

Letter to Shareholders



2002 Annual Results



Henri Lachmann
*Chairman and Chief
Executive Officer*

Dear Shareholder,

In a truly adverse economic environment, your Company's performance in 2002 is highly encouraging for the future. During the year, Schneider Electric improved its operating performance and generated strong cash flow. We met our objective of improving gross margin, which widened by more than a point to 41.5% of sales. Our 11.5% operating margin is one of the best in our industry's sector and our financial situation is extremely solid, with €800 million in cash.

These results demonstrate the quality and soundness of Schneider Electric's fundamentals. They were led by the productivity plans initiated as part of our NEW2004 company program, particularly the focus on improving gross margin, and by the dedication of all our employees. In 2002, we also continued to expand in the global marketplace, leveraging our strong presence in China, Africa, the Middle East and other emerging markets. Business was more difficult in developed countries, with lower sales in North America and Europe.

In light of the uncertain market conditions in 2003, our primary objective is to drive organic growth, by maintaining a strong research and development commitment, by developing more services that add value for our customers and by better targeting growth business segments. These actions will be supported by a targeted acquisitions strategy designed to enhance our geographic and technological positions. The Company will also pursue initiatives to improve profitability, which should enable us to meet our objective of €325 million in annual productivity gains and a gross margin of 43.5% in 2004.

Confident in Schneider Electric's prospects for growth, the Board of Directors has decided to propose shareholders at the next Annual Meeting to approve the payment of a dividend, including tax credit, of 1.50 a share, compared with €1.30 last year. In addition, it has decided to immediately cancel 12 million shares, or 5% of issued capital, and to pursue the share buyback program in 2003 to enhance your ability to benefit from the Company's performance.

Your Company is now a benchmark in its industry. I am confident in our ability to meet our objectives and firmly believe that our stock has strong rebound potential.

Merlin Gerin
Modicon
Square D
Telemecanique

**Schneider
Electric**

Building a New Electric World

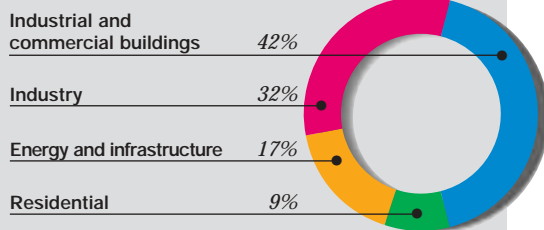


2002 SALES

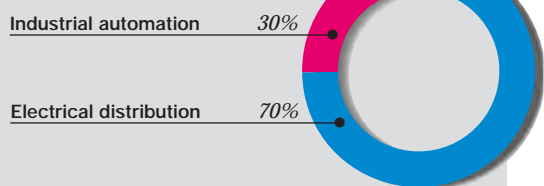
€9,061 million

Breakdown of sales

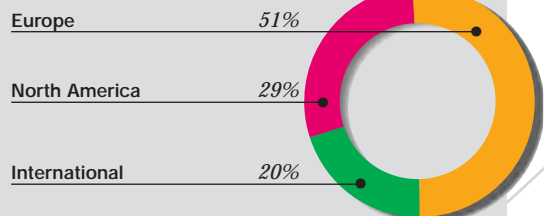
By market



By business



By division



GROSS MARGIN

41.5% of sales vs. 40.2% in 2001

OPERATING MARGIN

11.5% of sales vs. 11.4% in 2001

CASH FLOW FROM OPERATIONS

10.7% of sales vs. 9.8% in 2001

NET INCOME

€422 million

PROPOSED DIVIDEND INCLUDING TAX CREDIT

€1,50

What would you say are the financial highlights of 2002?

Despite a 7.8% decline in sales, caused by tough market conditions, we met our objective of improving gross margin, to 41.5% from 40.2% in 2001. Our various action plans resulted in €174 million of productivity gains during the year, with the objective of achieving an annual €325 million by 2004. Operating income amounted to €1,040 million, for an operating margin up slightly at 11.5% higher than 2001. Reported net income remained solid at €422 million, compared with a net loss of €986 million the year before due to the exceptional €1.4 billion provision on our Legrand shares. Schneider Electric also once again demonstrated its ability to generate high cash flow from operations, which amounted to 10.7% of sales versus 9.8% in 2001.

Some large French companies are heavily in debt and don't have enough cash to finance growth. What about Schneider Electric?

We sold our interest in Legrand in December for €3.6 billion. In addition, strict control over capital

expenditure and operating working capital helped to increase free cash flow by 10% in 2002, to €592 million. When combined with the Legrand proceeds, this gives Schneider Electric a particularly sound balance sheet, which is an undeniable advantage and one that gives us the resources we need to implement our strategy.

How do you see 2003 shaping up?

The business environment has been difficult for the past two years and indicators, especially in the developed countries, show that a real recovery seems unlikely before the end of 2003. We expect sales to continue to expand in Asia and Eastern Europe but to remain stable in developed countries. During the year, we'll be focusing on organic growth, while continuing our strategy of selective acquisitions to improve positions in the ultraterminal, industrial and building automation, secured power, and in comprehensive service solutions to enhance industrial performance and performance of power grids. In addition, we'll be stepping up actions to control costs and improve gross margin as part of the NEW2004 program, which has already demonstrated its effectiveness since it began in January 2002.

Update *on NEW2004*

In 2002, 200 projects were launched as part of our main productivity action plans, **Six Sigma, Quality and Value Engineering and Manufacturing**. In 2003, the target is 1,260 projects.

The pace of the **Purchasing** productivity action plan was also stepped up, thanks to 1) new procurement methods and the setting of efficiency targets, and 2) the globalization and internationalization of purchases. Other action plans for supply chain processes, new products and information technology will also be deployed in 2003. The target is to achieve €325 million in annual productivity gains and a gross margin of 43.5% in 2004

The **NEW2004** program also comprises six federating challenges* for all employees. To support them, the first **NEW2004** trophies were introduced to recognize outstanding initiatives that helped to meet one of the challenges. The prizes were awarded by Henri Lachmann to four teams from Saudi Arabia, the United Kingdom, France and China, as well as to two teams who had launched global projects. In all, the 285 projects submitted demonstrated the determination, commitment and dedication of all our employees in support of an ambitious, inspiring program.



(* Be more Customer Centric - Be committed to Quality - Be more Global - Increase our People's commitment - Think Innovation - Develop corporate Community responsibility)

Product **News**

➤ Global Detection: The Solution the Market has Been Waiting For

Detection is all around us in our everyday lives, telling automatic doors to open and starting the escalator as we approach.

In industry, sensors are used to inform automated devices that products or objects are present and in motion. On a bottling line, for example, the sensor lets the PLC operating the machine «know» the bottle to be capped is correctly positioned on the line and tells the machine to cap it. If the PLC does not receive the required signal, the line is stopped.

«Sensors are a machine's eyes and ears,» explains Michel Vernotte, who is handling the commercial launch of the new offering. «Limit switches give it a sense of touch, inductive sensors give it perception and photoelectric devices give it sight.»

Fewer products, more performance

Schneider Electric responded to customer needs by designing a smaller, easier to understand range



that also offered enhanced technology. The Offering Simplicity through Innovation (OSI) concept combines modularity, fast assembly, and added intelligence (self reaching) or to reduce the number of products, sensors had to be taught to provide more functions. Each sensor family was streamlined to offer «fewer products, more performance».

The new Global Detection line of Telemecanique sensors was an immediate hit upon launch at the Hannover Fair in spring 2002. Sales in the first few months clearly demonstrated that Schneider Electric has successfully tapped into its expertise and awareness of customer needs to design and produce exactly what the market's been waiting for.



Over the past three months

FRANCE (Grenoble)

Schneider Electric partners STMicroelectronics

In February, STMicroelectronics' new research center was inaugurated by Jacques Chirac, the President of France. The new pilot site ranks among the most advanced research centers in the world in the area of nanotechnologies. Schneider Electric supplied the entire electrical distribution architecture, responding to the challenge of delivering faultless electrical current 24/7/365 in a high-precision industrial environment. The contract is worth €15 million in sales.

UNITED STATES

Joint voice-data-image (VDI) technology agreement signed with Leviton

The agreement with Leviton, North America's largest manufacturer of electrical and electronic wiring devices, is designed to provide simpler, more affordable VDI communication systems. The two partners are committed to developing a range of VDI solutions capable of adapting into existing cable and wired networks in residential, commercial and industrial buildings. The agreement clearly shows Schneider Electric's global commitment to being a major player in the VDI infrastructure market.

Market **News**

➤ Schneider Electric Expands Service to Water Market

For 20 years, Schneider Electric has served the three main segments of the global water market: public utilities, industrial water systems and farm irrigation systems. Designed for pumping stations, treatment plants and distribution networks, our **control** and **electrical distribution** solutions are marketed worldwide, with country organizations adapting them to local geographic and economic characteristics.

To counter extensive competition, we emphasize the breadth of our offer, as well as our unique expertise in such advanced areas as **variable speed control**, which helps to prevent water hammer when valves are abruptly closed.

Our country organizations play a critical role in identifying local needs and decision-making channels, so that the appropriate response can be delivered. This process is guided by a focus on enhancing **professionalism and coordination**. «Our objective,» explains water market head Patrick Geneste "is to help our subsidiaries to get organized, so that we can improve the effectiveness of our local market approaches."

The organization of this market segment pays careful attention to maintaining communication among the Schneider Electric people involved in water issues, including country-based sales representatives and marketing managers, International Account Managers, and product managers.

Flanders again chooses Schneider Electric

In 1990, the Flemish regional government in Belgium selected Aquafin, a private sector company, to manage its water improvement program. In 1991, Schneider Electric shared its expertise with Aquafin by supplying PLCs. A new tender integrating the latest technological progress was won in 2002, despite competition from ABB and Siemens. Capitalizing on our excellent business relationship and in-depth knowledge of local installations, we were able to offer attractive pricing for the same quality of service plus the state-of-the-art software delivered by our

new Premium line. This software is now managing all of Aquafin's installations from a central command post near Antwerp.



Schneider Electric Share/CAC 40 Index

Since March 12, 2002, the Schneider Electric share has demonstrated stronger resistance than the CAC40 index to the general weakness in stock markets over the past year. On March 14, 2003, the share was trading at €44.77, down 22.7% year-on-year, compared with a 39.6% decline in the CAC40.

Share data – March 2003

- Shares outstanding: 228,812,905
- Euroclear code: 12197
- Traded on the Euronext Paris First Market; eligible for the deferred settlement service
- Par value: €8.00
- Market value: €10.2 billion

Investor calendar

April 23, 2003

1st Quarter 2003 sales

May 16, 2003 (3:00 pm)

Annual Shareholders' Meeting at the Palais des Congrès in Paris

May 20, 2003

Dividend paid

July 22, 2003

Interim 2003 sales

July 31, 2003

Interim 2003 earnings

October 21, 2002

Nine-month 2003 sales

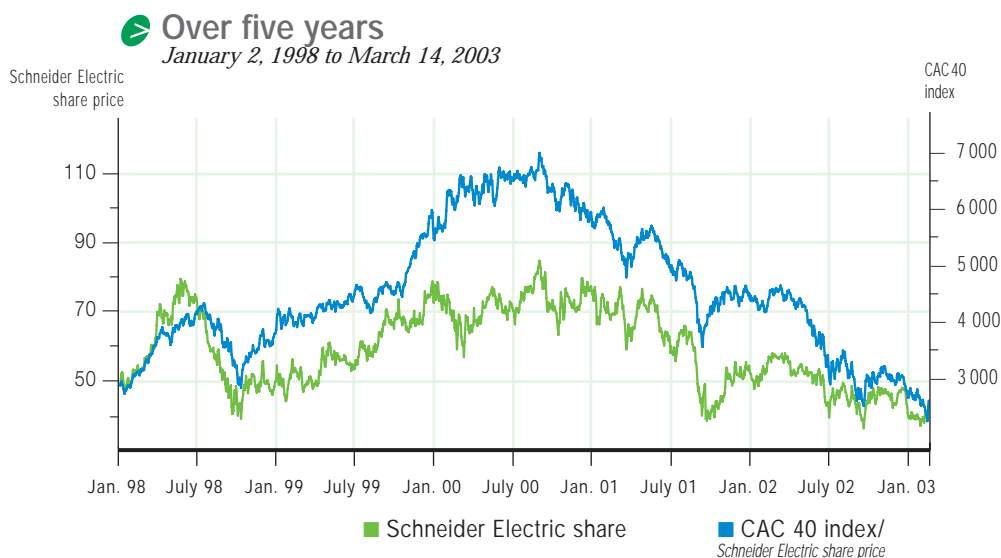
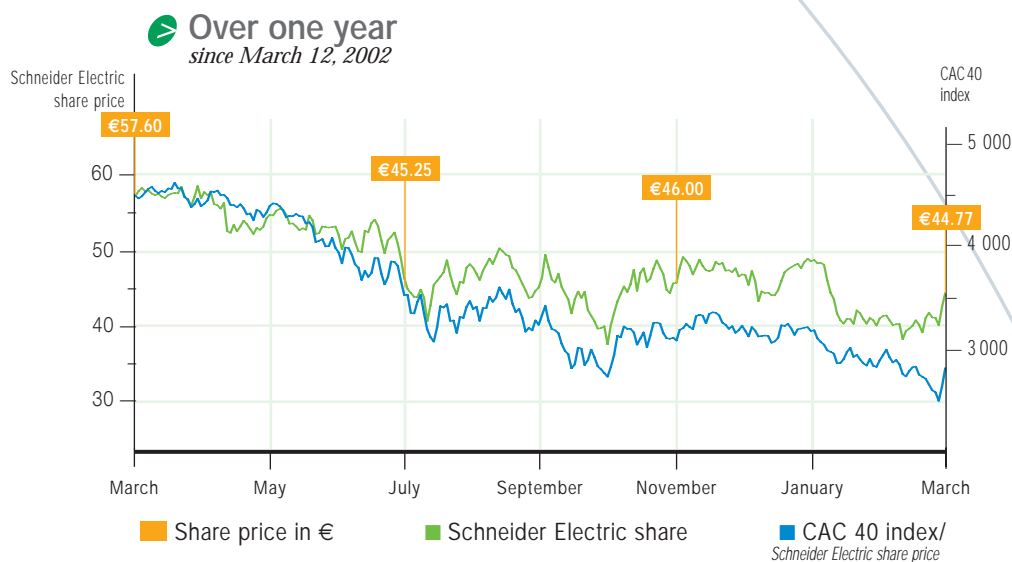
For further information, shareholders in France may call the following toll-free number:

N° Vert 0 800 20 55 14

www.schneider-electric.com



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Incorporated in France with limited liability and issued capital of €1,830,503,240
Registered in Nanterre B 542 048 574



The Annual Shareholders' Meeting will be held on Friday, May 16, 2003 at 3:00 pm at the Palais des Congrès convention center in Paris. The agenda will cover:

- The Company's business and financial results for 2002.
- The payment of a dividend of €1.00 per share, equivalent to total revenue of €1.50 with the associated tax credit. It will be paid as from May 20.

To participate in the Meeting, you must request an admission card from Société Générale before May 13. Your request should be sent with a certificate from your subcustodian bank or authorized agent attesting that your shares are effectively held in your account. However, registered shareholders will be admitted on simple proof of their identity.

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