

Letter to *Shareholders*



Henri Lachmann
*Chairman and Chief
Executive Officer*

Dear Shareholder,

In 2002 our proposed merger with Legrand was closed, despite the European Court's decision to overturn the European Commission's veto. More significantly, however, the year was shaped by the kick-off of NEW2004, our new Company program. This ambitious and motivating program for all of our employees is designed to improve the Group's performance, with the goal of lifting operating margin to 14% in 2004.


By maintaining a good operating performance in 2002, Schneider Electric demonstrated its ability to face a difficult economic environment characterized by declining demand in our main markets. The Groupe responded quickly to the noticeable decline in business by deploying targeted plans in the areas of purchasing, production processes and quality, all as part of NEW2004. We intend to increase the gross margin by one point a year over three years and increase our productivity gains by 5% a year between now and 2004.

More than ever, Schneider Electric enjoys an enviable financial situation that gives us the resources we need to achieve our ambitions. We have a solid balance sheet and an inflow of €3.5 billion from the sale of Legrand. Our three priorities in using this resource will be to optimize the balance sheet's structure and pay down debt, make selective acquisitions to broaden our accessible markets and buy back shares in the interest of our shareholders.

We ended 2002 with a successful public offer for Japan-based Digital Electronics, the world leader in human-machine interface (HMI). Several other acquisition opportunities have been identified that can help us pursue our growth strategy, notably in ultraterminal electrical distribution, voice-data-image (VDI), secure power supply, building control, automation and value-added services.

I am convinced that Schneider Electric, a leading player in an industry of the future, has the necessary strengths to ensure outstanding development and growth. I would like to thank all of you for your loyalty and confidence and wish you a very happy new year.

Merlin Gerin
Modicon
Square D
Telemecanique

Schneider
 **Electric**

Building a New Electric World

We have *Turned the Page on Legrand*

➤ Why did you finally abandon the proposed merger with Legrand?

The project, which would have created a European company that was the world leader in its segment, had significant strategic and industrial value. But it wasn't a necessity or a means to an end for Schneider Electric. We abandoned it for two reasons. First, the European Commission's demands to protect competition in the French market were unreasonable and disproportionate. The divestments that we would have had to make to gain approval for the merger would have destabilized the companies concerned and de-motivated their employees. Second, the events of the past two years eroded the friendliness of the merger process. In the end Legrand's management publicly opposed the deal.

➤ Can you be more specific about the impact of the necessary divestments?

Dismantling Legrand would have negated the reason for the merger, prevented us from creating value for shareholders, and entailed unjustified labor risks. We were always opposed to dismantling Legrand, because we wanted to safeguard the companies' sustainability and preserve their industrial consistency.

➤ Why was Legrand's management hostile to the merger?

Legrand didn't join us when we appealed the European Commission's decision in October 2001. The company's management wanted to keep Legrand independent with the idea of taking it public again in the medium term. It became clear that management had decided against the merger and preferred a sale or demerger.

➤ Was Schneider Electric destabilized by the merger project?

Schneider Electric took steps to recover from the impact of the European Commission's veto. We revamped our organization in November 2001 and introduced the NEW2004 program in early 2002 to give us the resources to bounce back and create more wealth. Since then, the Legrand project has been managed by a small, independent team overseen by a member of the Executive Committee.

➤ What was the impact on Schneider Electric's accounts?

The Legrand acquisition generated only a very small cash outflow, since it was financed mainly by a share issue. In response to the European Commission's demand that we separate from Legrand very quickly, we set aside a provision of €1.4 billion for the year ended December 31, 2001. The provision did not

affect our financial strength, as it had no impact on cash flow or debt. In addition, taking account of this provision, and after the tax effect, the sale of Legrand for €3.5 billion will have a positive impact on the 2002 consolidated financial statements.

➤ Have the latest developments affected Schneider Electric's strategy?

No, not at all. Our strategy is the same with or without Legrand. Legrand would have been a lever to speed deployment of our industrial strategy. By selling it to KKR-Wendel Investissement at a satisfactory price, we have the necessary financial resources to pursue our strategy. In a weakened competitive environment, we have real opportunities for development.

➤ What type of opportunities?

Targets have been identified and

negotiations are in progress. Our friendly takeover in late 2002 of Japan's Digital Electronics, the world leader in human-machine interface, is an example. We expect to announce other projects in the coming months. More than ever, we want to push back our limits through acquisitions and alliances.

➤ How about Legrand's areas of specialization, i.e., ultraterminal electrical distribution?

Our development strategy in the ultraterminal segment, which covers electrical devices downstream from circuit breakers (electrical outlets, switches, etc.), dates from March 1999, when we acquired Scandinavia's company Lxel. There have been other acquisitions since, including New Zealand-based PDL. We will pursue our growth strategy in this segment, where we are already a world leader.

TIMELINE

January 15, 2001

Schneider Electric announces the proposed merger with Legrand and files a public exchange offer.

July 25, 2001

Schneider Electric owns 98.1% of Legrand after the offer closes.

October 10, 2001

The European Commission vetoes the planned merger.

December 13, 2001

Schneider Electric appeals the European Commission's decision, but Legrand refuses to participate in the appeal.

January 30, 2002

The European Commission orders that Schneider Electric and Legrand separate within nine months and sets out the procedures. The deadline was later extended to 12 months at the request of Schneider Electric.

May 22, 2002

The French government joins Schneider Electric's appeal against the European Commission's decision.

July 28, 2002

Schneider Electric agrees to sell Legrand to KKR-Wendel Investissement. The agreement

contains a clause allowing Schneider Electric to retain ownership of Legrand if the European Commission's decision is overturned.

October 22, 2002

The Court of First Instance of the European Communities overturns the European Commission's decision because «the Commission's economic analysis is vitiated by errors, omissions and contradictions with economic analysis» and because of a «serious infringement of the rights of the defense.»

October 25, 2002

Schneider Electric's Board of Directors asks to evaluate the two options of keeping or selling Legrand. Negotiations resume with the European Commission to obtain a new authorization to the project.

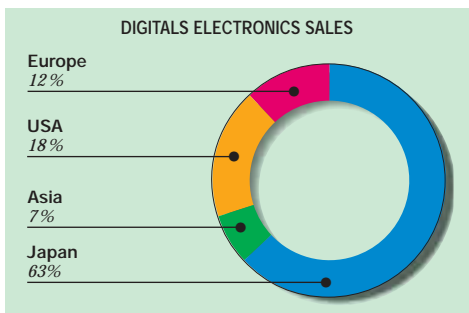
December 3, 2002

In light of the European Commission's new demands and the position of Legrand's management, Schneider Electric decides to sell Legrand to KKR-Wendel Investissement.

➤ **Schneider Electric Finalizes Acquisition of Digital Electronics**

Schneider Electric now owns 98.5% of Digital Electronics, the world leader in human-machine interface systems, following a successful friendly takeover bid that was completed on December 19, 2002.

«This acquisition is part of our strategy of selective acquisitions aiming at pushing back the limits of our fields. We have identified this market segment as a significant growth opportunity» said Henri Lachmann. «It will provide Schneider Electric with a key entry point to the high growth market of Human Machine Interface, and also more open access to the industry market of machine manufacturers, particularly the Japanese manufacturers»



Human Machine Interface integrates a growing number of automation functions and is a key part of networked web-based architecture. For Schneider Electric, the reinforcement of these activities will accompany the development of its innovative Transparent Ready™ concept for all markets.

Digital Electronics Corp., which is based in Osaka, Japan, is the worldwide specialist of Human Machine Interface, generating around € 200 million in sales in 2002 with 1 100 employees. It holds leading market positions in Japan, Korea, the United States and Europe.

The Human Machine Interface business encompasses all the electronic devices enabling dialog between operators and the industrial process (such as Industrial PCs, graphic panels and touch screens, etc...).



Update **on NEW2004**

➤ **Operating excellence at Schneider Electric: real potential to improve gross margin**

The main goal of the **NEW2004** (New Electric World 2004) program is to achieve a gross margin of 43.5% and an operating margin of 14% in 2004. Schneider Electric recently gave a progress report to the financial community in Paris and London on the four action plans to improve our gross margin (**Six Sigma, Purchasing, Manufacturing, and Quality and Value Engineering**). Designed to improve industrial productivity by 5% a year, these action plans are the main path for achieving NEW2004's performance targets.

- **Six Sigma** is a set of quality control tools used to identify defects in processes and to reduce variability.
- The **Purchasing** action plan concerns 100% of the Group's purchasing, or € 4.2 billion per year, and aims to double purchasing productivity. The plan sets down new priorities : globalization, internationalization, organization and process review. This has resulted in new purchasing rules and greater efficiency.
- The **Manufacturing Excellence** action plan aims to generate accumulated productivity gains of 20% in direct labor and manufacturing base costs by the end of 2004, by the implementation of a «lean manufacturing» program
- The **Quality & Value Analysis** plan aims to cut the production cost of products by improving their quality and value as perceived by the customers. In order to do this, Schneider Electric has developed a method for auditing the cost of products and their components, which can pinpoint irregularities and set up corrective measures

See presentation at www.schneider-electric.com, Shareholders' Corner.

Second

Half 2002

EUROPEAN TRADE SHOWS

A Positive Experience

Schneider Electric presented its new electrical distribution and automation products at three major trade shows in Europe attracting nearly 140,000 visitors. Innovation was the theme at BIAS in Italy, Nuremberg in Germany and ELEC in France.



ELEC 2002, one of the European electrical industry's event, was held from December 9 to 13. Under the **New Electric World** banner, the Schneider Electric booth presented three major innovations: the «Eloge» line of circuit breakers, residual current circuit breakers and «Opale»-type enclosures for residential and small commercial applications; Global Detection, Telemecanique's new line of sensors; and the VDI offering of equipment for network cabling.

A guided tour of the Schneider Electric booth was arranged for individual shareholders, accompanied by members of the Shareholders' Relations Committee. The tour gave them the opportunity to familiarize themselves with our products and discover our latest innovations.



Share data – January 2003

- Shares outstanding: 240,812,905
- Sicovam code: 12197
- Listed on: First Market of the Euronext Paris market (deferred settlement service)
- Par value: €8.00
- Market value: €11.8 billion

Investor calendar

March 6, 2003

2002 earnings

March 20, 2003

Shareholders' meeting in Lille, France

April 23, 2003

Q1 2003 sales

May 16, 2003

Annual Shareholders' Meeting

May 20, 2003

Dividend payment

July 22, 2003

Interim 2003 sales

July 31, 2003

Interim 2003 earnings

October 21, 2003

Nine-month 2003 sales

Each quarter, based on the ratings summary updated by Multex Global Estimates, «Les Echos Weekend» publishes a ranking of the CAC 40 stocks that have received the highest ratings from the major French and international investment research firms. On December 31, 2002, Schneider Electric was the analysts fourth most-preferred stock.



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

Incorporated in France with limited liability and issued capital of €1,926,503,240

Registered in Nanterre B 542 048 574

Impact of the Legrand Project for Schneider Electric Shareholders

➤ The completion of the public offer to exchange shares on August 9, 2001 led to the creation of 84.2 million Schneider Electric shares as payment for 98.1% of Legrand's capital.

➤ The former Legrand shareholders who tendered their shares to the offer became Schneider Electric shareholders on August 9, 2001. As a result, the sale of Legrand to KKR-Wendel Investissement did not affect them.

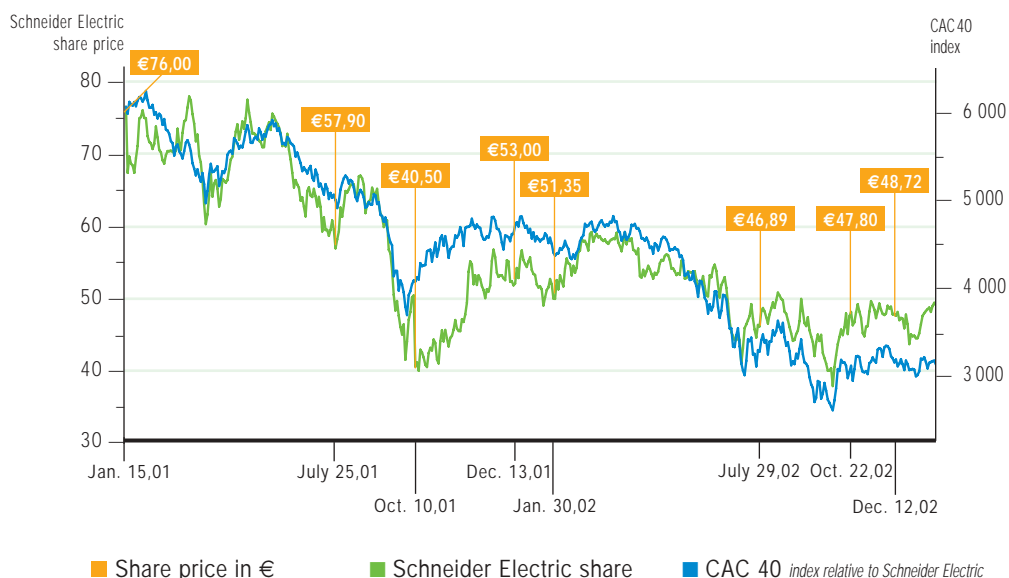
➤ At the annual meeting, Schneider Electric's shareholders approved the financial statements for 2001 and a return of capital in lieu of a

dividend, corresponding to a payment of €1.3 per share. The payment did not give rise to a tax credit, and was not considered as taxable income in France.

➤ Schneider Electric has pursued its share buy-back program. When the sale of Legrand to KKR-Wendel Investissement went through, Schneider Electric bought back 3.3 million of its own shares (corresponding to the remaining Schneider Electric shares held by Legrand following the 2001 public exchange offer). This increased the number of shares held in treasury to 15 million.

Schneider Electric Share/CAC 40 Index Since the proposed Legrand merger was announced

January 15, 2001 – January 15, 2003



Plant Tours...

To give shareholders a better view of our businesses and products, the Investor Relations Department is organizing site visits and meetings for shareholders in Paris and the rest of France. Once we receive your request, you will be invited to all site visits or meetings in your region.

To sign up:

➤ Call our toll-free number in France (0800 20 55 14)

➤ Contact us at www.schneider-electric.com, (Investors' Corner Shareholders' Timetable).

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