previous forecast of a rise to 2.0x by FYE10. Other key credit metrics are expected to remain similarly stable.

Schneider's ratings also reflect the company's strong business profile, including its leading market positions, diversification, size and scale, and its conservative financial structure, with low net leverage and strong funds from operations (FFO) fixed charge cover (6.3x in FY09). The ratings further reflect the company's low capital intensity and its proven track record of generating strong, positive FCF. Related to this latter point, the ratings are also supported by the proven resilience of Schneider's business model. Although the global economic downturn has negatively affected Schneider's earnings, with EBITDAR down 24% in 2009 relative to 2008, the company has remained highly cash generative and leverage has remained low, as working capital inflows and cut backs in capex and dividends have provided support.

However, Schneider's ratings also continue to be restricted by certain inherent risks, including cyclical demand (notably within industrial, commercial property and residential end-markets), and competitive markets, including rising competition from emerging market players. Its ratings are also restricted by its exposure to fluctuating input costs, a reliance on mature economies (the source of 67% of FY09 sales), and an exposure to technological change and thus a need for constant innovation.

Fitch also notes that further debt-funded M&A remains a moderate risk to the ratings, over and above the AD deal, given that Schneider has signalled its intention of pursuing further acquisitions. However, the company's cash generative nature helps partially offset these worries, as moderate acquisition activity can be financed purely through internal cash generation. Furthermore, Fitch believes that Schneider is committed to retaining a conservative credit profile, and therefore does not expect any significant, aggressive debt-funded deals.

The Stable Outlook reflects Fitch's view that Schneider now has good headroom at its current ratings level. Although market conditions in Schneider's key end-markets are likely to remain weak in the short term, signs are emerging that many of these markets are stabilising. Fitch therefore expects a mild improvement in trading during FY10 and FY11, which should further support the existing ratings. Positive rating momentum could build if improved trading leads to a sustained improvement in cash flows and key credit metrics, such as net leverage below 1x or FFO fixed charge cover above 8-9x, or if the company's exposure to more stable end-markets (such as services) improves.

Schneider, headquartered in Rueil Malmaison, France, is a leading global manufacturer of equipment for electrical distribution, industrial control and automation.

In rating this issuer, Fitch used the master criteria 'Corporate Rating Methodology', dated 24 November, 2009. Applicable criteria are available at [www.fitchratings.com](http://www.fitchratings.com).

Fitch has made major improvements to its credit research on EMEA and AsiaPac corporates. To view these improvements, visit our 'Clear Thinking' web page at <http://clearthinking.fitchratings.co.uk/Index.html>

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