

Letter to *Shareholders*



Henri Lachmann
*Chairman and Chief
Executive Officer*

Dear Shareholder,

The last few months have been intense ones for Schneider Electric. In a difficult business environment, your Company accelerated deployment of its Growth and Efficiency strategy. Thanks to stepped-up productivity plans introduced as part of the NEW2004 Company program, we posted good interim results despite the unfavorable rise in the euro. In addition, we followed on our strategic acquisition of Digital Electronics in December 2002 by acquiring TAC and Clipsal in June and August.

The gross margin increased by one point in the first half, in line with our target, to 41.9% despite a decline in sales stemming entirely from the euro's appreciation. The operating margin and cash flow remained high under challenging economic conditions. The first half was also shaped by very strong expansion in Asia, with sales up more than 10%. These results confirm our reactivity and the relevance of our strategy. They also reflect the deep commitment of the entire Schneider Electric community and demonstrate, once again, that we have high-quality, solid fundamentals.

As we continue to improve our financial performance, we are pursuing an active medium-term development strategy as part of our vision of bringing the best of the New Electric World to everyone, everywhere, at any time. We want to target promising market segments more effectively, invest in high-potential regions and develop new growth avenues that will drive our future success.

As you know, in December 2002 we acquired Japan's Digital Electronics, the world leader in Human Machine Interface. Building on this momentum, we added two new acquisitions in June and August: TAC and Clipsal Industries. Sweden-based TAC is a major player in the global building automation and control market, with operations primarily located in Northern Europe and United States and a remarkable reputation. Clipsal Industries is market leader in the Asia-Pacific region for Electrical Wiring Devices, an area in which we wanted to enhance our presence. Together, these three acquisitions represent additional sales of nearly €1 billion.

Today, your Company is the benchmark in its industry, fully prepared and positioned for future success. I am confident in our ability to achieve our targets and convinced that the Schneider Electric share has rebound potential.

2003 Interim Financial Results

Resilient operating margin despite a major currency effect

Sales

Down 7% to €4.24 billion

Sales growth was impacted by a negative currency effect totaling €406 million stemming from the euro's sharp rise against the US dollar and most other currencies. At constant structure and exchange rates, sales were stable overall compared to the year earlier period, at -0.3%.

Gross margin

41.9% of sales versus 40.9% in first-half 2002

Thanks to the ongoing effects of the productivity plans launched as part of the NEW2004 program, we are on track concerning our target to improve the gross margin which increased by one point.

Operating margin

10.4% of sales versus 10.8% in first-half 2002

The major currency effect caused by the euro's appreciation offset productivity gains, leading to a 1.6 point decrease in operating margin. At constant exchange rates, operating margin rose 1.2 point to 12% in the first half 2003.

Operating cash flow

10.8% of sales versus 9.6% in first-half 2002

Net income

Up 8% to €190 million

Earnings per share

Up 11% to €0.85

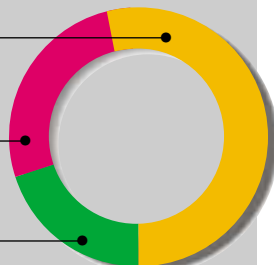
Second-quarter sales

Sales totaled €2,157 million in the second quarter, an increase of 0.3% from the year-earlier period at constant structure and exchange rates. Taking seasonal variations into account, trend in sales has been stable over the last three quarters in Europe and North America and has increased in the International markets. Asia, and more specifically China, continue to show substantial sales momentum.

Breakdown by Operating Division

€ million at constant structure and exchange rates, Q2 2003/Q2 2002

Europe	1,134	-1.3%
North America	553	-4.7%
International	470	+11.8%



New-Acquisitions

Schneider Electric becomes a major player in building automation and control

On June 12, 2003, Schneider Electric announced the **acquisition of Sweden's TAC**. With 2,100 employees TAC recorded sales of around €350 million in 2002 and an operating margin of 10.5%. The company has enjoyed remarkable growth over the past few years and is one of the most profitable enterprises in its industry.

A strategic acquisition for Schneider Electric

- TAC is a major player in building automation and control, with a full lineup based on open technologies that is aligned with Schneider Electric's Transparent Building™ approach.
- Control, automation and supervision of building utilities, including ventilation, heating, lighting, electricity and safety systems, represents significant growth potential for Schneider Electric for a number of reasons: it is a market

worth some €11 billion, it is growing on average by more than 6% a year and it offers substantial synergy with Schneider Electric's current positions in the Buildings market.

- TAC has been involved in prestigious flagship projects for the Kremlin, Rockefeller Center, University of Texas, and government buildings in Stockholm.

This acquisition represents a key step in Schneider Electric's growth strategy as the building automation market is at the crossroads of our two core competencies: electrical distribution and automation.

Accretive as from the third year

The acquisition will be made on the basis of an enterprise value of €422 million and will be paid in cash. In light of the synergy offered, the transaction will be accretive after amortization of goodwill as from the third year.

Schneider Electric strengthens its Asia-Pacific presence in Electrical Wiring Devices

Schneider Electric signed two agreements on August 25. The first calls for the creation of a 50/50 joint venture with Singapore-based **Clipsal Industries** to manufacture and market Electrical Wiring Devices in Asia, while the second concerns the acquisition of **Gerard Industries Pty Ltd.** in Australia from Clipsal Industries and the Gerard family.

An important growth driver for Schneider Electric

These agreements:

- Significantly enhance Schneider Electric's presence in fast-growing Asian markets and extend its lineup in the region.
- Expand Schneider Electric presence in the Residential and Building markets, particularly in Australia and South Africa.
- Provide the group with a leading British Standard (BS) brand, adding to its ability to design and produce an effective Wiring Devices and installation system lineup.

Clipsal : The ideal partner

Clipsal covers the entire Wiring Devices market, from switches, sockets and miniature circuit breakers to VDI devices and automation and control systems. The high value-added Clipsal brand ranks first or second in the Wiring Devices market in 12 countries and has participated in numerous prestigious projects, including the Sydney Olympic Stadium and Singapore's Changi airport.

The full transaction represents combined sales of €350 million, of which €250 million in the Pacific region and €100 million in Asia.

Accretive as from 2005

The share in the joint venture with Clipsal Industries will be financed through the contribution of assets, the sale of Schneider Electric's 18.7% interest in Clipsal Industries and €5 million in cash. The acquisition of Gerard Industries' Wiring Devices business will be paid in cash, in an amount of €450 million.

The two transactions are expected to have a combined neutral impact on Schneider Electric's earnings per share (after goodwill amortization) in 2004 and a positive effect from 2005.

Sustainable development in action

As part of the NEW2004 program, Schneider Electric has clearly voiced its commitment to developing corporate community responsibility. We recently drafted Principles of Responsibility to help guide team members in their decisions and actions with regard to all stakeholders, i.e., employees, customers, suppliers, shareholders, the surrounding community and the environment. To explain this commitment and make it a tangible reality, Schneider Electric participated in France's sustainable development week (June 2 to 8), sponsored by the Environment Ministry's Sustainable Development Secretariat. Examples of measures taken across the Company are described below.

Customers

An agreement has been signed with key global accounts in retailing and business (Auchan, Carrefour, McDonald's, Tesco, MGE UPS, Lennox and SDMO) to share ideas on innovation to prepare our future.

Suppliers

A Charter stating the need for shared environmental and social commitments has been signed with leading suppliers (Amtek, DMS, Ferraz, Gindre, Kuvag, Menzolit, Metalor, Nief Plastic Holding, Ruget, and Semikron) and the principle of verification has been introduced.

Employees and the surrounding community

Our goal with the Luli campaign is to forge a long-term partnership with associations that help young people by deepening employee involvement. Over the past five years, 400 sites in 70 countries have participated in the campaign, lending support to 350 association-led projects. Each year with Luli, some €4 million are distributed to associations, with equal financing from the Schneider Electric Youth Opportunity Foundation, employees, the Square D Foundation in the US and other subsidiaries.

The 2003 Luli campaign

From June 2 to 8, Schneider Electric employees around the world rolled up their sleeves to promote training, education and job opportunities for young people.

In Venezuela, for example, where young people represent 40% of the population, Schneider Electric employees support Civil Fe Y Alegria, an association that operates two establishments for disadvantaged children aged 12 to 17. The association offers training in different professions. Afterwards, most of the young people are hired by Schneider Electric's customers and suppliers. This program has grown beyond Schneider Electric itself as employees from other local companies also offer time, money and equipment.

Schneider Electric's unit in Lebanon participated in the Luli campaign for the first time this year by supporting 160 students at a junior high school founded by the Ligue des Mères de Tripoli. The employees provide training, mentor student interns and are financing renovation of the establishment's computer room.

To find out more : www.foundation.schneider-electric.com



Shareholders' Relations Committee *looking for new members*

The Schneider Electric Shareholders' Relations Committee was created in May 2001 to serve as a liaison for the Company's financial communication towards individual shareholders and to relay shareholders' concerns to corporate management.



The committee of ten individual shareholders, who are selected to provide a representative cross-section of the individual shareholder base, meets two to three times a year to review and give its opinion on communication for individual shareholders. Examples include topics in the Letter to Shareholders (including a special letter on the Legrand divestment produced at the Committee's request), proposals on updating information documents and suggestions on how to organize the Annual Shareholders' Meeting.

Five of the members' terms expire in May 2004 and the Company is looking for interested candidates to replace them. If you wish to get involved, please send us a letter of motivation by February 15, 2004, along with an application form available from the Investor Relations Department (toll-free in France 0 800 20 55 14) or our corporate website ([www.schneider-electric.com/Investors' Corner](http://www.schneider-electric.com/Investors%20Corner)).

Over

the past three months

Schneider Toshiba Inverter SAS sets up operations in China and the US and signs a marketing partnership agreement with Vacon Plc

Schneider Toshiba Inverter SAS, a 60/40 subsidiary of Schneider Electric and Toshiba Corporation and world leader in industrial speed drives, has opened two new subsidiaries. The first, **Schneider Suzhou Drives**, based in Suzhou China, will produce Altivar 28 and 58 speed drives for the local market. The second, Houston, Texas-based **ST Inverter America, Inc.**, will be dedicated to R&D and the production of new industrial speed drive ranges. Separately, Schneider Toshiba Inverter has signed a marketing partnership agreement with Vacon, a Finnish manufacturer of speed drives for asynchronous motors. These moves enhance Schneider Toshiba Inverter's global leadership in speed drives and allow the joint venture to meet all of its customers' requirements.

Acquisition of Hyde Park Electronics Inc.

Hyde Park Electronics, a family-owned firm founded in 1963 and based in Dayton, Ohio, is the leading manufacturer of ultrasonic sensors, with sales of €6 million and 46 employees. Ultrasonic sensors detect and transmit electrical signals concerning the movement or position of a product on a machine. With this acquisition, Schneider Electric has extended its sensor lineup and enhanced its automation catalog. The Company will market the technology under the Telemecanique brand name.

Schneider Electric strengthens its position in power line carrier solutions (Sweden)

Following the acquisition of all outstanding shares in Ilevo, Schneider Electric has created a new unit called Schneider Electric Powerline Communications, based in Karistad, Sweden and Grenoble, France. The unit, whose technology opens the door to high-speed Internet access via power line carrier solutions in industrial and commercial buildings, will complement Easyplug. Schneider Electric is aiming for 500,000 installed connections by 2006.

Share data—September 2003

- Shares outstanding: 232.159.624
- ISIN code (since June 30, 2003): FR0000121972
- Traded on the Euronext Paris First Market; eligible for the deferred settlement service
- Par value: €8.00
- Market value: €11.7 billion

Investor calendar

October 21, 2003
Nine-month 2003 sales

Schneider Electric's financial website wins award



Schneider Electric ranked third among the 800 listed companies in France in the 2003 Boursoscan survey of financial websites conducted by Boursorama and TLB. More than 6,000 individual shareholders and 260 financial analysts and fund managers participated in the survey, which evaluated 124 websites. Schneider Electric came in third in the award for Best Site, All Categories, behind LVMH and Air Liquide.

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

N° Vert 0 800 20 55 14

www.schneider-electric.com

Schneider Electric

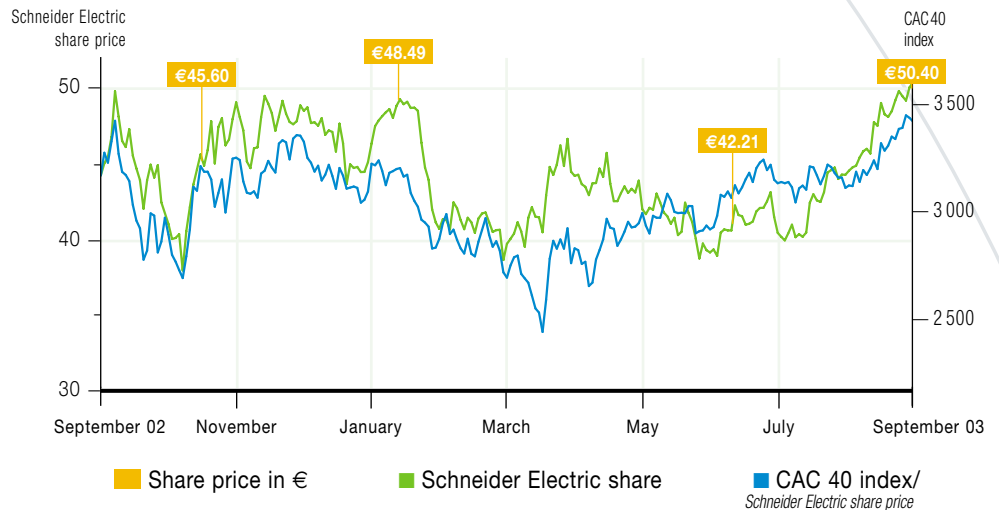
SCHNEIDER ELECTRIC SA
43-45 boulevard Franklin Roosevelt
92500 Rueil Malmaison, France

Incorporated in France with limited liability and issued capital of €1,857,276,992
Registered in Nanterre B 542 048 574

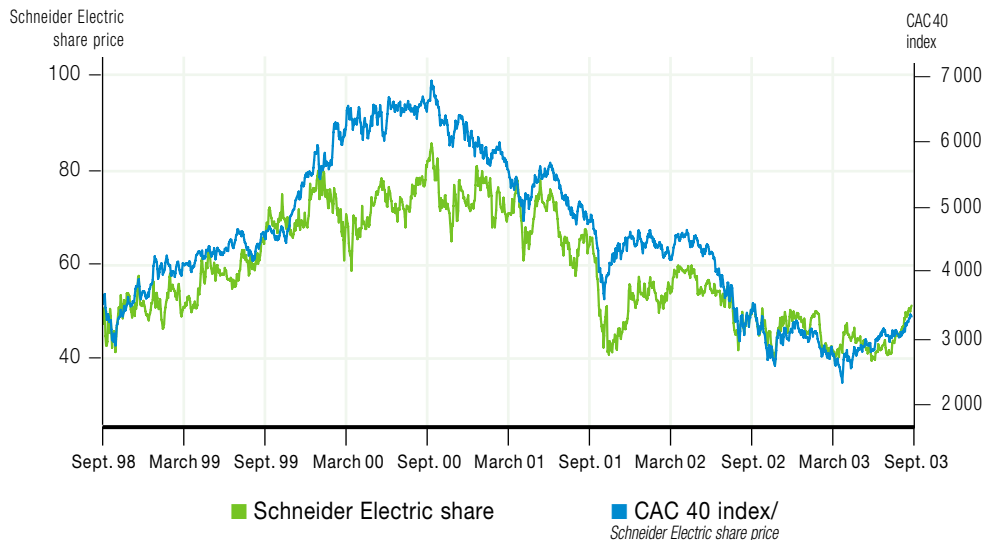
Schneider Electric Share/CAC 40 Index

Since September 5, 2002, the Schneider Electric share has outperformed the CAC 40 Index. On September 5, 2003, the share was trading at €50.40, up 12% year-on-year, compared with a 4.5% increase in the CAC 40.

Over one year since September 5, 2002



Over five years September 1, 1998 to September 5, 2003



For your information...

From Euroclear to ISIN

On June 30, 2003, France abandoned the Euroclear system for identifying securities and joined the many countries that use the International Securities Identification Number code (ISIN). The traditional identification systems were purely national in scope, whereas ISIN offers a single international code for each security. The ISIN identifier contains 12 numbers and letters (the first two refer to the country in which the security was issued), compared with five or six numbers for the former French system. Schneider Electric's ISIN code is FR0000121972.

(Source: www.euronext.com/isin)