

Economic, social and environmental performance



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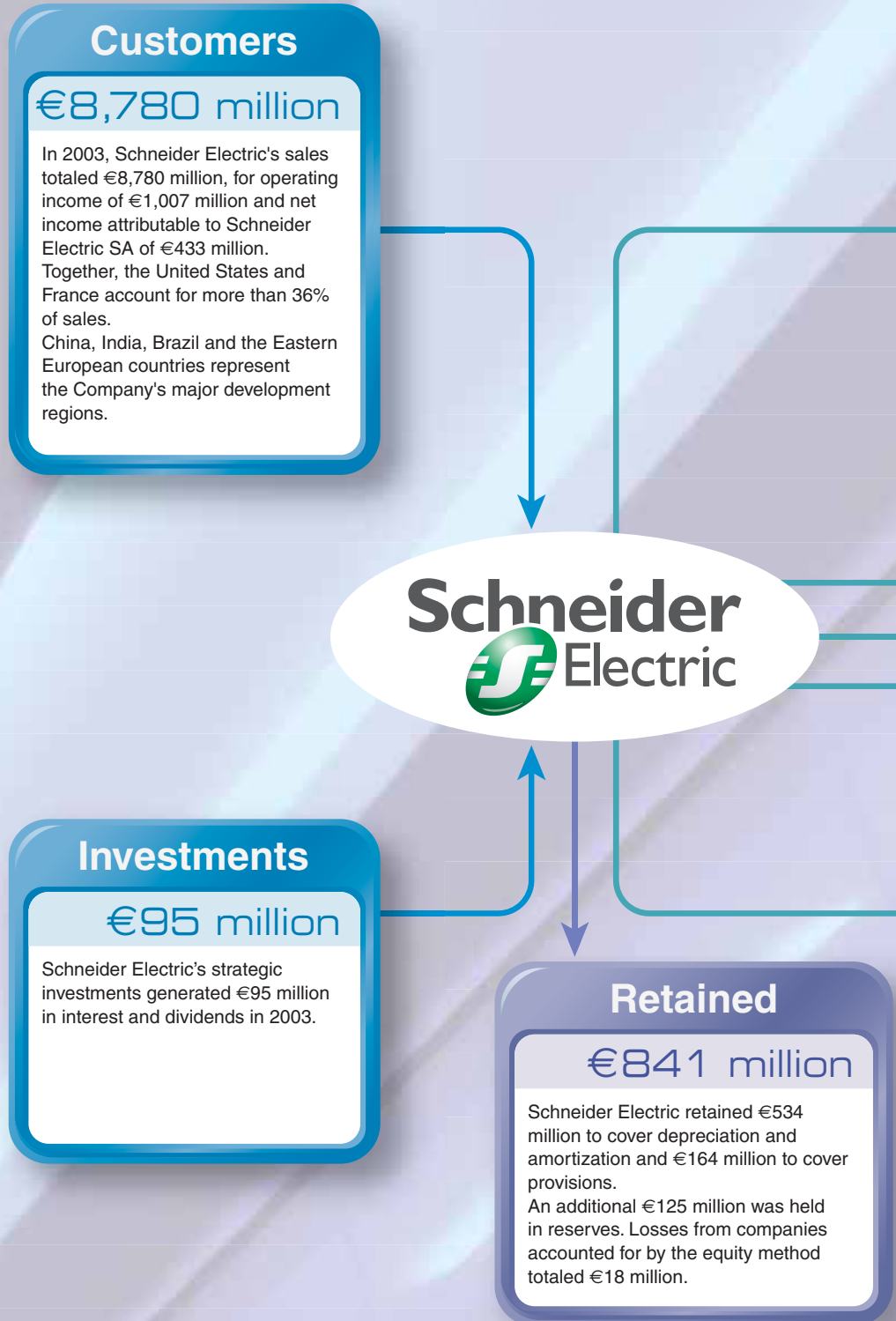


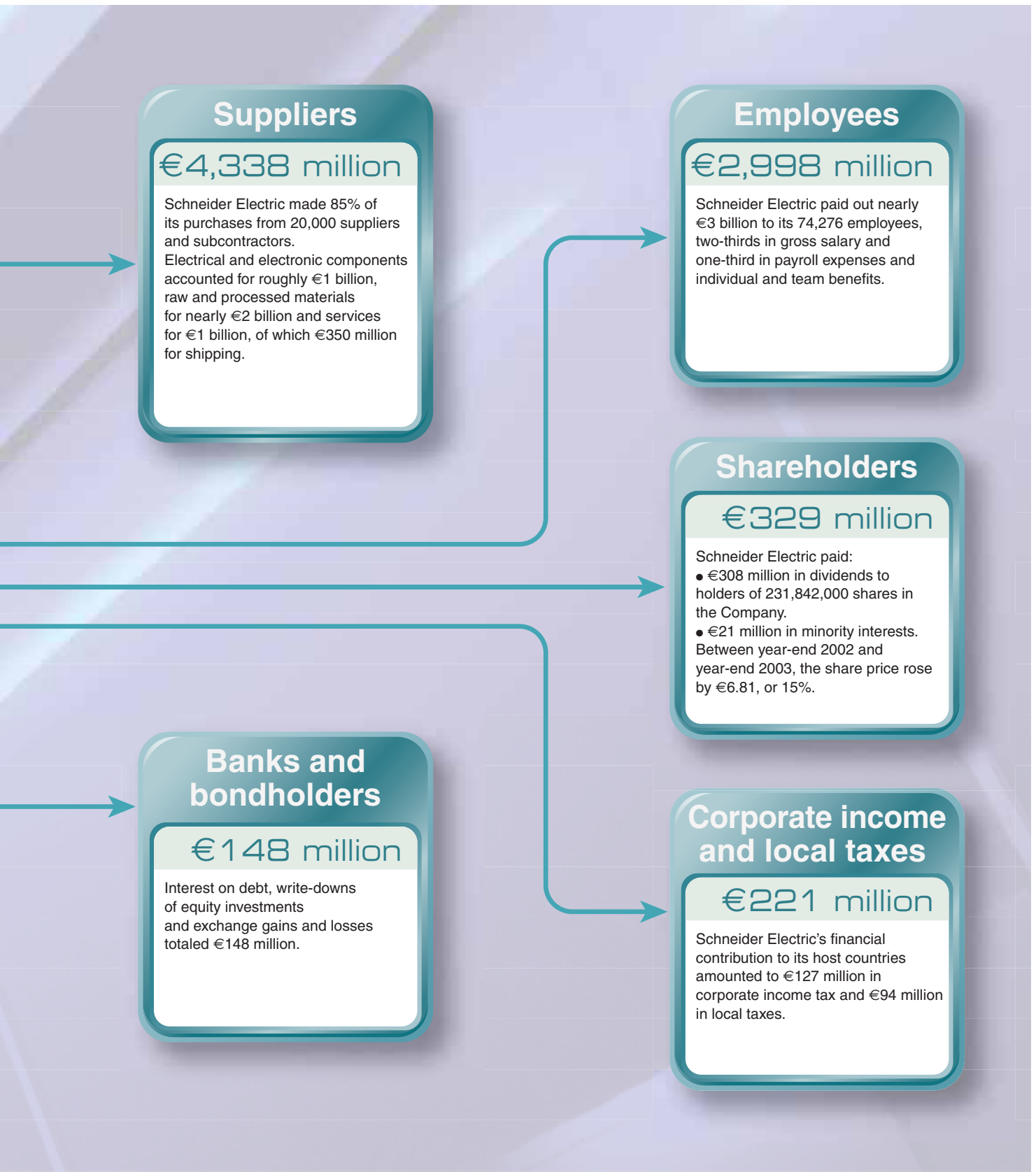
The following pages show how Schneider Electric is applying its sustainable development approach across the organization, the results we've obtained in terms of economic, social and environmental performance, and the leading ratings agencies' assessment of the Company's commitment.

Economic performance

Schneider Electric is dedicated to creating value for shareholders, as well as for customers, employees, suppliers and the community.

How we generate and use our income





Economic performance

With its partners, Schneider Electric provides tailored solutions to help customers improve their environmental and economic performance and reduce energy consumption.



Creating value for customers through energy efficiency

The potential market for energy savings currently represents between €5 billion and €10 billion. With an estimated growth rate of 15% to 20%, this could well rise to tens of billions of euros in the long term.

Schneider Electric is positioned as a powerful player in this market, developing products and services for customers that help them significantly reduce their energy consumption.

These products and solutions are present at every link in the energy chain:

➤ *Remote monitoring of energy consumption*

Experts remotely monitor energy consumption via computer links to the customer and the customer's electrical installations. Based on data collected, the expert makes recommendations that the customer can apply in real time. Remote monitoring can reduce energy consumption by an average 10% a year and pay for the measuring instruments and expert appraisal in less than one year. Introduced in 2002, remote monitoring programs are underway in some 20 Schneider Electric production sites in France.

➤ *Variable speed drives*

Our range of variable speed drives offers more efficient management of energy-intensive applications such as ventilation, pumping and compressed air installations.

Our products can be integrated into new machines (sometimes designed in partnership with OEMs) or used to upgrade existing equipment. Savings from variable speed drives can amount to as much as 30%, especially for pumps and ventilators.

➤ *Transparent Ready™*

Our Transparent Ready™ lineup delivers solutions for optimizing electrical installations.

These solutions, which comprise an extensive range of products, equipment, PLCs and automation devices, can reduce the energy consumption of a hypermarket or office building by around 20%.

➤ *Dedicated contracts*

Through our TAC subsidiary (see box on page 30), we also offer energy performance contracts that guarantee savings of 20% to 30% depending on the application.





Lubio: a highly effective public lighting solution

In public lighting, the Merlin Gerin Lubio system reduces electricity consumption 40% by adjusting light flows to local needs. If it were installed in public lighting systems around the world, Lubio could lower CO2 emissions by 42 million metric tons a year, the equivalent of all emissions from a country like Switzerland.

Lubio in France's Ain region

Public lighting accounts for 1% of worldwide electricity consumption. According to a study by France's Environment and Energy Management Agency (ADEME), community lighting systems in France's Ain region represents 17% of consumption but 23% of energy expenditure. With the Merlin Gerin Lubio lineup, Schneider Electric won the largest public lighting system renovation contract ever awarded in France to supply the region with 138 fixtures.



Interview with Patrick Chaize, Director of the Intercommunity Agency in France's Ain region



→ *Why did you contract with Schneider Electric for an energy savings program?*

The electricity agency in the Ain region has been looking for ways to save energy for the past ten years because public lighting is the easiest target area for reducing energy consumption. In all other sectors, savings are related to user behavior, while with public lighting, the machine is in control. Nonetheless, we were unable to achieve the savings we expected because the market didn't have the kind of solutions we needed. Schneider Electric was the first company to offer a service that met our requirements.

→ *Is electricity an expenditure with high potential for savings?*

Studies conducted by regional authorities estimated that integrating astronomical clocks and voltage regulators saved some €340,000 a year for rural communities, which account for half of the Ain's municipalities. Adjustable astronomical clocks are more reliable than the more frequently used photoelectric sensors, whose sensitivity changes over time.

→ *What other solutions could Schneider Electric offer to further reduce energy consumption?*

To significantly lowering energy consumption, people need to change their behavior. Schneider Electric should support this kind of change with smarter, easier-to-use equipment that can be integrated into homes.

Economic performance



TAC wins contract with City of Dallas

In early 2004, TAC was awarded a \$9 million performance contract with the City of Dallas covering public facilities, including Dallas City Hall and the Central Public Library.

The project calls for upgrades or replacements of lighting, air conditioning, heating and ventilation systems in six buildings, with the TAC Vista® automation system to monitor and control the mechanical systems and energy consumption. The contract will be the first large project to be tracked by the Environmental Protection Agency (EPA), with the goal of developing a model to quantify emissions benefits after building upgrades and integrating the results into Texas' emissions reduction plan.

TAC, a new subsidiary and new markets

In June 2003, Schneider Electric acquired Sweden-based TAC, a major participant in the global building automation and control market. Managing energy through product solutions, performance contracts and guaranteed energy savings is a key component of TAC's offer.

Covering both electrical distribution and automation, the acquisition gives Schneider Electric a forefront position in a growth market closely related to its current businesses.

www.tac.com



Xenta 511
Server for LonWorks networks





**Interview with Jean-Pierre Vignes,
Vice President MRO Purchasing,
Carrefour France**

TAC, a Schneider Electric subsidiary is finalizing a contract with Carrefour as part of the hypermarket chain's energy savings program.

→ Why was Schneider Electric selected for this energy savings program?

For several years Carrefour has been studying performance contracting offers in Northern Europe. Until now, however, no French company delivered a comprehensive electrical energy savings solution that met our needs. TAC is the first company in the market to do so.

→ What does the offer include?

TAC's performance contracts begin with a thorough audit of a site and the definition of quantified energy savings objectives. As part of its performance commitment, TAC is paid only if the objectives are effectively met. The expected savings of 10% to 20% on Carrefour's electricity bills will be used to pay for TAC's services, to finance improvements in the electrical network and to install new, more efficient automation devices, and to reduce Carrefour's expenses.

→ Is this a new type of contract for Carrefour?

Yes, it is. What's really new is that existing installations will be upgraded at all Carrefour stores to optimize energy use while limiting investment costs. Carrefour France has focused on reducing its electricity bill for years, but until now initiatives were always decentralized and uncoordinated.

www.carrefour.fr



ALEO program with Air Liquide

The energy used to produce compressed air accounts for 10% of an industrial process' total electricity consumption. To reduce consumption, Air Liquide and Schneider Electric developed an innovative system in which a single variable speed drive successively adjusts the speed of several motors depending on airflow. A PLC controls the startup sequence, switches from one motor's speed drive to another and controls the speed. In this way, it constantly adjusts air production and consumption to avoid waste and releases into the atmosphere. Two prototypes of this variable speed drive successfully developed in Schneider Electric facilities beginning in 2000 have reduced motor energy consumption by 20% to 25%. In early 2001, Schneider Electric and Air Liquide signed a cooperation agreement to create ALEO (Air Liquide Energie Optimisation), which the partners are actively promoting in both the new building and renovation markets. In 2002, ALEO received an award from ADEME, France's Environment and Energy Management Agency, and *Industrie et Technologies* magazine. The innovation combines Schneider Electric's technical capabilities in variable speed drives with Air Liquide's expertise in on-site applications. The installations are fully financed through energy savings.

Social performance

Employees

The Company's employees are its main assets. They can express their cultural diversity and are managed without discrimination. They are encouraged to develop their team spirit and new competencies and are recognized for their initiative and risk taking in contributing to the Company's growth.
(From Our Principles of Responsibility)



Promoting quality working conditions and improving personal safety at the work place

Jobs

In 2003, the economic environment led to the introduction of rightsizing programs, notably in the United States, Ireland, Italy and France. In all cases, the Company initiated employee support programs that went beyond local legal requirements.

► In Ireland

Following the closure of the Celbridge site in 2003, job-search measures were introduced and a resource center was set up in the plant. An external job placement agency also provided support. Plant management organized numerous contacts with leading local employers, including on-site job interviews.

► In France

As part of various transformation programs in France, some of them entailing job cuts, Schneider Electric signed a framework agreement concerning a Jobs Planning System with employee unions in 2003. The agreement has two objectives:

- > Share recent developments with unions and keep them informed of discussions underway in the Company that could have an impact on jobs.
- > Define working methods and operating procedures to implement a practical system for planning the jobs and skills that the Company will need for the future.

Workplace health and safety

In 2003, the North American Operating Division updated its workplace health and safety policy in line with the Company's vision and Principles of Responsibility.

At the corporate level, special attention has been paid to aligning health and safety practices, with the goal of introducing a Company-wide health and safety policy in early 2005.

► Social coverage

One of the NEW2004 sustainable development indicators calls for the provision of basic social coverage for all employees.

A six-month survey of all units was conducted in 2003 to identify existing programs and an improvement plan was implemented to enhance employee social benefits.



Work/study program: Every year, tutors provide training for young people through work/study programs. Our customers support this initiative by offering long-term employment opportunities to program graduates.

Providing everyone with equal opportunity in recruitment, jobs and mobility

► Geographic mobility

As part of the NEW2004 program, Schneider Electric set a **geographic mobility target of 20% for international executives** by 2004.

The annual result of 22.4% in 2002 exceeded this target. In 2003, the rate stood at 22.3%, representing 160 managers working outside their country of origin.

► International hiring and local management

To support its growth objectives and adapt to market developments, Schneider Electric introduced an international hiring program called Marco Polo in 2001.

The program provides young graduates and high potential, international-profile managers with an opportunity to get initial job experience in a foreign assignment.

While not intended to replace more traditional hiring systems, the program has significantly improved diversity in terms of profile, gender and culture. In three years, more than 100 recruits (of which 21% women) representing 40 nationalities have been posted in 32 different countries.

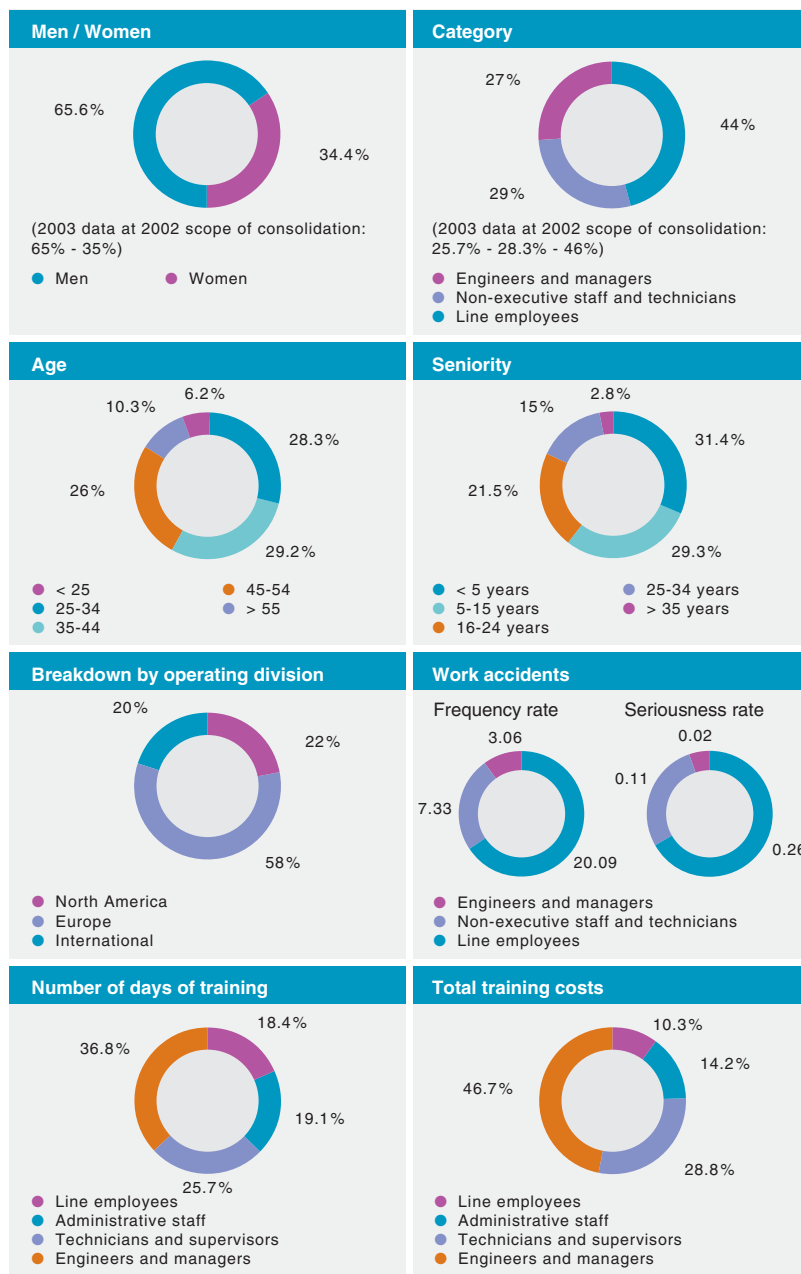
Employees

All data in this section are consolidated using a comprehensive system. A Company-wide reporting process has been used to prepare annual human resources scorecards for the past four years.

These data are then reconciled with information from accounting and purchasing reporting systems to ensure consistency.

All of the workforce and environmental data cover the Company as a whole unless stated otherwise. Nonetheless, because of significant recent changes in the scope of consolidation, it was not possible to include data extending over several years. These data will be included in the next report.

	2003 at 2002 scope of consolidation	2003
Average weighted workforce	71,245	74,276
Temporary and permanent contracts (end 2003)	69,965	71,850
New hires	9,535	9,924
Departures	9,145	11,996



Cumulative days of training by type

	Line employees	Admin. staff	Technicians and supervisors	Engineers and managers	Total
Total training costs (in € thousands)	2,716.11	3,772.93	7,620.59	12,382.62	26,492.25
Total days of training	36,150	37,380	50,386	72,293	196,209
Foreign languages and IT	2,424	11,653	9,441	15,292	38,810
Health and safety	8,468	1,986	3,619	1,925	15,998
Technical	15,317	8,749	17,271	21,487	62,824
Management	388	5,452	7,241	18,394	31,475
Other	4,073	6,103	11,704	8,700	30,580

Social performance

Employees



Ensuring employee development and employability

Managing and developing skills

► *Initial training*

In France, where nearly 4,500 young people have taken part in work/study programs since 1993, we have developed proven school-to-work capabilities, tools and quality standards. 90% of participants have earned their diplomas, regardless of their level, and all have acquired a job through the program. In 2004, 250 new apprenticeship or certification contracts are being offered. Priority is given to young people who have disabilities and/or are working towards vocational diplomas.

► *Continuing education*

The Schneider Management Institute prepares programs for high-level managers and experts. All programs give extensive coverage to our vision and strategy and to the objectives of the NEW2004 company program, thereby helping to inform and train managers about our challenges and commitments. Some 434 managers from 62 countries attended Institute seminars in 2003.

► *Relations with schools and universities*

We have forged powerful ties with leading schools and universities through more than 84 partnerships worldwide. These partnerships enable young people to take part in internships while providing us with a pool for recruiting new talent.

[In 2004/2005, a specific project is being introduced to develop and organize these partnerships, particularly in China, the Middle East, India and Eastern Europe.](#)

Managing skills

► *People review*

The people review is a human resources management process conducted for employees in all units. The review is first prepared and validated within each unit.

At the corporate level, it mainly concerns high-potential managers and people in key positions. The review has three objectives: to identify high-potential employees, prepare succession plans for key positions and validate development programs. Its aim is to systematically provide a better understanding of the Company's resources.

For international positions, it plays a major role in developing human resources from all countries, regions and businesses.

The review naturally promotes diversity among managers and plays a major role in providing equal opportunity.

Involving employees in the life of the Company

Employee share ownership

In 2003, Schneider Electric launched a third worldwide Employee Stock Purchase Plan. The campaign had a moderate participation rate, with 5,100 employees (or 8% of the workforce) subscribing a total of more than €40 million. On the other hand, the plan helped create a better geographic balance of employee shareholders with 60 countries taking part, compared with 40 in 1999 and 38 in 1997. Schneider Electric employees increased their stake from 3.11% of outstanding shares to 3.62%, accounting for 6% of voting rights. The principle of a new share issue for employees in 2004 has been approved.

Variable salary component

The NEW2004 corporate program includes an objective to introduce a [variable salary component linked to local and Company-wide results for 100% of employees](#) by year-end 2004.

This improvement plan is designed to:

> Offer all employees an equal opportunity to share in the Company's results in line with local conditions.

> Increase employee motivation in meeting local and Company-wide objectives.

> Adapt payroll to the economic environment.

At September 30, 2003, 60% of our employees had a variable salary component.

Cultivating an open relationship with employee organizations

Social dialogue

► *Group Committee*

Comprised of 30 employee representatives, all of them French, the Schneider Electric Group Committee is chaired by the Executive Vice-President Human Resources. At its meetings, managers are free to express their opinions on topics of general interest.

► *European Works Council*

As part of a commitment to fostering meaningful dialogue with employee representatives, a European Works Council comprising 31 representatives from 19 host countries meets under the chairmanship of the Executive Vice-President Human Resources. The agreement on the council's operating procedures is more favorable to employees than is legally required. The council's scope, established upon its creation in January 1998, took into account the larger European economy, with the inclusion of such countries as the Czech Republic, Hungary and Poland.

We also voluntarily set up ad hoc commissions to study specific issues.

This was the case for the Legrand transaction, which involved a long, complicated procedure. In the same spirit of ongoing dialogue, new rules have been adopted to schedule quarterly meetings of the officers, beginning in 2004, with two meetings a year held outside France. The first took place in Barcelona.

► *Professional satisfaction*

We have conducted ProSat satisfaction surveys since 1997. Deployed locally by country organization, they are always followed by operational action plans. These surveys have been integrated in the NEW2004 company program, with a goal for year-end 2004 of **interviewing all employees every two years**.

At the end of 2003, 75% of employees had had an opportunity to take part in a survey of this type. Throughout the corporate community, respondents highlight their commitment to the Company, to customer satisfaction and to high-quality work. Overall, employees like their jobs and feel that they have good relations with management and are sufficiently empowered.

The most frequently mentioned expectations concern the ProSat system's effectiveness and employability issues, meaning opportunities for professional development, for promotion within the Company (through training programs and management assessment) and for support in team building. Since its creation, the ProSat survey has been modified only slightly, so as to provide each unit with a long-term outlook.

Human rights and respect for minorities

Schneider Electric's dedication to human rights and respect for minorities is above all a public commitment to its role as an upstanding corporate citizen. That's why we've encouraged our partners to join us in signing the UN Global Compact. Our Principles of Responsibility also include a number of pledges to support human rights. Generally speaking, the Company takes part in a large number of programs that support social cohesion, working alone or with host communities. Through the Schneider Electric Foundation, created in 1998, we take action to help young people enter the workforce and encourage our team members to get involved as well (see page 37).

In the United States, the Columbia, South Carolina plant has employed the visually impaired for the past 20 years. In Denmark, the LK plant's shipping department includes 18 disabled employees. In France, Schneider Electric works alongside other companies in a 2002 initiative launched by SOS Racisme to help 1,000 young people find jobs that correspond to their level of schooling. Employing the disabled is also one of the objectives of the NEW2004 program in France, where handicapped employees represented 7% of the workforce and 30 disabled interns and work/study participants were active in 2003.



Social performance

Host-community residents



Schneider Electric products contribute to development

Schneider Electric is committed to designing products and services that support development by improving the quality of life for people in emerging markets. Our new microgeneration technologies, for example, promote the development of local electricity production.

Conlog, a Schneider Electric subsidiary acquired in 2000, offers electricity and water prepayment solutions adapted to the needs of developing countries. More than three million special electricity meters for use with prepayment cards have been installed, enabling users who manage their own consumption to be connected to water and electricity grids.

While these offers currently account for just a small portion of sales in developing countries, we intend to examine more closely how our products and solutions can meet the specific needs of local residents, notably in the area of energy efficiency.



Interview with François Jung-Rozenfarb, Head of Development, CARE France

CARE is a global network dedicated to ending poverty, with emergency assistance and development programs in more than 75 countries in Africa, Asia and Latin America.

→ *Does facilitating access to electricity for the world's poorest people represent a development challenge?*

Alongside water, education and health care, access to electricity is an essential service for the development of the world's poor. It's a major development challenge and companies that can make electricity more accessible should take this into account. Electrical distribution companies can be key players in this process.

That's why Schneider Electric needs to assume its responsibilities and role in bringing electricity to countries in the Southern Hemisphere and clearly state this role in its sustainable development report.

→ *How do you justify supplying communities with an essential service that is not profitable for the Company?*

Schneider Electric should allocate R&D resources for services to the world's poor and find a business model that provides everyone with access. The prepayment card system is an interesting idea, but the results need to be analyzed. If they're encouraging, the system should be expanded; if they're disappointing, improvements should be made.

The Schneider Electric Foundation

In the spirit of other initiatives pursued near Schneider Electric sites, the Schneider Electric Foundation plays a local role in each of our host communities, helping young people to get a start in life. The originality and strength of this approach lies in the voluntary commitment of our employees, who are active in training, workplace integration, support and social cohesion programs.

The actions presented in this report represent a total budget of roughly €5 million.

One of our NEW2004 objectives is to ensure that 80% of our sites have a long-term commitment with the Schneider Electric Foundation.

The Luli fund-raising campaign, launched in 2002, was held again in June 2003, when 82% of our sites took part in projects with 160 community associations in 70 countries.

Luli is now a long-term action, recognized and showcased as part of our company program and our sustainable development commitment.

Algeria: emergency aid and a long-term presence

Present in Algeria for 40 years, Schneider Electric created a subsidiary there in 2000, which today employs 80 people.

For several years, our teams have been involved in their local communities.

In 2000, the subsidiary, its employees and the Schneider Electric Foundation provided financial support to an aid program for abandoned children in the village of Draria. The following year, an emergency program to assist 60 families affected by the Bab El Oued floods was financed by contributions from Schneider Electric employees around the world, the Algerian subsidiary and the Foundation.

In 2002, the subsidiary, its employees and the Foundation provided educational materials for a trauma-healing center operated by a national association for disadvantaged children (ANSEDI). In 2003, Schneider Electric Algeria, local team members and employees of other subsidiaries again joined forces for an emergency action following the May earthquake, providing support for the families of eight employees affected by the disaster and helping to re-equip 13 destroyed vocational training centers.

Lastly, in June 2003, Schneider Electric Algeria and its employees decided to support the El Baraka association as part of the Luli campaign, with help from the Foundation.

This support focused, in particular, on a program to build a functional rehabilitation center.



Jean-François Pilliard, Executive Vice-President Human Resources, and Gilles Vermot-Desroches, Vice-President Sustainable Development and Director of the Schneider Electric Foundation, receive a corporate philanthropy award from Jacques Rigaud, President of ADMICAL, a French association that promotes the development of corporate sponsorship.



Social performance

The Schneider Electric Foundation



Partnership in the US with Habitat For Humanity

Some 2.5 million American families live in poverty housing or have no homes at all. Habitat for Humanity builds and renovates modest, yet good quality housing with help from each family. Schneider Electric US is a National Partner with Habitat and has donated \$6 million worth of panelboards and circuit breakers over three years (2001-2003) for all homes built by the organization in the US.

At the end of 2003, over 9,000 homes were equipped with Schneider Electric products and the project has been renewed for an unlimited period. Schneider Electric Canada has also recently entered into a partnership agreement with Habitat as well.

Schneider Electric team members have also donated their time and energy to Habitat for Humanity. Volunteers from many of our locations have assisted in home building and other activities and the Company promotes this type of involvement with all employees.

Turkey: a program to educate girls

Employees of Schneider Electric Turkey provide support for Cagdas Yasami Destekleme Dernegi, an Istanbul-based association that promotes education for girls. In rural areas, large families often devote their limited resources to educating boys. Because few programs exist in Anatolia, the country's poorest region, our Turkish employees chose to help girls there who had completed elementary school but lacked the means to continue with secondary studies.

To provide them with the necessary resources, our Turkish subsidiary re-allocated funds generally used to purchase year-end presents for customers, who were informed of the initiative in New Year's cards. The program financed studies and social integration projects for 150 girls and organized a graduation ceremony for 48 secondary school students. Schneider Electric Turkey also encouraged employees to make their own donations.





**Interview with Emmanuelle Rouffi,
United Nations High Commissioner for Refugees,
Head of the Association in France**

The mission of the United Nations High Commissioner for Refugees (UNHCR) is to protect and help refugees around the world. It is a frontline organization, active wherever emergency situations occur.

→ What projects are the UNHCR and Schneider Electric pursuing together?

Schneider Electric has supported three of our projects, through a financial contribution in Afghanistan in 2001 to protect people displaced by the war and two education programs, in Congo in 2002 and Tanzania in 2003.

→ Is the UNHCR satisfied with this partnership?

In France, Schneider Electric is a model of corporate investment in humanitarian programs. With the Schneider Electric Foundation we feel we're working with humanitarian activists who not only provide major funding—a demonstration of management's commitment—but also with a fully involved workforce. At all levels of the Company, we get the feeling that the Foundation was created with the goal of making a difference over the long term. It's a full-fledged unit within the organization, just like the Company's other divisions. Employees working for the Foundation were not assigned for lack of anything better. They've truly found their place and understand the projects in which they're involved. With other French corporate partners, we don't always feel we're a priority. That's not the case with Schneider Electric.

→ Does Schneider Electric require you to justify the use of funds for these projects?

Project results are assessed, of course, and Schneider Electric asks to see how funds are used. This is the subject of a report prepared by the UNHCR and submitted to the Company.

→ How do you envision the future of your partnership with Schneider Electric?

We would like to see greater involvement on Schneider Electric's part, notably with a larger project to increase cooperation in the field between their teams and ours. We would also like Schneider Electric to communicate more extensively on its commitment. Often the problem with the most committed companies is their lack of external communication. Companies just beginning to get involved need to know that other firms have conducted successful humanitarian aid programs.

→ Are the partnerships initiated by the UNHCR meant to last?

Obviously, we would like our partnership with Schneider Electric to continue as long as possible. Our goal is to forge three-to-five-year alliances, because creating a partnership with a company that lacks Schneider Electric's humanitarian culture requires a great deal of time and human investment.



Social performance

Our business partners



With customers, our goal is to behave with integrity and respect in a spirit of creation of shared value. Regarding suppliers, the Company is committed to qualifying primarily those suppliers who are committed to acting in a responsible manner with respect to people, the community and the environment.

Customer relations

We access our markets through a wide range of channels around the world. These can be divided into several families: distributors (accounting for 50% of sales), contractors, architects, specifiers, consultants, and global strategic accounts (8%). Quality and customer satisfaction criteria are included in our NEW2004 objectives (see page 23). The Image and Satisfaction Barometer (BIS), conducted every two years to survey our different customer segments in 40 countries, allows us to deploy tailored improvement plans locally. A summary of these surveys is being organized and may be presented in a future report. It will provide an overall view of results from 17 countries that account for 80% of sales. The Partners in Quality initiative, focused on our global strategic accounts, is designed to develop accurate metrics for assessing perceived and expected quality by analyzing how customers use products in their facilities. So far, some ten Partners in Quality agreements have been signed. Global strategic accounts are more receptive than our other partners to offers that improve energy efficiency and, more generally, to our commitments. In 2003, we organized an initial meeting with them to present our sustainable development approach. A second event was held in 2004.

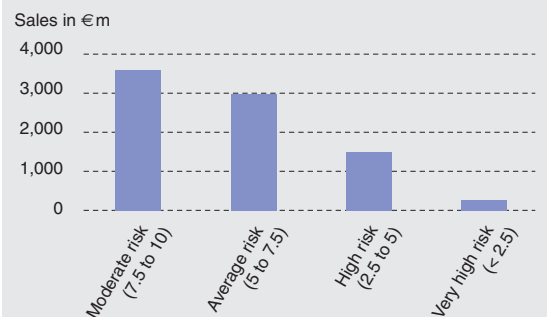
Our growth strategy

Schneider Electric is developing through organic growth, as well as through acquisitions and partnerships. We are focusing on growth regions like Asia and the Pacific, selected markets such as residential homes for ultra terminal equipment, and a host of new specialties. Many of these revolve around energy efficiency, secured power, building control and high value-added services to optimize energy and industrial productivity. Among 2003's acquisitions was Sweden's TAC, a world leader in automation and building control. The transaction strengthened our position in the Building market and enabled us to enhance our offer in terms of flexibility, safety and energy savings (see page 30).

The risk of corruption

Our ambition, included in the Principles of Responsibility, is to behave with integrity with regard to customers and suppliers. As a signatory of the UN Global Compact, we want to add a tenth principle regarding corruption. This issue was discussed by signatory organizations in 2003.

Sales by country risk, according to Transparency International's 2003 Corruption Perception Index, with countries rated 0 to 10



France is in the average risk category

Relations with suppliers and subcontractors

As stated in Our Principles of Responsibility, Schneider Electric is committed to qualifying primarily those suppliers who are committed to acting in a responsible manner with respect to people, the community and the environment. Our ambition is to behave with integrity and establish fair contractual relations with suppliers. Our influence with suppliers varies considerably depending on the type of product or service and on whether purchases are made from small and medium-size companies or from large groups.

From a practical standpoint, we have several ways of influencing production conditions:

- As a purchaser, we include social and environmental criteria in our specifications and supplier selection standards. Article 20 of our terms of purchase clearly expresses our commitment to complying with the OECD's guidelines for sustainable development and with regulations defined in the ISO 14001 standard, notably with regard to environmental protection. Our suppliers must also respect these principles and demonstrate their compliance if requested by Schneider Electric. Today, this approach covers 18% of purchases.
- In the case of raw materials, the approach can only be applied to tier-one suppliers who most often process rather than produce raw materials.

In general, our purchases represent a small fraction of global markets and shortages of certain products, such as magnetic sheet metal and carbon, lessen our ability to make an impact on suppliers' social and environmental performance. We are also committed to ensuring fair trade conditions among suppliers.

At the 2003 Commodity Managers Forum, which brought together nearly 100 people from around the world, we defined new purchasing and efficiency guidelines that call for such things as increasing the number of suppliers from emerging economies.



Henri Lachmann, Chairman and CEO of Schneider Electric, and Gilles Vermot-Desroches, Vice-President Sustainable Development, lead a "shared responsibility" meeting with suppliers.

Charters inspired by the Global Compact

As part of our commitment to the Global Compact, we signed an environmental and social charter in June 2003 with ten of our main suppliers—Amtek, DSM, Ferraz, Gindre, Kuvag, Menzolit, Metalor, Nief Plastic Holding, Ruget and Semikron.

These charters call for a joint annual review to ensure application of social and environmental commitments contained in the Global Compact, with suppliers required to conduct audits if requested.

At present, 128 of our suppliers have signed the Global Compact.



***Article 20 of the terms of purchase:**

Schneider Electric undertakes to abide by the OECD guidelines concerning sustainable development and the rules defined in ISO standard 14001, in particular those pertaining to environmental protection.

The Supplier testifies to being fully aware of the aforementioned guidelines and rules, and undertakes to respect them and implement all the industrial and human resources necessary (notably through their environmental and human resources policies) to ensure the said guidelines and rules are properly applied. The Supplier further undertakes to provide Schneider Electric with evidence of their implementation immediately upon Schneider Electric's request.

Environmental performance

Respect for the environment is one of our strategic priorities. We are fully engaged in a process of continuously improving the environmental performance of both our production sites and our products.



The eco-design process

Our NEW2004 program includes an objective that calls for **all new global products to comply with eco-design methodology**. At year-end 2003, the compliance rate was 57%.

Whether intended for large regional markets or the global market, these products must meet customer requirements as effectively as possible with a minimal environmental impact throughout their life cycle.

Formalized in 2002, the eco-design process is based on a Life Cycle Analysis approach that complies with ISO 14062. Projects are carried out using Environmental Information and Management Explorer (EIME) CAD software co-developed by a pool of manufacturers of which Schneider Electric is a member.

The process takes into account the product's impact on water, soil and air at every stage in its life cycle, from extraction of raw materials, through production, distribution and use, to end-of-life recovery.



Osiswitch, Osiprox, Osiris
Global detection photoelectric sensors, proximity sensors and limit switches



Evolis
Medium voltage circuit breaker

We also offer end-of-life product management in Europe, in anticipation of the European Waste from Electrical and Electronic Equipment (WEEE) Directive, which will be applicable in 2005 mainly for household appliances. More generally, we inform customers of our products' impact and provide advice for disassembly.

In 2003, some one hundred Schneider Electric designers were trained in eco-design methodology and R&D teams integrated these techniques into all new global products.

The European RoHS directive

Published in the February 13, 2003 Official Journal of the European Communities, the European Restriction of Hazardous Substances directive bans the use of lead, mercury, cadmium, hexavalent chromium, and two polybrominated fire-retarding agents (PBB and PBDE) in low-voltage electrical and electronic products sold in the EU as of July 1, 2006.

Schneider Electric has decided to eliminate these substances from its low-voltage electrical distribution and industrial control products and has prepared a program to implement appropriate actions in the areas of design, process engineering, purchasing and production.

Reducing the environmental impact of our products

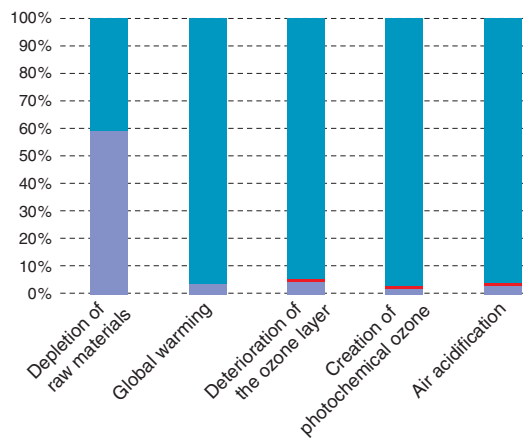
To improve eco-efficiency from the design phase, we analyze the environmental impact of our products at virtually every stage of their life cycle. Although the end-of-life phase is integrated by our EIME software, it is not included in the charts on this page.

Reducing environmental impact represents an area for improvement for Schneider Electric. Study results show that, aside from the consumption of raw materials during production, our products' most significant effects arise during use. Therefore, our most important contribution involves substantially reducing the environmental impacts stemming from the use of each new product or each new generation of a product. This analysis of environmental performance, which is part of a continuous improvement process, is already applied to all new global products and will be gradually extended to all new products. Constantly diminishing the environmental impact of our products and solutions is a service that we are committed to providing to customers through our eco-design policy.

Products and solutions that are safer, more environmentally friendly and more energy efficient provide a source of competitive advantage. Work being done on electrical distribution architectures is part of this process. An impact study has demonstrated that the new "pooled source" distribution architectures developed and marketed by Schneider Electric reduce environmental impact by an average of 40% compared to traditional centralized distribution systems.

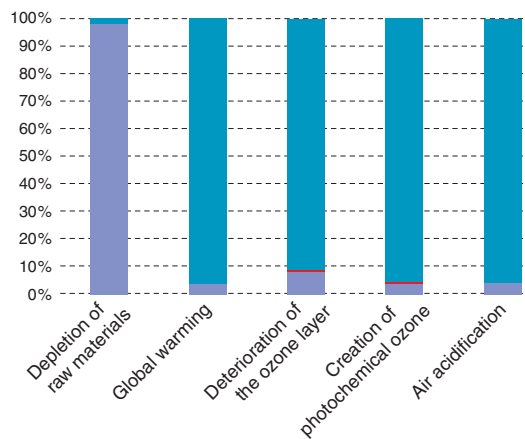
The following two charts show the results of studies conducted for the Prisma Plus 1000 A switchboard and for a typical contactor, two products that are highly representative of each of our core businesses: Electrical Distribution and Automation & Control.

Significant environmental impacts of the Prisma Plus 1000 A switchboard by life-cycle phase



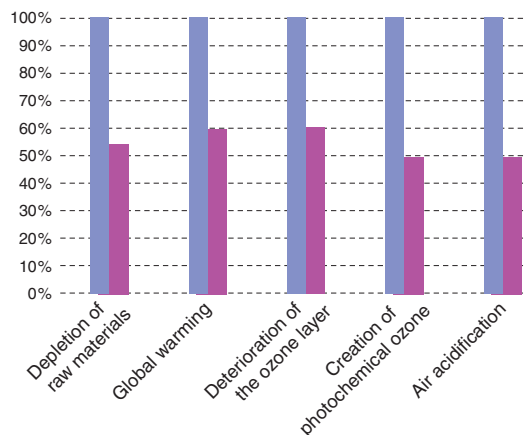
The Prisma Plus 1000 A is a low voltage switchboard that meets the electrical distribution and control/monitoring needs of building utilities.

Average significant environmental impacts of a contactor by life-cycle phase



The TeSys U contactor covers all needs and applications for motor starters, electrical distribution, lighting and heating systems, etc. for power ratings up to 37 kW.

Comparison of the environmental impacts of "pooled source" and centralized electrical distribution architectures (Base 100: centralized architecture)



Centralized architecture
"Pooled source" distribution architecture

Environmental performance



Research and development programs

R&D programs, which represent a budget totaling more than 5.5% of sales, are conducted in 25 countries by 4,500 research and development scientists. Their mission is to continuously enhance product and solution technology, notably with regard to energy performance analysis and consumption management.

We invest, for example, in the development of products that support the emergence of micro-generation technology. Co-generation makes it possible to increase the energy output of current electrical production infrastructure by 40% to 85% and to reduce losses related to transmission and distribution.



Environmental management

The NEW2004 company program has set an objective of certifying **all our production sites to ISO 14001 standards by year-end 2004**.

At December 31, 2003, 74% of our sites were ISO 14001 accredited. A number of facilities obtained ISO 14001 certification during the year, including the Chennai and Nashik plants in India and production units in Brazil, China, the US, France and the Czech Republic.

At all sites, we have found that the environmental management system pays for itself in just two years by lowering electricity consumption, related expenses and waste management costs.

We have also deployed procedures to remotely track and audit electricity consumption at a number of sites in the United States, Spain and France. In France, our goal is to cut consumption at 20 manufacturing sites by 10%, resulting in €1 million in savings out of €13 million in total energy expenditures.

Risk prevention

We have 177 production facilities, of which the vast majority have fewer than 300 employees. As a result, the impact of manufacturing operations on the surroundings is limited. Our atmospheric emissions are not significant and below regulatory thresholds. In 2003, we conducted our annual review of pollution risks at all our manufacturing sites.

None of our 177 production facilities is classified Seveso. We continuously track 19 facilities, of which 12 in France, often because of their past manufacturing history (in France, this corresponds to sites that require special environmental protection authorizations). Lastly specific measures have been implemented for 20 facilities, of which four in France.

In 2003, we formalized our monitoring, tracking and alert procedures and defined provisions for environmental risk.

Eco-production indicators

Number of employees at our manufacturing sites

2002	36,983
2003	43,944

Amount of waste produced (in metric tons)

2002: 109,357 2003: 93,736

Amount of waste per production site employee (in metric tons)

2002: 3.0 2003: 1.901

Percentage of waste recovered

2002: 53 2003: 65 (85% in France)

Equivalent energy consumption (in MWh)

2002: 538,111 2003: 674,967

Energy consumption per production site employee (in MWh)

2002: 14.6 2003: 15.3

Water consumption (in cubic meters)

2002: 1,805,608 2003: 1,643,483

Water consumption per production site employee (in cubic meters)

2002: 49 2003: 37.4

Reducing SF6 emissions

In response to worldwide concern over the greenhouse effect, Schneider Electric deploys significant resources to reduce greenhouse gas emissions over the long term. As part of our voluntary commitment, we have implemented a number of measures concerning sulfur hexafluoride (SF6), a gas extensively used in medium and high voltage appliances because of its unique properties of inertness, insulation and safety, and its effectiveness in quenching electrical arcs. The seven Schneider Electric plants that use SF6 are all ISO 14001 certified and have set zero emissions objectives for the long term. In 2003, average emissions were less than 4%, compared with 8% in 2000. We have extended the use of a sealed pressure system that eliminates the need to handle the gas during the product's life and limits the leak rate to less than 0.1% a year.

Lastly, as part of a cooperation program, we are developing initiatives that promote traceability and the implementation of best practices to make end-of-life materials processing more environmentally friendly. In particular, all instructions for product use will indicate the presence of SF6 and appropriate disassembly procedures for avoiding atmospheric emissions.

As part of this commitment, we are proposing solutions to integrate into revised international standards a description of SF6 recycling procedures and recycling rates, requirements for product marking, and a reduction in acceptable leakage*. To ensure that all equipment containing SF6 is tracked and recovered, we have defined procedures that are gradually being implemented, with an initial goal of deployment in all European countries.

At present, the service is operational in France, the United Kingdom, Germany and Norway and is being developed in the Netherlands, Belgium, Spain and Sweden.

*IEC 61634 Use & Handling of SF6 in High Voltage switchgear and 60694 Common Specification for High Voltage switchgear.

The increase in energy consumption from 2002 is attributable to the following factors:

- ▶ In 2003, all consumption was taken into account, including gas and fuel-oil heating.
- ▶ The figures also reflect changes in the scope of consolidation.
- ▶ Lastly, some data include consumption related to manufacturing as well as to administrative and logistical operations.



Site clean-up at France Transfo

The France Transfo plant in Maizière-les-Metz has manufactured oil-immersed distribution transformers since the early 1970s. Until 1985, its catalog included a range of PCB-based transformers for use where fire was a particular hazard. Sold in France under the Pyralène brand, the highly heat-resistant PCBs replaced mineral oil as an electrical insulation fluid in transformers.

Despite precautionary measures, hydrocarbons and PCBs accidentally spilled into the soil over the years. In response, a system was introduced in the early 1990s to regularly monitor the quality of groundwater and runoff.

In the summer of 2003, after nearly ten years of sub-alert level results, several test points yielded measurements that substantially exceeded thresholds.

The causes of pollution were identified during a four-month study, and clean-up measures were submitted to France's Regional Office for Industry, Research and the Environment (DRIRE) in February 2004. These measures were subsequently approved. A detailed risk analysis will be conducted once the causes of pollution have been treated.

Ratings and indices

Schneider Electric's economic, social and environmental performance compared with industry benchmarks



The section presents the findings of the leading sustainable development ratings agencies and a number of ethical investment funds that assessed Schneider Electric in 2003. In most cases, these results allow for comparison with an industry benchmark.

Dow Jones indices

www.sustainability-index.com

After its initial selection in 2003, Schneider Electric is included in 2004 in both the Dow Jones Sustainability Index World and the Dow Jones Sustainability Index Stoxx (for Europe).

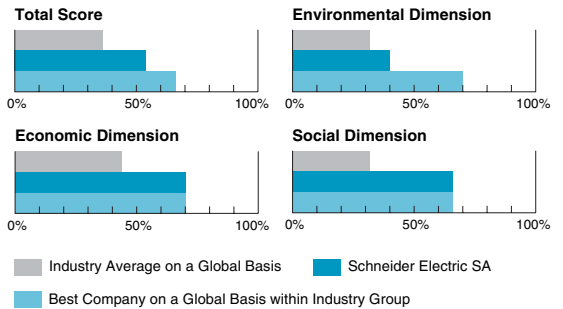
Sustainable Asset Management, a Swiss investment manager, conducts research on corporate sustainability for this family of indices.

ASPI Eurozone index

www.vigeo.com

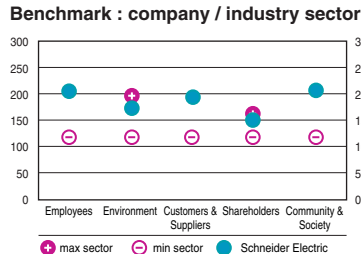
Since 2001, Schneider Electric has been included in the ASPI Eurozone® (Advanced Sustainable Performance Indices) family of indices, which track the financial performance of 120 leading Eurozone sustainability performers from the DJ EURO STOXX benchmark financial universe. The ASPI uses the rating system developed by Vigeo, an agency that rates and assesses corporate social responsibility.

Sustainability Scores



criteria (min - / max ++)	previous rating	current rating
Employees	++	++
Environment	+	+
Customers & Suppliers	++	+
Shareholders	=	=
Community & Society	++	++

-- unconcerned - below average = average + advanced ++ pioneer



CoreRatings

www.coreratings.com

CoreRatings, a European ratings agency founded in 2002, awarded Schneider Electric its highest "A" rating this year. Only 5% of companies assessed by CoreRatings received an A.

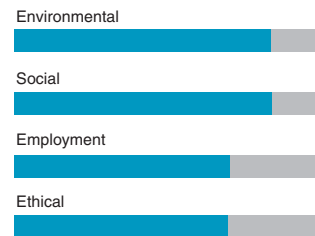
FTSE4Good Index series

www.ftse4good.com

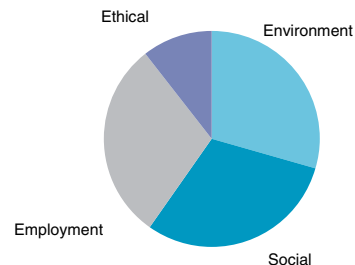
Schneider Electric's first application for inclusion in the FTSE4Good indices was refused. For a number of years, the UK's Ethical Investment Research Service has provided the assessment data for these indices. The arguments against including Schneider Electric mainly concerned its naval contracts. We have initiated a dialogue with FTSE4Good, supported by the following facts:

- Naval contracts represent less than 1% of total sales.
- These contracts cover standard electrical distribution products that require no special manufacturing processes.

Investment Risk Management



Investment Risk Weighting

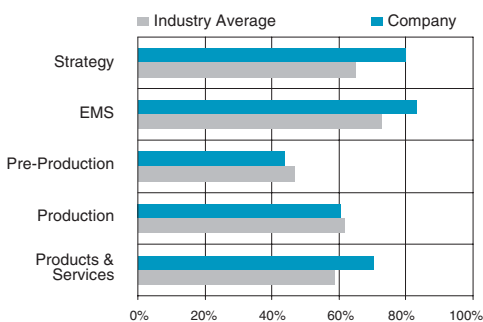


Bank Sarasin

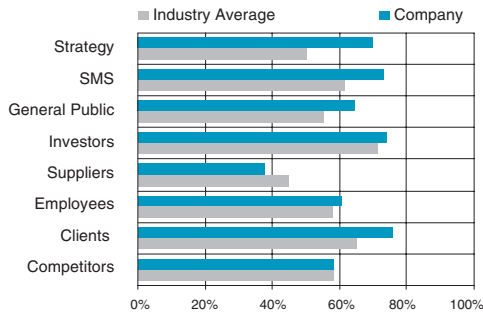
www.sarasin.ch

Based on its 2002 performance, Schneider Electric was included in a number of Bank Sarasin's ethical investment funds, The Switzerland-based bank rates companies both for its own purposes and for its customers, mainly pension funds.

Environmental Profile



Social Profile



Innovest

www.innovestgroup.com

Innovest has tracked Schneider Electric with its EcoValue'21 (EV21) methodology since 1999 and its Intangible Value Assessment (IVA) model since 2002. Founded in 1995, Innovest is an investment research and advisory firm specializing in analyzing corporate performance on environmental, social and strategic governance issues.

With operations in France since 2002, Innovest's rating system is based on a "best in class" approach.

Schneider Electric has received an AA rating with the EV21 methodology and a B rating using the IVA model.



Interview / Carl-Johan Francke, Sustainability Analyst, electrical equipment and components, SAM Sustainable Asset Management

→ How does SAM establish its corporate sustainability assessment of Schneider Electric?

Here at SAM, we draw up criteria based on trends and developments we see in the economy, society and the environment. We translate these developments into industry challenges that corporations should meet to take full advantage of business opportunities and minimize related risks. Apart from general considerations such as corporate governance, human resource management or environmental management system, we look at industry specific criteria for Schneider Electric, including its strategy on climate change and the integration of environmental aspects into product development.

→ What will be the main criteria of the future?

I think that climate change will continue to be a key issue. This creates attractive prospects for equipment manufacturers who can offer businesses solutions that are substantially less carbon intensive. As equipment manufacturers shift manufacturing capacities and procurement to emerging markets, human rights will become another major challenge. Schneider Electric's policies towards suppliers are exemplary in this respect, as they are much more demanding than the general practice in the industry.

→ Why has Schneider Electric been selected for the Dow Jones Sustainability Index (DJSI)?

The selection process for the Dow Jones Sustainability Index follows a transparent and audited research process. Based on SAM's assessment of corporate sustainability, the top ten percent in each industry among the 2,500 largest global corporations are selected for the DJSI. In 2003, Schneider Electric was among the top ten percent.

www.sam-group.com



Interview/Eckhard Plinke, Head of Sustainability Research, Bank Sarasin

→ In your opinion, what are Schneider Electric's priority areas for improvement?

We included Schneider Electric in our investment portfolio because of its good financial prospects (while our sustainability rating is "average"). I'd say the main areas for improvement include the treatment of labor issues arising from outsourcing production in countries like China, where workers have little protection, and the application of human rights standards among suppliers. Schneider Electric could also improve by publishing more environmental data.

→ What about corporate governance?

Schneider Electric falls within the industry average in this area, although it does stand out for its good financial communication. That said, the Company restricts voting rights and the independence of the Supervisory Board vis-à-vis the Management Board could be improved.

Glossary

ADEME: France's Environment and Energy Management Agency. www.ademe.fr

Best Available Techniques (BAT): Techniques that most effectively limit the harmful effects of a business on its environment. These techniques function as yardsticks and as bases for improvement.

DRIRE: France's Regional Office for Industry, Research and the Environment.

Eco-design: A methodology that integrates environmental protection concerns into the design of goods and services. Eco-design aims to reduce the environmental impact of products throughout their life cycle, each time a new product is created or a line is renewed.

Global Compact (UNGC): An initiative for the 21st century initiated by the United Nations. The Global Compact invites multinational companies to voluntarily support nine sustainable development principles. www.unglobalcompact.org

Greenhouse gases: Gases responsible for creating the greenhouse effect and fostering climate change, including carbon dioxide (CO₂), water vapor (H₂O), methane (CH₄), nitrogen dioxide (N₂O), chlorofluorocarbons (CFC), fluorinated hydrocarbons (HFC), perfluorocarbons and *sulfur hexafluoride (SF₆)*.

ISO 14000: The internationally recognized ISO 14001 and 14040 standards define environmental management and Life Cycle Analysis (LCA) systems. www.afnor.fr

Life Cycle Analysis (LCA): A management tool used to assess the environmental impact of a product or solution at all stages of its life, from raw materials extraction to end-of-life processing.

Negawatt: A unit of measure for energy efficiency, corresponding to one megawatt saved.

PCBs: Polychlorinated Biphenyls, a group of non-biodegradable organic compounds that contain chlorine. Used in electric transformers and capacitors for their insulating and fireproof properties, PCBs are being phased out and replaced.

RoHS: The European Restriction of Hazardous Substances (RoHS) Directive, published in the February 13, 2003 Official Journal of the European Communities. It bans the use of lead, mercury, cadmium, hexavalent chromium, and two polybrominated fire-retarding agents (PBB and PBDE) in low-voltage electrical and electronic products sold in the EU as of July 1, 2006. The directive does not apply to all electrical and electronic equipment (EEE).

SF₆: Sulfur hexafluoride. A stable, inert gas listed as a greenhouse gas in the Kyoto protocol. It is used in metallurgy, electronics, consumer goods and other industries as well as in medium and high-voltage electrical equipment for its exceptional insulating properties.

Stakeholders: All parties that may be affected by a corporate decision, through their relations with a company or their involvement in its operations. These may include shareholders, employees, customers, distributors, suppliers, creditors, local communities, public institutions and lobbies.

Sustainable Development: "Development which meets the needs of the present without compromising the ability of future generations to meet their own needs." Brundtland Commission, Our Common Future, 1987.

UNEP: United Nations Environment Program. www.unep.org

WEEE: Waste of Electric & Electronic Equipment. Published in the February 13, 2003 Official Journal of the European Communities, the European WEEE Directive is intended to reduce waste generated by end-of-life electrical and electronic equipment (EEE), which, as of August 13, 2005, must be collected and recovered. The directive does not apply to all electrical and electronic equipment.

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G rard Fauconnet – Vice-President Communication
Gilles Vermot-Desroches – Vice-President Sustainable Development

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In preparing this report, in-house teams were involved in describing existing conditions and helping to develop improvement plans. This approach is part of a powerful corporate commitment that is integrated in our company program and concerns all employees.

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Building a **New Electric World**



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