

Letter to *Shareholders*



Your **Shareholders' Meeting** *of May 6, 2004*



Henri Lachmann
Chairman and CEO

The Annual and Extraordinary Shareholders' Meeting, chaired by Henri Lachmann, was held on May 6, 2004. Shareholders were informed of the 2003 financial results, which demonstrated the soundness of Schneider Electric fundamentals and the efficiency of the action plans carried out as part of the NEW2004 program. Schneider Electric operational priorities for 2004 and its growth strategy were also presented.

Shareholders approved all of the proposed resolutions, notably:

- Approval of the 2003 financial statements.
- Payment of a net dividend before tax credit of EUR 1.10 per share, up 10% over the previous year. It will be payable on May 10, 2004 and give rise to a tax credit equal to 50% of the amount paid.
- Election as directors of Caisse des Dépôts et de Consignations, represented by Jérôme Gallot, and of Chris C. Richardson.
- Re-election as directors of Daniel Bouton, Thierry Breton, Willy Kissling and Piero Sierra, and of Alain Burq, director representing employee shareholders.
- Re-appointment and appointment of Statutory Auditors.
- Change in the bylaws to allow for the appointment of one or two non-voting directors.
- Financial authorizations given to the Board of Directors to:
 - Buy back shares.
 - Cancel the shares bought back.
 - Issue shares to employees who are members of an employee stock purchase plan.
 - Grant executives and employees options to purchase new or existing shares of the Company.

The quorum was 45.6% and the resolutions were adopted with a majority vote of between 81.3% and 99.8%.

Sales

for the first-quarter 2004

First-quarter 2004 sales totaled 2,372 million euros, up a strong 14.1% on a current structural and currency basis from first quarter 2003.

Recent acquisitions - MGE UPS Systems, TAC and Clipsal - made a significant contribution of 265 million euros (+12.7%) to quarterly sales.

The currency effect continued to have a substantial negative impact of -116 million euros or -5.6%.

On a constant structural and currency basis, sales rose a steady 7% from the year-earlier period. This trend comes from faster growth in the emerging countries and a beginning of improvement in business in Western Europe, while demand in North America continued to improve.

Virtually all Western countries returned to growth. All the emerging countries performed remarkably, with average growth rate of more than 20%, reflecting Schneider Electric's forefront positions and high-quality lineup.

In light of this situation, Schneider Electric has revised its full-year 2004 organic sales growth estimate upwards to 4%-5%.

Breakdown of sales by Operating Division

(in EUR millions and constant change in %)

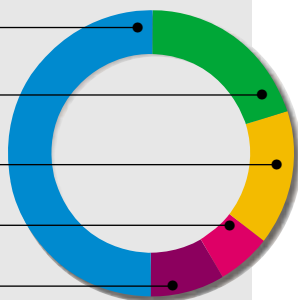
Europe: 1,191
+3.5%

North America: 475
+5.2%

Asia-Pacific: 362
+20.7%

Rest of the world*: 145
+18.0%

Specialists**: 199



*Africa, Middle East, South America

**Building automation and secured power businesses, formed by the acquisitions of T.A.C and MGE UPS Systems, consolidated respectively as from September 1, 2003 and January 1, 2004.

Shareholders' Questions

➤ *How are you planning to comply with France's new corporate governance rules providing separate functions and responsibilities for the Chairman and the Chief Executive Officer?*

France's new corporate governance legislation provides a separation between oversight and operational responsibilities. This is an issue to be decided by the Board of Directors and it is being carefully considered. The appointment of Jean-Pascal Tricoire as Chief Operating Officer, with responsibility for all the operations, is a first step in this direction although it doesn't represent a legal change. If we wanted to go further in separating operational and oversight duties, we would have to legally change our governance system to a Supervisory Board and a Management Board.

➤ *Is the Board planning to create a strategy committee?*

One of the Board's most important duties is to decide on the Company's strategy. But this is the responsibility of the entire Board, so it wouldn't be logical to delegate part of it to a special committee.

The Board has to devote as much time as it needs to examining, evaluating and monitoring the execution of our strategy. On the other hand, if at a particular moment an issue requires special attention, we will create an ad hoc committee for that purpose.

➤ *How do you expect recent acquisitions to impact sales and profitability? And what benefits will they have for shareholders?*

The acquisitions made over the last 18 months (Digital Electronics, T.A.C, Clipsal, MGE UPS Systems and, lastly, Kavlico) have brought in additional full-year sales of €1.4 billion with an average operating margin of 11%, close to our current margin. Our objective is to further improve that margin and leverage these businesses' growth potential. Invested cash currently generates roughly 2% interest while the return on acquisitions, because of their profitability and growth prospects, will be significantly higher. As a consequence, for shareholders, the effect will clearly be positive.

➤ *What effects will deregulation of the electricity market have on Schneider Electric? Is it creating new opportunities?*

Deregulation of the electricity market and the changes in power generation are opening up a large number of opportunities for Schneider Electric. Generation facilities will be more distributed and decentralized, with onsite power plants or wind turbines. Since we've decided to focus on electrical distribution, our portfolio is ideally suited to meeting this type of need. In addition, our customers will be able to choose different power suppliers, which means they will need intelligent management systems that enable them to switch from one supplier to another, thereby optimizing the cost of electricity. This is one of our strategic growth paths.

➤ *Schneider Electric invests 6% of sales in Research & Development. Are you planning to increase this percentage? How does it compare with the competition?*

It's hard to compare our R&D spending with our competitors' because we don't invest the same proportion in the same business segments. However, in relative terms, we estimate that we invest more than our competitors in each of our businesses. Given our profitability, we could increase this percentage but our current priority is to improve the return on R&D spending. That's why the new technology park we are going to establish in Grenoble will bring together on a single site all our capabilities in electromechanics for Europe, regardless of the type of product being developed. It illustrates our commitment to expanding our leadership in electromechanics and enhancing our capacity for innovation, from France, which is Schneider Electric technological and historical base.

➤ **Schneider Electric expands in Sensing Technology**

Pursuing its strategy of targeted acquisitions, Schneider Electric announced on March 23, 2004, the acquisition of Kavlico Corporation, a Solectron Corporation company.

Based in California, Kavlico is a major player in the sensing technology market with sales of \$156 million for the fiscal year ending August 31, 2003 and 1,300 employees.

Every day, millions of Kavlico sensors around the world perform critical sensing operations. These devices are designed for high volume applications for machine builders, in the automotive and aerospace industries as well as in fluid power/hydraulic applications, HVAC systems, etc.



Kavlico Corporation Site

Components for repetitive machine builders is one of the growth platforms identified by Schneider Electric in markets adjacent to its core offering in electrical distribution and automation &

control. This platform already includes Crouzet Automation. The worldwide sensors market is estimated at \$35 billion, of which \$21 billion is sold to machine builders for repetitive applications.

Average growth in the segment stands at 6% to 8% a year, driven by increasing demand for security and performance.

Subject to regulatory approvals, Schneider Electric will pay \$195 million in cash for 100% of the company's shares, free of debt or cash.

In accordance with Schneider Electric's acquisition criteria, the transaction will offer a return exceeding Schneider Electric's weighted average cost of capital within three years.



Over the Past Three Months

The Residential market is played in "Duoline"

An innovative, comprehensive range of protection, control/monitoring and signaling devices specially designed for residential environment has been introduced under the Merlin Gerin brand. This new generation of switchboards represents a major growth opportunity in the French residential electrical distribution market, which is worth an estimated €370 million.

News from East !

Schneider electric acquired China's Wangao, a company with annual sales of €8 million. It develops and manufactures automatic power transfer switches that automatically transfer from one energy source to another if a power supply problem occurs.

In parallel, a 46.5% stake was taken in Germany's ELAU AG. The cooperative venture is designed to achieve leadership in automation solutions for packaging machines.

Partnership with Dassault

Schneider Electric has formed a partnership with France's Dassault Systèmes, based on the creation of a new company called Dextus. A wholly-owned Schneider Electric subsidiary, Dextus will market software solutions from Delmia Corp., a Dassault Systèmes company. It will supply digital solutions and latest-generation services for the automation and production engineering markets, including production process planning, production assembly processes and factory simulation.

The New *Consultative Committee*

➤ **A "new" Consultative Committee to represent you**

➤ Following a call for new candidates to partly renew the Consultative Committee, five new members have been appointed: Ms. Dupuy, Ms. Neiter, Mr. Alluaume, Mr. Blandenet and Mr. Cardo.

➤ The first meeting was held on May 6, with the new appointees replacing outgoing members. The Company would especially like to thank Ms. Vigneron and Mr. Cazaufranc, Mr. Houillon, Mr. Perdiguat and Mr. Vachon for their strong contributions and dedication during their terms.

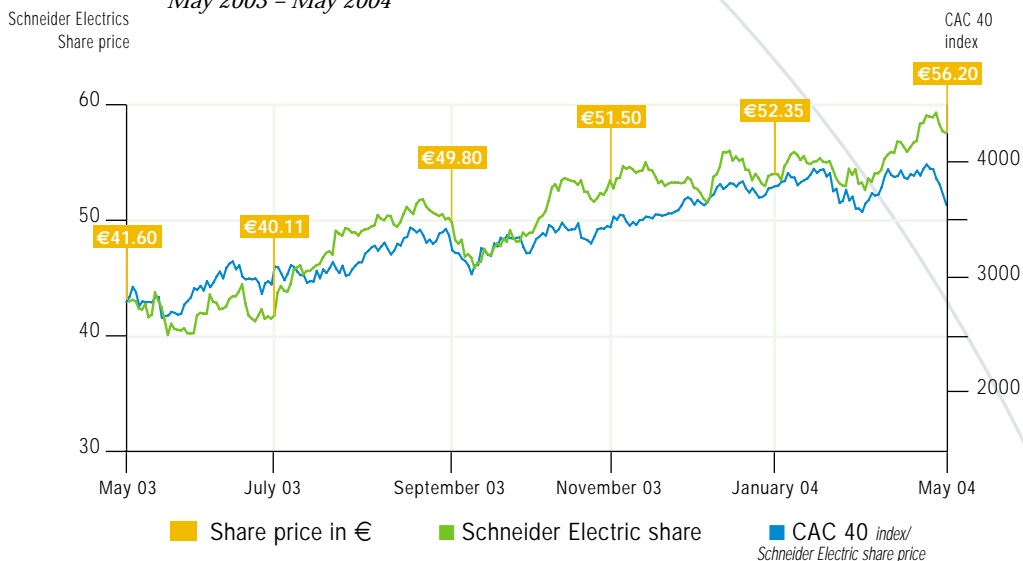
➤ Since members are appointed for two-year terms, a new call for candidates will be made before the end of the year. The Committee is comprised of ten members.

➤ At the Annual Meeting, the Q&A session with the Chairman was opened by a member of the Consultative Committee representing shareholders who had asked questions via the toll-free phone number or website.



Schneider Electric Share/CAC 40 Index

Over one year
May 2003 – May 2004



Share data – May 2004

- Shares outstanding: 231,890,170
- ISIN code: FR0000121972
- Stock market site codes: SU or SCHN
- Traded on the Euronext Paris First Market; eligible for the deferred settlement service
- Par value: EUR 8.00
- Market value: EUR 13 billion

Calendar

May 10, 2004

Dividend payment

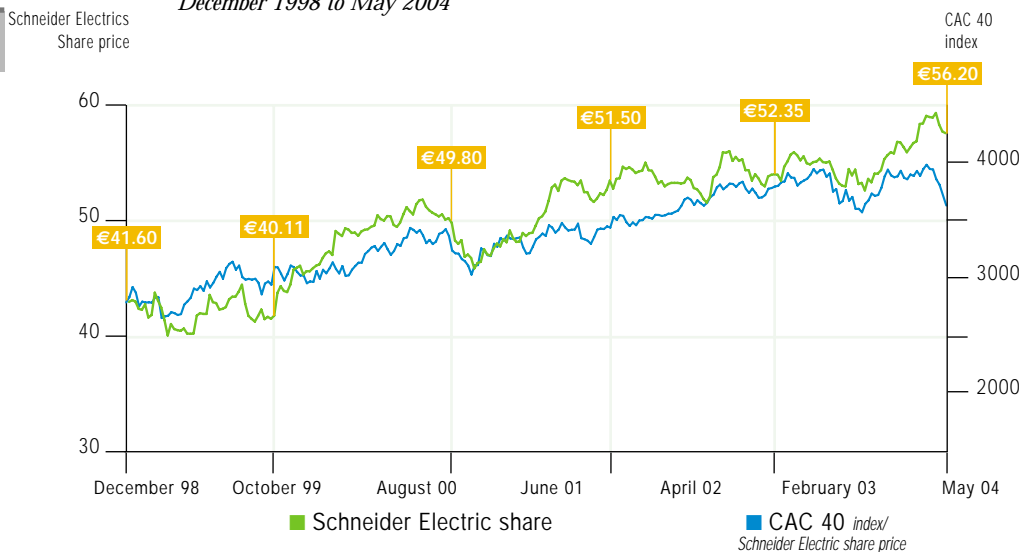
July 29, 2004

Half-year results and second-quarter 2004 sales

October 21, 2004

Third-quarter 2004 sales

Over five years
December 1998 to May 2004



For further information,

N° Vert 0 800 20 55 14

www.schneider-electric.com



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

Incorporated in France with limited liability and issued capital of EUR 1,854,737,360
Registered in Nanterre B 542 048 574

Shareholders' News

New measures of the 2004 Finance law Dividend Tax Credit Eliminated

In light of its budget constraints and of EU practices, France has eliminated the dividend tax credit effective January 1, 2005.

The change will therefore affect individual investors beginning with their 2005 tax returns, to be filled in 2006.

The loss of the tax credit will be offset by two measures:

- A 50% deduction on dividend income before the standard deduction of €1,220 for individuals or €2,440 for married couples.
- A 50% tax credit on dividends capped at €115 for individuals or €230 for couples in order not to penalize households paying little or no tax, who can claim the unused tax credit, or holders of stock savings plans.