

# Letter to *Shareholders*



## APC, a strategic acquisition in critical power



Jean-Pascal Tricoire  
*President and Chief  
Executive Officer*

Dear Shareholders,

We recently announced the acquisition of US-based American Power Conversion (APC), the world leader in critical power. This market is experiencing strong, sustainable growth driven by the rising need for protection from power cuts and fluctuations. An increasing number of critical applications such as enterprise networks, sensitive industrial processes and hospital services require a high quality energy supply at a time when the power grid is becoming less and less reliable.

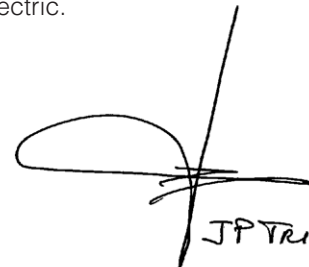
Energy management is an integral part of Schneider Electric's strategy. This activity's two main segments—critical power and energy efficiency—are the fastest growing areas of the electrical distribution business. That's why your Company is developing solid, global positions in these professions.

Schneider Electric entered the highly attractive critical power segment in 2003, with the acquisition of MGE UPS Systems in France. Today, with APC, we have become the world leader in critical power and strengthened our leadership in electrical distribution at the same time.

APC is the benchmark for quality and innovation in critical power systems. It offers a perfect fit with Schneider Electric in terms of products, geographic coverage, market access and managerial skills. In short, APC is to critical power what Merlin Gerin and Square D are to electrical distribution and Telemecanique is to industrial control.

This acquisition will create substantial value of more than \$3 billion for Schneider Electric's shareholders generated by the turnaround of large systems and the powerful synergy between APC, MGE UPS Systems and the entire Schneider Electric lineup.

The addition of APC is a major step for your Company as we deploy our strategy of strong, profitable growth. I am confident that our new leadership position in critical power will contribute significantly in the years ahead to increasing the return on your investment in Schneider Electric.



JPTRICOIRE



Third-Quarter  
2006  
Sales Strong  
Growth of  
**15.3%**

**Continued sustained organic growth of 9.9%**

**Breakdown by region**

(in € millions and like-for-like % increase)

**Europe: 1,570**

+ 8.7 %

**North America: 959**

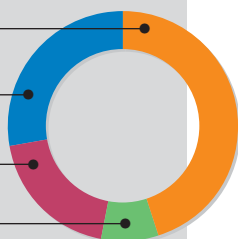
+ 5.6 %

**Asia-Pacific: 666**

+ 15.0 %

**Rest of the World: 285**

+ 19.6 %



**Favorable dynamics in Western Europe**

The clear upturn in capital spending in the industry and non-residential building markets continued across virtually the entire region.

**Firm demand in North America**

The business trend remained solid despite an higher basis of comparison.

**Excellent performance in emerging countries**

Sales increased strongly against a backdrop of very favorable regional environment coupled with Schneider Electric's high-quality positions in those regions.

**Excellent results in first-half 2006**

**Sales: +22%**

**Operating Income: +40%**

**Net Income: +46%**

**Record organic sales growth**

Sustained pace of growth in all regions.

**Significant increase in operating income**

A particularly strong volume effect was amplified by the impact of a gradual increase in selling prices.

**Strong growth in net income**

Financial costs showed a moderate increase given the significant rise in net debt.

# Schneider Electric gains of the strategic *critical*



Legendary Reliability®

~ \$2 bn of sales

**Critical power: an attractive market**

Critical power solutions support all applications where power failures or poor quality electricity can jeopardize operation. They do this by delivering an uninterrupted supply of high quality power. The uninterruptible power supplies (UPS) at the center of these systems are very often combined with low and medium-voltage solutions and power control devices.

The critical power market has been growing steadily, by a strong 7%-8% a year, primarily because the power grid has proven unreliable. Insufficient investment has resulted in a growing shortage of generation capacity and a lack of availability when grid quality

deteriorates. Demand for critical power solutions has also been driven by the rising number of applications that are sensitive to power disturbances, including information systems, industrial processes and hospital services. The effects of micro-outages or poor quality electricity can be very costly; in the stock market, for example, transaction losses stemming from one hour of downtime are estimated at €6.5 million.

Lastly, mass digitization and data sharing have also played a key role in the market's growth. Whether generated by people surfing the Internet or downloading photos and videos, rising digital traffic requires protected processing and storage capacity.

**APC: a world leader and brand of reference**

APC has quickly established itself as one of the world's leading suppliers of critical power solutions to meet these new needs. It is the uncontested leader and benchmark in UPS systems, which guarantee steady input voltage and offset power surges, power sags and frequency variations.

APC currently generates 75% of its sales from small systems and 25% from large systems, where it has successfully expanded with a highly innovative modular lineup. With nearly 7,600 employees, APC reported 2005 sales of close to \$2 billion, of which more than half in the United States. A growth-oriented company, APC has recorded twelve consecutive quarters of double-digit growth. Although recent investments to develop large systems have weighed on APC's EBIT margin, Schneider Electric has great confidence in its ability to rapidly turn around profitability in light of MGE UPS Systems' experience and results.



UPS for business computer



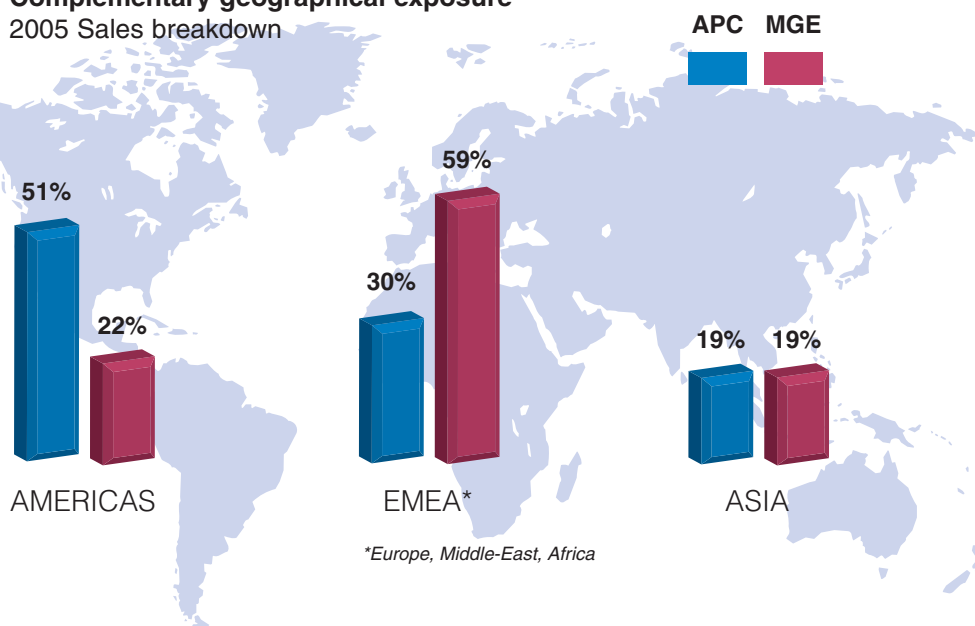
In-row air conditioning

# leadership *power* market

7,600 employees

~5% of sales in R&D

## Complementary geographical exposure 2005 Sales breakdown



*"Schneider Electric is an ideal partner for APC. Both companies have a dedication to innovation and customer service that make our combined enterprise an even stronger, more competitive player in the industry. We look forward to the unique benefits this partnership will bring to our customers and employees."*

**Rob Johnson, President and Chief Executive Officer of APC**

## A unique fit

This turnaround, supported by sizeable synergy in purchasing, R&D, support functions, sales, services and other areas will create value of more than \$3 billion. APC offers a unique fit with Schneider Electric. Its lineup, with a deep strength in small systems, dovetails nicely with the MGE UPS Systems portfolio, which focuses more heavily on large systems and services. The partners' geographic exposure is also very

complementary, given APC's heavy presence in the United States, Southeast Asia, Japan and India and MGE's concentration in Europe and China. APC primarily serves IT customers, while Schneider Electric focuses more on electrical distribution needs for construction. Both companies' management teams share the same vision of what needs to be done

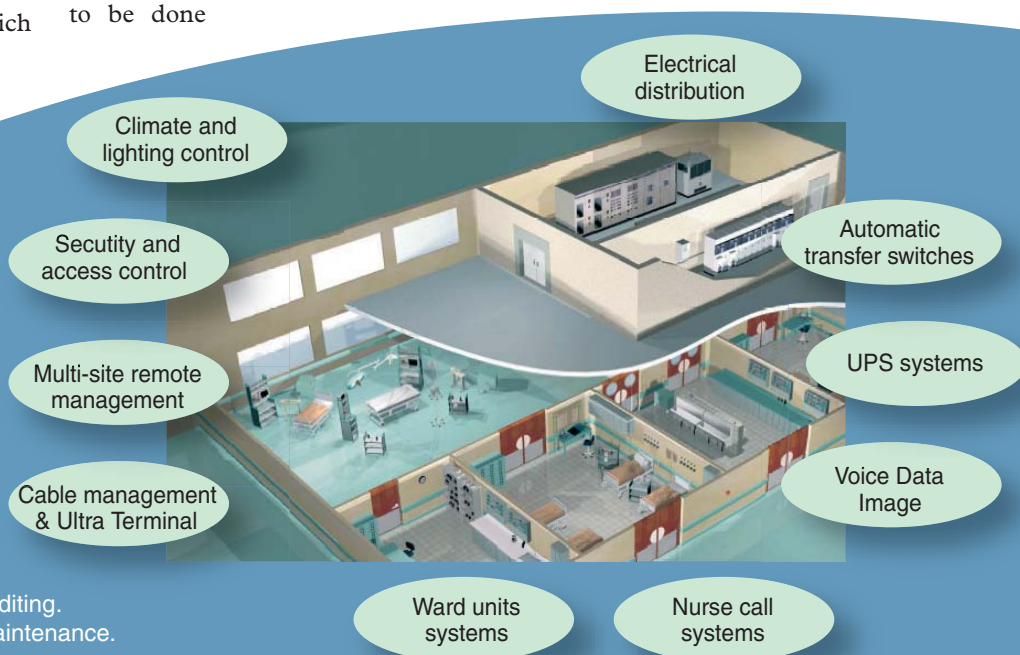
to make the new unit even stronger and competitive.

Schneider Electric will be able to leverage the partners' deep synergy to offer users even more solutions, products and services through a unique combined lineup of critical power, electrical distribution and building automation solutions.

## Example of customer application: Hospital

### Services

Architecture engineering. Installation auditing. e-monitoring and analysis, training & maintenance.



## Schneider Electric Share / CAC 40 Index

### Over one year

Nov, 10, 2005 – Nov, 10, 2006

#### Share data October 2006

- Shares outstanding : 227,549,144
- ISIN Code : FR0000121972
- Stock market site code : SU or SCHN
- Traded on the Euronext Paris First Market, eligible for the deferred settlement service
- Per value : €8
- Market capitalisation : €18.7 billion

#### Investor Calendar

**January 19, 2007**  
2006 fourth-quarter sales

**February 21, 2007**  
2006 annual results

**April 19, 2007**  
2007 first-quarter sales

**April 26, 2007 at 3:00pm**  
Meridien Hotel, Paris 17  
Annual shareholders' meeting

**May 2, 2007**  
Dividend payment

**August 1, 2007**  
2007 interim results and  
second-quarter sales

**October 23, 2007**  
2007 third-quarter sales

For further information,  
shareholders in France may call  
the following toll-free number:

**N° Vert 0 800 20 55 14**

[www.schneider-electric.com](http://www.schneider-electric.com)



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Incorporated in France with limited liabilities and  
issued capital of €1,820,393,144  
Registered in Nanterre B 542 048 574

Schneider Electric  
share price

Cac 40  
Index



## Shareholders: participate in Schneider Electric's share issue

### And take advantage of your pre-emptive subscription right

Schneider Electric would like to give its existing shareholders the opportunity to participate in the share issue being organized to partially finance the acquisition of APC. As an issue with pre-emptive subscription rights, this transaction favors the interests of existing shareholders, who are its main focus. You will soon be receiving a letter from the financial institution that manages your shares explaining how to participate in the issue.

Over the years, you have continually demonstrated your loyalty and your confidence in Schneider Electric. By subscribing the proposed share issue, you will take part in a decisive phase of your Company's development alongside all of Schneider Electric's team members and benefit fully from its strategy of strong, profitable growth.

