



2003

# The year in review

Merlin Gerin  
Square D  
Telemecanique

**Schneider**  
 **Electric**  
*Building a New Electric World*



Henri Lachmann

Chairman  
and Chief Executive Officer

In 2003, your Company returned to growth and confirmed its ability to achieve strong operating results. After reaching a low in the first quarter, sales gradually turned upwards, rising faster at the end of the year. The gross margin widened by one point and the operating margin, excluding the currency effect, stood at 13%. To top things off, we ended the year with record free cash flow of nearly €1 billion.

Schneider Electric is in a position to pursue its growth strategy while increasing total shareholder return. Our world leadership positions in our core businesses, our solid balance sheet and our strong operating performance make us the benchmark in our industry and show that we are on the right strategic path.

In 2003, business was lifted by the renewal of several product lines (we devote more than 5% of sales to R&D), our ability to innovate, our improved geographic coverage and more effective sales and marketing.

We also took advantage of our very solid operations in emerging markets, where we recorded substantial growth. To give two examples, sales rose 22% in China and 14% in Eastern Europe. We will continue to develop our presence in these regions. Our new Asia-Pacific Operating Division is an important growth lever in this respect.

Organic growth was supported by selective acquisitions in ultra terminal distribution, building automation, secured power, automation devices and industrial control. Key acquisitions included Clipsal, TAC, MGE UPS Systems and Digital Electronics.

We stepped up our Growth and Efficiency plans during the year as part of the NEW2004 program, and we intend to pursue our aggressive growth strategy in the year ahead.

They will provide additional full-year sales of €1.3 billion, with an average operating margin of 11%. Our targeted acquisitions drive will continue in 2004.

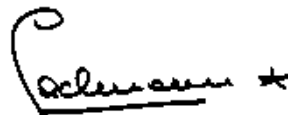
During the year, we also further reduced costs to align them with changes in demand, sustainably enhance our competitiveness, and move our suppliers and plants closer to our markets. Plans to improve productivity and efficiency in purchasing, production and supply chain management had an important impact on the quality of our results.

In 2004, we will expand these action plans with a focus on operating excellence.

As a leader in an industry of the future and the only company involved in the increasingly converging worlds of Electrical Distribution and Automation & Control, Schneider Electric will be able to leverage considerable strengths to pursue profitable, long-term growth.

These include our geographic coverage, our high-quality lineup of products and services, our powerful brands, the flexibility of our flat corporate structure, our broad skills and our nimble, proactive teams. We are particularly well placed to benefit from the global economic recovery and our markets' great potential.

I would like to take this opportunity to thank you for your confidence as you share in and contribute to Schneider Electric's success.



**Henri Lachmann**  
Chairman  
and Chief Executive Officer

# Corporate Governance

## Board of Directors as of February 19, 2004

**Henri Lachmann, 65**  
Chairman and Chief Executive Officer

**Daniel Bouton, 53**  
Independent non-executive Director\*  
Chairman and Chief Executive Officer of Société Générale

**Thierry Breton, 49**  
Independent non-executive Director\*  
Chairman and Chief Executive Officer of France Telecom

**Alain Burq, 50**  
Member of the Supervisory Board  
of the "Schneider Actionnariat" corporate mutual fund

**Michel François-Poncet, 69**  
Vice-Chairman of the Board of BNP-Paribas

**Hans Friderichs, 72**  
Independent non-executive Director\*  
Corporate Director

**James F. Hardymon, 69**  
Independent non-executive Director\*  
Corporate Director

\* Independent non-executive Director as defined in the Bouton report on corporate governance.

**Willy R. Kissling, 59**  
Independent non-executive Director\*  
Chairman of the Board of Directors  
of Unaxis Corporation

**Gérard de La Martinière, 60**  
Independent non-executive Director\*  
Chairman of Fédération Française  
des Sociétés d'Assurances (F.F.S.A).

**René Barbier de La Serre, 63**  
Independent non-executive Director\*  
Corporate Director

**James Ross, 65**

Independent non-executive Director\*  
Chairman of National Grid Transco

**Piero Sierra, 69**  
Independent non-executive Director\*  
Special Advisor for the administration  
of Pirelli's international companies

*Board Secretary*

**Philippe Bougon**

## Remunerations and Appointments Committee

**Michel François-Poncet**, Chairman  
**Willy R. Kissling**  
**René Barbier de La Serre**  
**Henri Lachmann**

## Audit Committee












**Gérard de La Martinière**, Chairman  
**René Barbier de La Serre**  
**James Ross**  
**Piero Sierra**

## Auditors

Statutory Auditors  
**Barbier Frinault & Autres/Ernst & Young**  
**PricewaterhouseCoopers Audit**

Substitute Auditors  
**Jean de Gaulle**  
**Dominique Paul**

General Management as of January 2004

|  |  |   |   |   |
|--|--|---|---|---|
|  |                   |                                  |                 |                          |
| <p><b>Henri Lachmann</b><br/>Chairman<br/>and Chief Executive Officer</p>        | <p><b>Jean-Pascal Tricoire</b><br/>Chief Operating Officer</p>                                     | <p><b>Antoine Giscard d'Estaing</b><br/>Executive Vice-President<br/>Finance and Control<br/>Legal Affairs</p>    | <p><b>Eric Pilaud</b><br/>Executive Vice-President<br/>Strategic Deployment</p>                   | <p><b>Jean-François Pilliard</b><br/>Executive Vice-President<br/>Human Resources<br/>and Communication</p> |
|  |                  |                                |               |   |
|  |                 |                               |              |   |
|  |                 |                                |               |                        |
|  | <p><b>Dave Petratis</b><br/>Executive Vice-President<br/>North American<br/>Operating Division</p> | <p><b>Julio Rodriguez</b><br/>Executive Vice-President<br/>International &amp; Iberian<br/>Operating Division</p> | <p><b>Russel Stocker</b><br/>Executive Vice-President<br/>Asia-Pacific<br/>Operating Division</p> | <p><b>Christian Wiest</b><br/>Executive Vice-President<br/>European<br/>Operating Division</p>              |

## Return to growth and a high operating margin

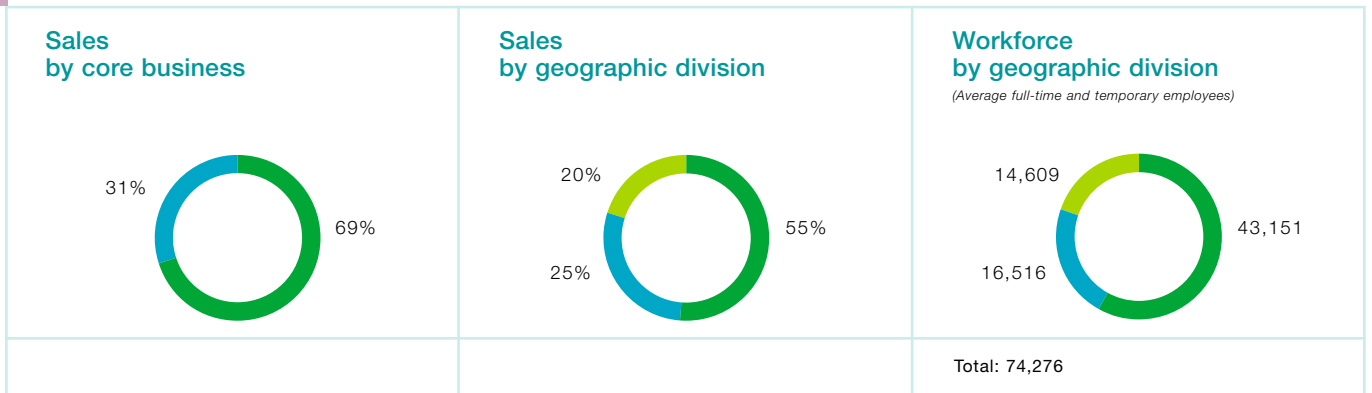


Sales rose 1.4% at constant scope of consolidation and exchange rates thanks to the initial impact of our growth plans and the emerging economic recovery. A highly unfavorable currency effect stemming from the euro's appreciation reduced sales by 7.5%, but was partially offset by acquisitions, which added 3%. On a current basis, sales declined by 3.1%.

In line with NEW2004 targets, the gross margin widened by 0.8 point in 2003 thanks to disciplined execution of our efficiency plans. Net productivity gains totaled €131 million. Excluding the currency effect, the gross margin exceeded our 2003 target at 42.9%.

One of the most profitable companies in its industry, Schneider Electric maintained a high operating margin in 2003 despite declining sales. The margin was lifted by a noticeable improvement in North America driven by our cost-cutting plans. It was negatively affected, however, in International markets by the currency effect. Excluding foreign exchange fluctuations, the operating margin stood at 13% for the year.

## Forefront positions worldwide

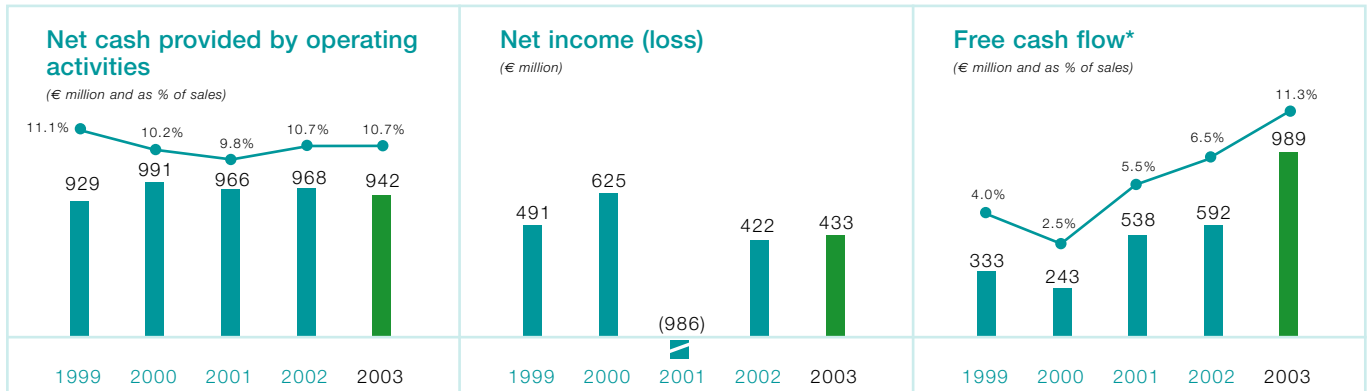


- Electrical Distribution
- Automation & Control

- Europe
- North America
- International

- Europe
- North America
- International

## Record free cash flow\* and an increase in net income



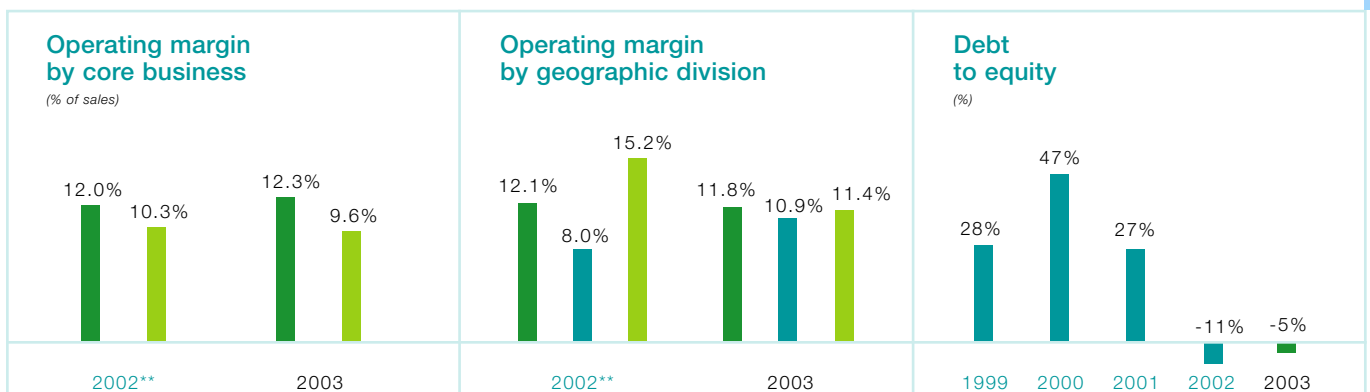
In 2003, Schneider Electric again demonstrated its strong ability to generate cash. Net cash provided by operating activities represented 94% of operating income and nearly 11% of sales. This is a crucial advantage for deploying our growth strategy.

Income from continuing operations before tax rose 8% to €954 million thanks to a reduction in interest expense stemming from lower debt. After amortization of goodwill, net income was up 3% at €433 million.

Free cash flow surged to a record €989 million in 2003 thanks to sustained control over capital spending and a significant decrease in non-operating working capital requirement. Free cash flow represented 11.3% of sales.

\* Operating cash flow - net capital expenditure +/- change in working capital and before dividend payment.

## Solid finances



■ Electrical Distribution  
■ Automation & Control

■ Europe  
■ North America  
■ International

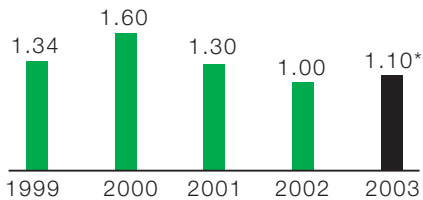
Schneider Electric has a particularly solid balance sheet, with shareholders' equity of €7,734 million and net cash of €399 million at December 31, 2003.

\*\* The Company made changes in its management accounting system in 2003. This led to modifications in the measurement of the operating margin by geographic region and business segment, without any impact on the consolidated operating margin. Data for 2002 were restated accordingly.

# The Schneider Electric Share

## Dividend per share

(in euros, before tax credit)

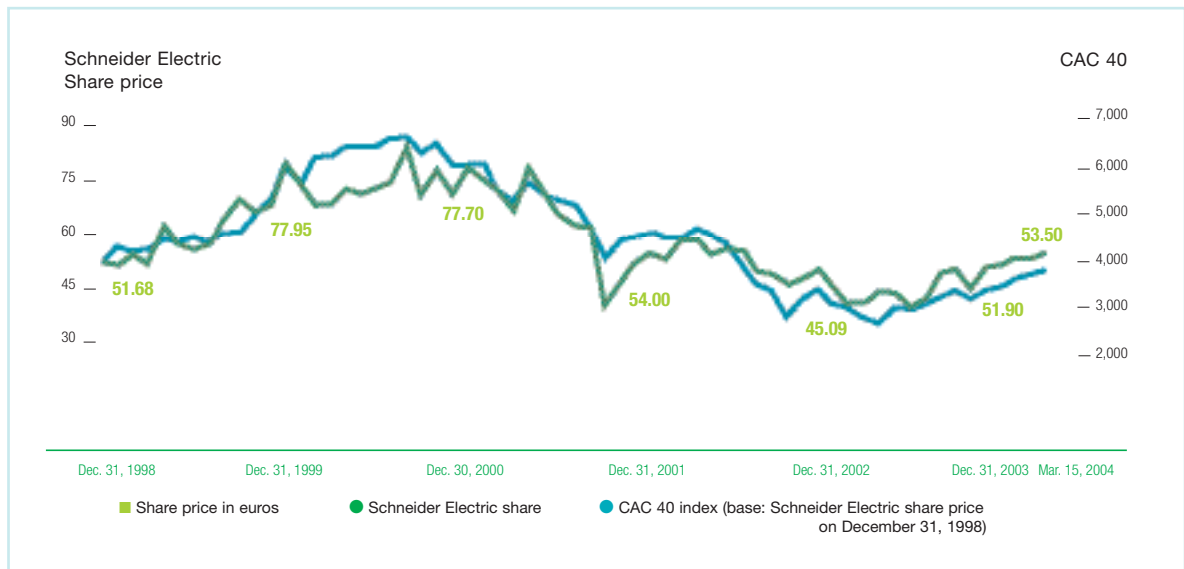


\* To be approved by shareholders at the Annual General Meeting of May 6, 2004. The dividend will be paid as from May 10, 2004.

- ▶ Listed on: First Market of the Euronext Paris market (deferred settlement service)
- ▶ Euroclear code: 12197
- ▶ Market value at December 31, 2003: €12.003 billion
- ▶ Indices: CAC 40 (1.72% of the index's total value), Euronext 100 ParisBourse SA
- ▶ Sustainable development indices: ASPI Eurozone, DJSI World, DJSI Stoxx

## Share price performance and trading volumes

(Euronext data)



| 5-year trading summary                      | 1999    | 2000    | 2001      | 2002      | 2003      |
|---|---------|---------|-----------|-----------|-----------|
| Average daily trading volume                |         |         |           |           |           |
| ▶ (number of shares)                        | 590,420 | 528,640 | 1,206,920 | 1,068,170 | 1,198,060 |
| ▶ Average daily trading volume (€ millions) | 35.31   | 38.50   | 72.82     | 53.87     | 53.92     |
| ▶ High                                      | 78.00   | 85.80   | 79.20     | 59.85     | 54.30     |
| ▶ Low                                       | 44.40   | 57.35   | 38.10     | 37.16     | 37.40     |
| Closing                                     | 77.95   | 77.70   | 54.00     | 45.09     | 51.90     |
| Total yield (%)                             | 2.58    | 3.09    | 2.41      | 3.33      | 3.18      |

## Changes in the share base in 2003

|   |                    |
|---|--------------------|
| <b>Shares outstanding at Dec. 31, 2002</b>  | <b>240,812,905</b> |
| Shares issued in 2003   | 3,029,265          |
| Shares cancelled 2003   | 12,000,000         |
| <b>Shares outstanding at Dec. 31, 2003</b>  | <b>231,842,170</b> |
| Potential shares at Dec. 31, 2003<br>(of which 3,435,925 options to purchase<br>new or existing shares) | 5,706,985          |
| <b>Fully diluted shares outstanding<br/>at Dec. 31, 2003</b>  | <b>237,549,155</b> |
| <b>Average shares outstanding in 2003<br/>(used to calculate earnings per share)</b>                    | <b>223,146,003</b> |

## Corporate governance

The Board of Directors has twelve members, including nine independent non-executive Directors (five of whom are non-French) and one member representing employee shareholders. Two committees—the Audit Committee and the Remunerations and Appointments Committee—assist the Board in its mission. In 2003, the Board met eight times with an attendance rate of 91%. On March 5, 2003, after analyzing the findings of its internal review, the Board approved a set of operating rules and procedures. The maximum attendance fees payable to Directors was set at €640,000. Total attendance fees paid for 2003 amounted to €569,000.

In 2003, General Management was represented by an Executive Committee whose nine members are paid a fixed salary plus a variable bonus based on the achievement of targets set at the beginning of the year. Total gross compensation paid to the members and the Chairman of the Executive Committee in 2003 amounted to €4.5 million, of which €1.3 million in variable bonuses. The Chairman's fixed salary totaled €731,800 and his gross variable bonus—based on sales and operating margin targets and the achievement of personal objectives—came to €1,039,000.

## Stock option plans and employee stock ownership

At December 31, 2003, 9,277,935 stock options granted to employees between 1995 and 2003 were outstanding. In virtually all of the stock option plans implemented since 1997, exercise of options is contingent on the full or partial achievement of performance targets. None of the plans since 1998 offers shares at a discount to the average share price preceding the date of grant.

At December 31, 2003, employees owned 3.62% of the capital and 6% of the voting rights through the Employee Stock Purchase Plan's corporate mutual funds. A new Worldwide Employee Stock Purchase Plan is scheduled for 2004.

## Ownership structure and voting rights\*

at December 31, 2003

|   |        |
|---|--------|
| Caisse des dépôts et consignations              | 4.34%  |
| Employees                                       | 3.62%  |
| Treasury stock – Intragroup cross shareholdings | 3.83%  |
| French investors                                | 53.51% |
| Foreign investors                               | 34.70% |

\* Double voting rights are attributed to fully paid-up shares registered in the name of the same holder for at least two years prior to the end of the calendar year preceding the one in which the Annual Meeting takes place. Bonus shares allotted in respect of shares carrying double voting rights also carry double voting rights.

## Shareholders' Relations Committee

The Committee is made up of ten individual shareholders appointed by Schneider Electric for a two-year term. Members may serve a maximum of two terms. The Committee is designed to relay shareholders' concerns in the area of financial communication to the Company. It gives an opinion and makes suggestions on financial communication actions and resources for individual shareholders. In 2003, the members met three times and made numerous suggestions that were then implemented by Schneider Electric's financial communication department.

## Investor contact

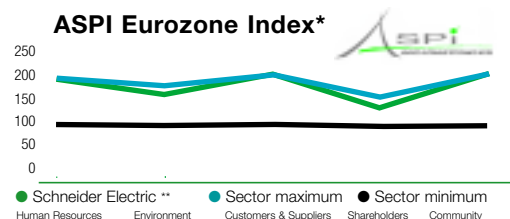
Send your questions and comments to:

**Shareholders' Relations Committee**  
Schneider Electric SA Financial Communication  
43-45 boulevard Franklin Roosevelt  
92500 Rueil-Malmaison, France

- [www.schneider-electric.com/](http://www.schneider-electric.com/) Investors' corner
- Toll-free number in France 0 800 20 55 14

**N° Vert 0 800 20 55 14**

## Other 2003 ratings



\* Schneider Electric has been part of the ASPI Eurozone Sustainable Performance Index since 2001.

\*\* Schneider Electric is compared with other companies in the same sector in 2003.

## Dow Jones Sustainability Indices

After being selected for the first time in 2003, Schneider Electric was included in 2004 in the Dow Jones Sustainability Index World and the Dow Jones Sustainability Index Stoxx (for Europe).



# Two Core Businesses

Schneider Electric is the only global enterprise devoted exclusively to Electrical Distribution and Automation & Control. Our goal is to enhance our customers' performance by providing increasingly comprehensive, effective and easy-to-use solutions.

## Forefront positions worldwide in two strategically-related businesses

### Electrical Distribution

Making electricity available,  
reliable and safe

#### Medium Voltage

- ▶ Switchgear and equipment from 1 to 52 kV: switches, fuses, circuit breakers, contactors, transformers, overhead switchgear, and indoor and outdoor substations.
- ▶ Power distribution management: monitoring, remote operation, automation, protection and measurement.

#### Low Voltage

- ▶ Power switchboards, circuit breakers, switches, insulation detectors, earth-leakage protection, transformers, safety lighting and fire detection.
- ▶ Prefabricated busbar trunking, modular switchgear, installation systems, Power Line Carrier (PLC) and Voice-Data-Image (VDI) communication products.
- ▶ Electrical installation management.

#### Ultra Terminal

- ▶ Switchgear for residential homes and buildings.
- ▶ Electrical switches and sockets.
- ▶ Installation systems.
- ▶ VDI components and systems.
- ▶ Automation components.

#### Main brands



### Automation & Control

Controlling, monitoring and protecting  
machines and equipment

#### Industrial Control

- ▶ Contactors from 6 to 2,750 A, overload relays, motor circuit breakers, soft starters, motor control units, sensors, limit switches, photoelectric cells, control and signaling units, speed drives, operator terminals, safety modules, power supplies, interfaces, relays, enclosures and assembly and wiring accessories.

#### Programmable Logic Controllers

- ▶ Programmable Logic Controllers (PLCs) and automation platforms.
- ▶ Specialized software, configuration software, programming software, operations support and supervision software, industrial PCs, communication networks and field buses.

#### Motion Control

- ▶ Numerical controllers, axis and spindle motors and digital positioning devices.

#### Main brands



We deliver an unparalleled lineup of products, services and solutions for the Residential, Buildings, Industry, and Energy & Infrastructure markets through world-leading global brands, powerful local brands and best-in-class specialist brands that guarantee superior quality, safety, benefits and services.

## Growth opportunities in four key markets



Schneider  
Electric

Solutions

### Residential

#### Optimizing safety, comfort and Voice-Data-Image (VDI) applications

- ▶ A dependable, steady market in which renovation accounts for 50% of demand. Substantial growth opportunities linked to the development of new technologies and expansion in emerging markets.
- ▶ Main customers: architects, building owners, developers, building contractors, electricians, electrical equipment distributors, and DIY superstores.

### Buildings

#### Optimizing comfort, safety, communication, and operating costs

- ▶ Significant growth potential in the management of industrial and commercial buildings and in our services offerings.
- ▶ Main customers: developers, engineering offices, contractors and panelbuilders, electrical equipment distributors, systems integrators and operating companies.

### Industry

#### Optimizing productivity, flexibility, safety and traceability

- ▶ We serve all sectors, including the food and beverage, packaging, automobile, pharmaceuticals, electrical components, and chemicals industries. Major growth paths include global partnerships with strategic accounts and OEMs as well as Transparent Ready™ solutions.
- ▶ Main customers: engineering firms, systems integrators, OEMs, large industrial companies, panelbuilders and electrical equipment distributors.

### Energy and Infrastructure

#### Optimizing availability, safety, and operating costs

- ▶ Growth driven by the operation of Internet-related infrastructure, the privatization of public infrastructure, the development of renewable and distributed energy, stricter environmental legislation, heightened safety requirements and the extensive outsourcing of services.
- ▶ Main customers: public-sector investors, supervisory authorities, systems integrators, OEMs, electric companies, large industrial companies and service firms.

# Energy & Infrastructure

Our solutions, products and services cover:

- Power generation and distribution
- Energy metering and quality
- Water transmission and treatment
- Passenger and freight transportation
- Telecommunication infrastructure
- Gas and oil infrastructure
- Multi-site remote management

## 1 Wind turbine

### ■ Feed the power grid

Step-up transformer, MV/HV substation

- Optimize the operating costs of the installed base  
Local and remote control system

## 2 HV/MV substation

### ■ Step the power down from high voltage to medium voltage

HV/MV, transformer, protection switchgear

- Control and manage the substation

Local and remote control system

## 3 Medium Voltage

### ■ Control and manage power distribution

Fault detector, remote terminal unit

## 4 MV/LV substation

### ■ Step the power down from medium voltage to low voltage

MV/LV, transformer, protection switchgear

- Distribute electricity to consumers

Protection switchgear, LV distribution switchboard

## 5 Water treatment

### ■ Control, monitor and distribute electricity for the process

HV and MV switchboard, transformer, LV switchboard, protection switchgear, programmable logic controller

- Control and monitor pump motors

Frequency changer, programmable logic, controller, variable speed drive

sensor

## ■ Manage the sites

Local and remote control system

## 6 Airport

### ■ Supply site electricity

HV/MV and/or MV/LV substation

- Distribute electricity and control building utilities  
LV distribution switchboard, busbar trunking, LV switchgear, programmable logic controller, variable speed drive

### ■ Manage baggage handling

Programmable logic controller, variable speed drive, human-machine communication terminal

- Ensure continuous power supply for runway lighting

MV switchboard, transformer, LV switchgear, backup power supply, programmable logic controller

## 7 Road tunnel

### ■ Supply electric power

MV and LV switchboard, transformer, power factor correction, network management.

- Ventilation control and monitoring

Speed drive

## 8 Telecommunications

### ■ Supply and distribute electricity and manage building utilities

Continuous power supply system, local and remote control system



# Residential

Our products and services solutions for single-family homes and apartment buildings cover:

- Electrical distribution (protection and installation systems)
- Monitoring and safety
- Home automation and data exchange systems based on advanced technologies (Voice-Data-Image, landline, power line carrier technology, radio)



**1 Distribute LV power**  
Distribution enclosure, residential load center

**Protect people and the electrical system**  
Connection circuit breakers and earth-leakage protection circuit breakers.

**2 Distribute final low voltage power**  
Switches and sockets

**3 Ensure comfort and manage energy**  
Products for heating, air conditioning and lighting applications, contract optimization and phone-controlled management

**4 Distribute Voice-Data-Image networks**  
Telephone and television socket solutions

**5 Protect people and property**  
Fire alarm and access control system, code-operated keypad, intercom, lightning arrester, etc.



# Buildings

Our products and services solutions cover:

- Electrical supply and distribution
- Utilities management (lighting, air conditioning, elevators, access control, etc.)
- Data exchange (Voice-Data-Image, power line carrier technology, radio)
- Multi-site remote management for office buildings, shopping malls and stores, industrial buildings, ships, hotels, hospitals and schools, etc.

**1 Distribute low voltage power**

General LV switchboard, prefabricated busbar trunking

**2 Distribute final low voltage**

Secondary switchboard, switches and electrical outlets

**3 Control and manage building facilities (comfort, energy savings, maintenance)**

Local and remote control system

**4 Supply building electricity**

MV/LV substation

**5 Distribute Voice-Data-Image networks**

Telephone, television and network sockets

**6 Control motors (ventilation, elevators, escalators)**

Variable speed drive

**7 Control and manage lighting**

Lighting management system

**8 Ensure building safety**

Access control, fire alarm and intrusion control systems



Transparent  
Ready

The power of the web for electrical distribution and automation. Single-site or multi-site power distribution and automation data management.

For more information on Transparent Ready™ [www.transparent-ready.com](http://www.transparent-ready.com)

# Industry

Our products and services solutions cover:

- Machine control
- Process automation
- Electrical supply and distribution
- Single or multi-site production data management

**1 Control and protect motors**

Enclosed motor starter, circuit breaker, contactor, relay

**2 Detect objects, shapes and colors**

Sensor

**3 Control load traction and movement**

Variable speed drive

**4 Protect operators and stop machines safely**

Emergency stop button, control pedal, light curtain, illuminated indicator bank and beacon

**5 View statuses and communicate with machines**

Interface terminal, buttons and lights

**6 Control automated devices, process and communicate captured data**

Programmable logic controller

**7 Communicate with the company's various automated systems**

Programmable logic controller, software, Web Automation

**8 Supply site electricity**

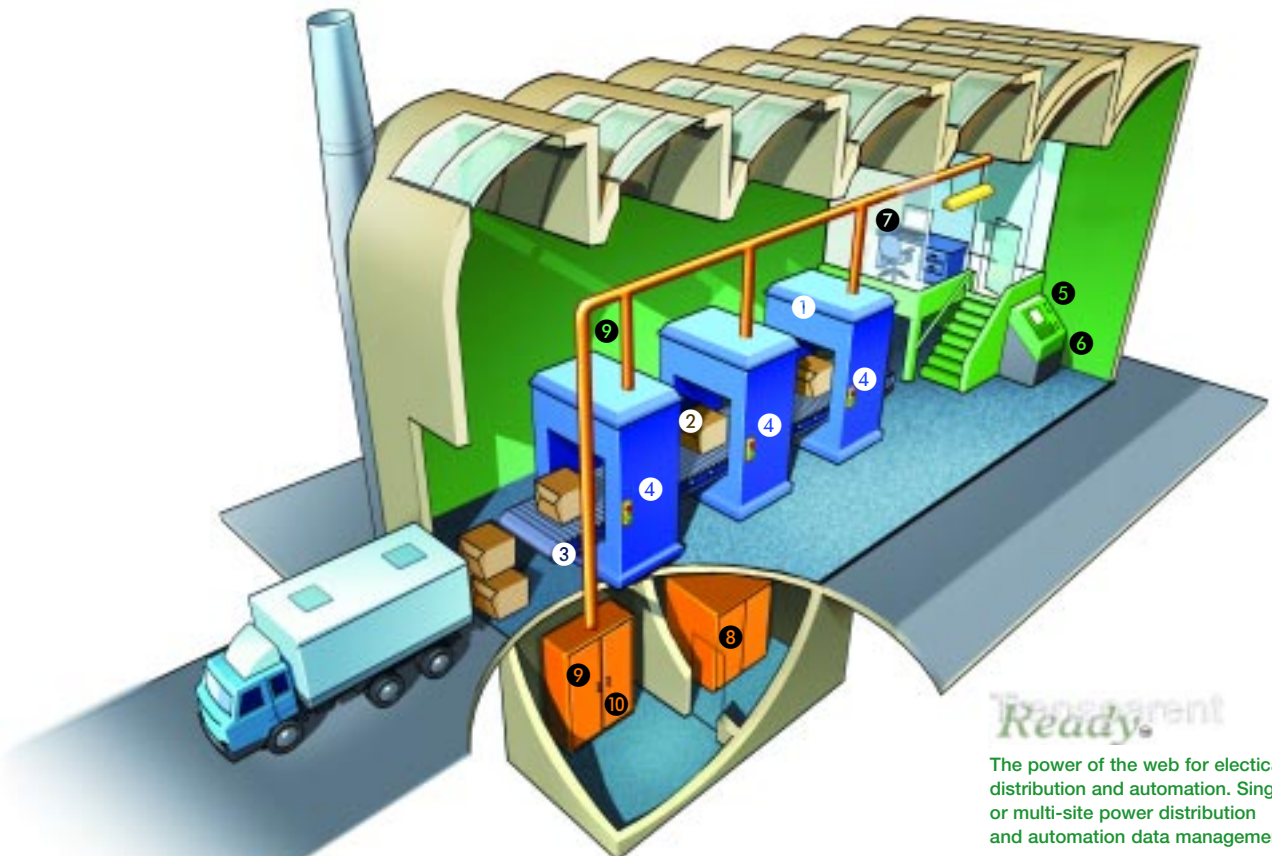
HV/MV and/or MV/LV substation

**9 Distribute LV power, optimize energy costs and quality**

LV switchboard, prefabricated busbar trunking, local and remote control system

**10 Protect people and electrical installations against overcurrent**

Power circuit breaker and earth-leakage protection circuit breaker



Transparent Ready

The power of the web for electrical distribution and automation. Single-site or multi-site power distribution and automation data management.

## Consolidated Statement of Income

| <i>(in millions of euros except for earnings per share)</i>                              | <b>2003</b>    | <b>2002</b>    | <b>2001</b>    |
|--|----------------|----------------|----------------|
| <b>Sales</b>   | <b>8,780.3</b> | <b>9,060.5</b> | <b>9,828.2</b> |
| Cost of sales  | (5,063.1)      | (5,305.2)      | (5,878.6)      |
| Research and development expenses  | (494.0)        | (472.7)        | (512.7)        |
| Selling, general and administrative expenses   | (2,215.8)      | (2,242.9)      | (2,320.6)      |
| <b>Operating income</b>  | <b>1,007.4</b> | <b>1,039.6</b> | <b>1,116.3</b> |
| Financial expense, net   | (53.1)         | (157.8)        | (120.9)        |
| <b>Income from continuing operations before tax</b>                                      | <b>954.3</b>   | <b>881.9</b>   | <b>995.4</b>   |
| Exceptional items  | (163.9)        | (509.2)        | (1,563.9)      |
| Income tax   | (127.3)        | 295.0          | (206.9)        |
| <b>Net income/(loss) of fully consolidated companies before amortization of goodwill</b> | <b>663.1</b>   | <b>667.7</b>   | <b>(775.4)</b> |
| Amortization of goodwill   | (190.7)        | (192.6)        | (169.3)        |
| Group's share of income/(loss) of equity investments                                     | (18.1)         | (28.2)         | (19.3)         |
| <b>Net income/(loss) before minority interests</b>                                       | <b>454.3</b>   | <b>446.9</b>   | <b>(964.0)</b> |
| Minority interests   | (21.5)         | (24.9)         | (22.4)         |
| <b>Net income/(loss) (attributable to Schneider Electric SA)</b>                         | <b>432.8</b>   | <b>422.0</b>   | <b>(986.4)</b> |
| Earnings/(loss) per share (in euros)   | 1.94           | 1.85           | (5.43)         |
| Diluted earnings/(loss) per share (in euros)   | 1.94           | 1.84           | (5.43)         |

## Consolidated Statement of Cash Flows

| <i>(in millions of euros, at December 31)</i>   | <b>2003</b>            | <b>2002</b>      | <b>2001</b>            |
|---|------------------------|------------------|------------------------|
| <b>I - Net cash provided by operating activities</b>  |                        |                  |                        |
| Net income (attributable to Schneider Electric SA)  | 432.8                  | 422.0            | (986.4)                |
| Minority interests  | 21.5                   | 24.9             | 22.4                   |
| Group share of (income)/loss of companies accounted for by the equity method (net of dividend received) | 18.1                   | 27.8             | 19.3                   |
| <i>Adjustments to reconcile net income to net cash provided by operating activities:</i>                |                        |                  |                        |
| Depreciation of property, plant and equipment   | 283.5                  | 293.4            | 301.2                  |
| Amortization of intangible assets other than goodwill   | 60.2                   | 56.9             | 50.1                   |
| Amortization of goodwill  | 190.7                  | 192.6            | 169.3                  |
| Increase (decrease) in provisions   | 44.6                   | (1,350.5)        | 1,375.8                |
| Increase (decrease) in deferred taxes   | (144.1)                | (484.2)          | 5.2                    |
| Losses (gains) on disposals of assets   | 15.4                   | 1,785.0          | 10.8                   |
| Other   | 19.3                   | (0.4)            | (1.3)                  |
| <b>Net cash provided by operating activities before changes in operating assets and liabilities</b>     | <b>942.0</b>           | <b>967.5</b>     | <b>966.4</b>           |
| (Increase) decrease in accounts receivable  | (14.8)                 | 109.3            | 132.0                  |
| (Increase) decrease in inventories and work in progress   | (5.3)                  | 49.8             | 51.3                   |
| Increase (decrease) in accounts payable   | 67.2                   | (96.6)           | (268.8)                |
| Change in other current assets and liabilities  | 265.1                  | (97.2)           | 61.7                   |
| <b>Change in working capital</b>  | <b>312.2</b>           | <b>(34.7)</b>    | <b>(23.8)</b>          |
| <b>Total I</b>  | <b>1,254.2</b>         | <b>932.8</b>     | <b>942.6</b>           |
| <b>II - Net cash (used)/provided by investing activities</b>  |                        |                  |                        |
| Purchases of property, plant and equipment  | (253.2)                | (288.0)          | (405.2)                |
| Disposals of property, plant and equipment  | 48.3                   | 24.7             | 46.8                   |
| Purchases of intangible assets  | (61.8)                 | (89.3)           | (46.4)                 |
| Disposals of intangible assets  | 1.3                    | 12.1             | 0.3                    |
| <b>Net cash used by investment in operating assets</b>  | <b>(265.4)</b>         | <b>(340.5)</b>   | <b>(404.5)</b>         |
| Financial investments - net   | (595.8)                | 3,223.7          | (448.3) <sup>(1)</sup> |
| Other long-term investments   | (262.1) <sup>(2)</sup> | (2.5)            | 102.0                  |
| Long-term pension assets  | (142.2) <sup>(3)</sup> | (55.4)           | (17.1)                 |
| <b>Sub-total</b>  | <b>(1,000.1)</b>       | <b>3,165.8</b>   | <b>(363.4)</b>         |
| <b>Total II</b>   | <b>(1,265.5)</b>       | <b>2,825.3</b>   | <b>(767.9)</b>         |
| <b>III - Net cash (used)/provided by financing activities</b>   |                        |                  |                        |
| Increase in long-term debt  | 789.8                  | 13.2             | (248.9)                |
| Reduction of long-term debt   | (73.1)                 | (202.3)          | (142.8)                |
| Sale/(purchase) of Company shares   | (112.3)                | (329.1)          | (73.9)                 |
| Increase/(decrease) in other borrowings   | (481.6)                | (274.2)          | 527.6                  |
| Common stock issued   | 101.8                  | 11.0             | 7.2                    |
| Dividends paid: Schneider Electric SA   | (308.0)                | (297.6)          | (297.0)                |
| Minority interests  | (18.6)                 | (18.3)           | (18.2)                 |
| <b>Total III</b>  | <b>(102.0)</b>         | <b>(1,097.3)</b> | <b>(246.0)</b>         |
| <b>IV - Net effect of exchange rate and other changes</b>   | <b>Total IV</b>        | <b>2.7</b>       | <b>14.1</b>            |
| <b>Net increase/(decrease) in cash and cash equivalents: I + II + III + IV</b>                          | <b>(168.0)</b>         | <b>2,663.5</b>   | <b>(57.2)</b>          |
| Cash and cash equivalents at beginning of year  | 3,070.4                | 406.9            | 464.1                  |
| Increase/(decrease) in cash and cash equivalents  | (168.0)                | 2,663.5          | (57.2)                 |
| <b>Cash and cash equivalents at end of year</b>   | <b>2,902.4</b>         | <b>3,070.4</b>   | <b>406.9</b>           |

(1) The purchase of Legrand shares (in an amount of €5,027.5 million) was financed mainly through the issue of new Schneider Electric SA shares. Only the cash payment and acquisition costs are indicated in the statement of cash flows.

(2) Including €259 million loan to Clipsal.

(3) Including an additional contribution to pension commitments by Square D in an amount of €143 million in 2003 vs. €50 million in 2002. The accompanying notes are an integral part of the consolidated financial statements.

## Consolidated Balance Sheet

### Assets

(in millions of euros, at December 31)

|  | 2003            | 2002            | 2001            |
|--|-----------------|-----------------|-----------------|
| <b>Non-current assets</b>                      |                 |                 |                 |
| Goodwill, net                                  | 3,512.8         | 3,371.9         | 3,840.7         |
| Other intangible assets                        | 270.7           | 259.9           | 210.4           |
| Property, plant and equipment - at cost        | 1,439.1         | 1,573.3         | 1,751.0         |
| <b>Investments</b>                             |                 |                 |                 |
| Investments accounted for by the equity method | 60.5            | 76.2            | 124.4           |
| Investments in companies at cost               | 369.6           | 380.9           | 4,181.8         |
| Other investments                              | 585.4           | 244.5           | 92.3            |
| Total investments                              | 1,015.5         | 701.6           | 4,398.5         |
| Other long-term assets                         | 315.6           | 274.4           | 212.8           |
| <b>Total non-current assets</b>                | <b>6,553.7</b>  | <b>6,181.1</b>  | <b>10,413.4</b> |
| <b>Current assets</b>                          |                 |                 |                 |
| Inventories and work in process                | 1,124.1         | 1,146.5         | 1,267.9         |
| Trade accounts receivable                      | 1,781.3         | 1,812.3         | 2,034.6         |
| Other accounts receivable and prepaid expenses | 627.0           | 697.1           | 729.4           |
| Deferred taxes                                 | 747.2           | 718.5           | 225.5           |
| Cash and cash equivalents                      | 3,087.5         | 3,214.0         | 579.5           |
| <b>Total current assets</b>                    | <b>7,367.1</b>  | <b>7,588.4</b>  | <b>4,836.9</b>  |
| <b>Total assets</b>                            | <b>13,920.8</b> | <b>13,769.5</b> | <b>15,250.3</b> |

## Liabilities and shareholders' equity

(in millions of euros, at December 31)

|  | 2003            | 2002            | 2001            |
|--|-----------------|-----------------|-----------------|
| <b>Shareholders' equity</b>                                |                 |                 |                 |
| Capital stock  | 1,854.7         | 1,926.5         | 1,922.1         |
| Additional paid-in capital                                 | 4,290.8         | 4,895.2         | 5,467.0         |
| Retained earnings  | 1,724.6         | 875.3           | 447.5           |
| Cumulative translation adjustment                          | (211.4)         | 87.7            | 543.9           |
| <b>Shareholders' equity (excluding minority interests)</b> | <b>7,658.7</b>  | <b>7,784.7</b>  | <b>8,380.5</b>  |
| <b>Minority interests</b>                                  | <b>74.9</b>     | <b>76.2</b>     | <b>79.3</b>     |
| <b>Provisions for contingencies and charges</b>            |                 |                 |                 |
| Provisions for pensions and similar liabilities            | 672.5           | 810.8           | 628.7           |
| Provisions for contingencies and charges                   | 156.7           | 174.3           | 202.6           |
| <b>Total provisions for contingencies and charges</b>      | <b>829.2</b>    | <b>985.1</b>    | <b>831.3</b>    |
| <b>Long-term debt</b>                                      |                 |                 |                 |
| Ordinary and convertible bonds                             | 1,200.0         | 1,450.0         | 1,458.7         |
| Perpetual bonds  | 113.6           | 148.3           | 179.7           |
| Other long-term debt                                       | 121.7           | 125.5           | 137.9           |
| Total long-term debt                                       | 1,435.3         | 1,723.8         | 1,776.3         |
| Other long-term liabilities                                | 40.5            | -               | -               |
| <b>Total long-term liabilities</b>                         | <b>1,475.8</b>  | <b>1,723.8</b>  | <b>1,776.3</b>  |
| <b>Current liabilities</b>                                 |                 |                 |                 |
| Customer prepayments                                       | 56.2            | 39.8            | 55.5            |
| Trade accounts payable                                     | 1,176.7         | 1,167.2         | 1,305.0         |
| Accrued taxes and payroll costs                            | 663.1           | 567.0           | 645.2           |
| Deferred tax liabilities                                   | 92.2            | 54.5            | 202.2           |
| Other payables and accrued liabilities                     | 641.0           | 725.0           | 879.3           |
| Short-term debt  | 1,253.0         | 646.2           | 1,095.7         |
| <b>Total current liabilities</b>                           | <b>3,882.2</b>  | <b>3,199.7</b>  | <b>4,182.9</b>  |
| <b>Total liabilities and shareholders' equity</b>          | <b>13,920.8</b> | <b>13,769.5</b> | <b>15,250.3</b> |

# *Building* a **New Electric World**



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