

Letter to Shareholders



2004 Annual Results



Henri Lachmann
Chairman and CEO

Dear Shareholder,

2004 was a remarkable year for Schneider Electric. We returned to growth in each of our markets, while pursuing our in-depth transformation. Our repositioning in countries and businesses with high growth potential, further productivity gains and disciplined cost management all drove a strong improvement in earnings, which will enable us to substantially increase the dividend.

Organic growth was nearly double that of our markets. This reflects Schneider Electric's significant repositioning, which has given us a new growth profile.


- Our operations in emerging economies now account for 27% of total sales.
- New businesses in Industrial and Building Automation, Secured Power, Ultra Terminal Electrical Distribution and Services represent 36% of sales. These activities generate higher growth than our traditional businesses. Sales of Services, for example, rose 14% during the year. Schneider Electric now ranks second worldwide in Ultra Terminal, an area that is growing twice as fast as our core businesses in Europe and the rest of the world.

At the same time, your Company pursued measures to make operations more efficient. We stepped up our efforts to re-balance costs with resources, launched a supply chain operating plan and continued several major human resources programs.

Actions undertaken in 2004 will be enhanced and intensified under the new² program, which has generated enthusiasm across the Company. Launched on January 13, new² broadens and deepens the work done over the last few years and sets ambitious targets for 2005-2008, notably as concerns organic sales growth, operating margin, return on capital employed and total shareholder return.

Demonstrating its confidence in your Company's growth prospects, the Board of Directors will propose a dividend of € 1.80 before tax credit for 2004 (versus € 1.10 in 2003) at the next Annual Meeting, to be paid in cash on May 17, 2005.

In light of current economic conditions, Schneider Electric has set 2005 targets in line with the Company Program. These targets call for organic growth in sales of 5% to 6% and an improvement in operating income, under IFRS, of around 10%.

Schneider
 **Electric**

Building a New Electric World

Merlin Gerin

Square D

Telemecanique

new² From Good to

Our new Company Program is designed to leverage our potential and position Schneider Electric as a leader in innovative solutions.

Our vision

In the fast expanding New Electric World, Schneider Electric brings customers more safety, more reliability, more performance and more comfort throughout the service life of their installations. We intend to create new opportunities for automation and electricity management while continuing to add intelligence and communication in our products and systems.

Our strategic ambition

Our ambition is to become the essential reference in our industry and the leading provider of fully integrated solutions and services, based on close partnerships with customers and integrators, the most comprehensive range of products, and in-depth expertise in our customers' applications.

Our operational priorities

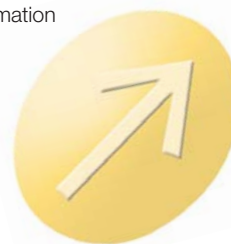
We have identified significant potential for improvement in three key areas: **Growth, Efficiency and People.**

In the area of **Growth**, we intend to capitalize on our commercial excellence, accelerate time to market for new products and develop new, less cyclical businesses with high growth potential.

New businesses

- Building and Industrial Automation
- Secured Power
- Services
- Ultra Terminal

36% of sales in 2004



Growth
+8%
with 15% in Services

In the area of **Efficiency**, we will deliver outstanding customer service, build a world class IT system and re-balance production costs with sales to limit currency exposure and leverage the potential of low-cost countries.

Efficiency plans

- Logistics costs: around 7% of sales
- IT costs: more than 4% of sales



Logistics costs
-2pts
IT costs
-1pt

Concerning **People**, we will focus even more sharply on safety and professional development. This means improving occupational health and safety, developing talent and unleashing entrepreneurship.

Our commitments

Together, these action plans will allow us to concentrate on customer satisfaction, help employees grow professionally, take on added community responsibility and become our shareholders' preferred investment.

Our new commitments to shareholders are to:

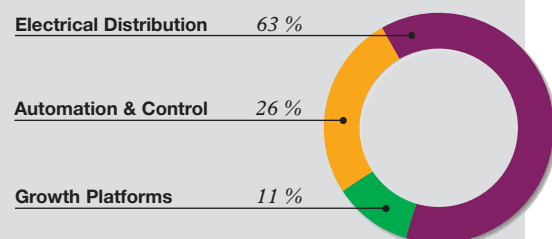
- Be and be perceived as a growth machine.
- Sustain best-in-class profitability over the business cycle.
- Maximize return on capital employed.
- Deliver attractive total shareholder return.

2004 SALES

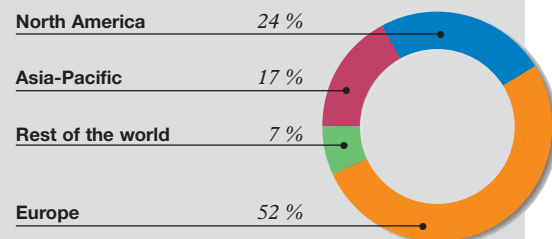
€10,365 million, up 18% from 2003

Breakdown of sales

By business



By region



OPERATING MARGIN

12.6 % of sales,
a 1.1-point improvement

OPERATING INCOME

€1,311 million, up 30%

NET INCOME AFTER GOODWILL AMORTIZATION

€565 million, up 30%

PROPOSED DIVIDEND BEFORE TAX CREDIT

€1,80

Our financial targets

Ambitious targets covering four dimensions for 2005-2008

Growth

We will demonstrate that we can:

- Outperform end markets and gain market share.
- Find new growth relays.
- Perform despite business cycles.

Target: **achieve organic sales growth $\geq 5\%$**

Assuming annual growth of 3% in our end markets

Return on capital employed

We will optimize the use of cash for:

- Internal investment projects.
- Working capital requirements.
- Growth through acquisition.

Target: **Increase ROCE by 2 to 4 points**

EBIT margin

We will leverage measures to:

- Re-balance production costs with sales.
- Improve logistics.
- Optimize base costs (IT, processes).

Target: **Achieve an EBIT margin of between 12.5% and 14.5%** over the business cycle in IFRS.

Shareholder return

We will:

- Pay out **around 50% of net income before goodwill in dividends.**
- **Leverage the balance sheet,** to obtain a gearing ratio of 30%-40% within **2 years.**

International Financial Reporting Standards (IFRS)*

Impact on shareholders

When the 2004 financial statements were presented on February 17, 2005, the Company provided a reconciliation between the accounts prepared in accordance with French generally accepted accounting principles and rules (French GAAP) and the accounts prepared in accordance with IFRS. A full set of IFRS accounts will be published for the Annual General Meeting.

The 2004 IFRS accounts are very close to the French GAAP version.

- Operating margin is only slightly lower, at 12.4% compared with 12.6% under French GAAP.
- Net income is higher, at 824 million.
- Shareholders' equity is slightly lower, at € 7,230 million.
- The debt-to-equity ratio is almost identical (6.8% versus 6.3%).

Application of conservative accounting policies has enabled the Company to report almost the same financial performance under the new IFRS standards as under the former system.

*All listed companies in Europe must apply IFRS as of January 1, 2005.

Schneider Electric Share/CAC 40 Index

Share data-february 2005

- Outstanding shares: 226,194,177
- 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: €8.00
- Market capitalization: €13.5 billion

Investor calendar

February 17, 2005

Full-year 2004 results

May 12, 2005 (3:00 p.m.)

Annual and Extraordinary Shareholders' Meeting at Hotel Concorde Lafayette in Paris

July 29, 2005

Interim 2005 results

October 20, 2005

Third-quarter 2005 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

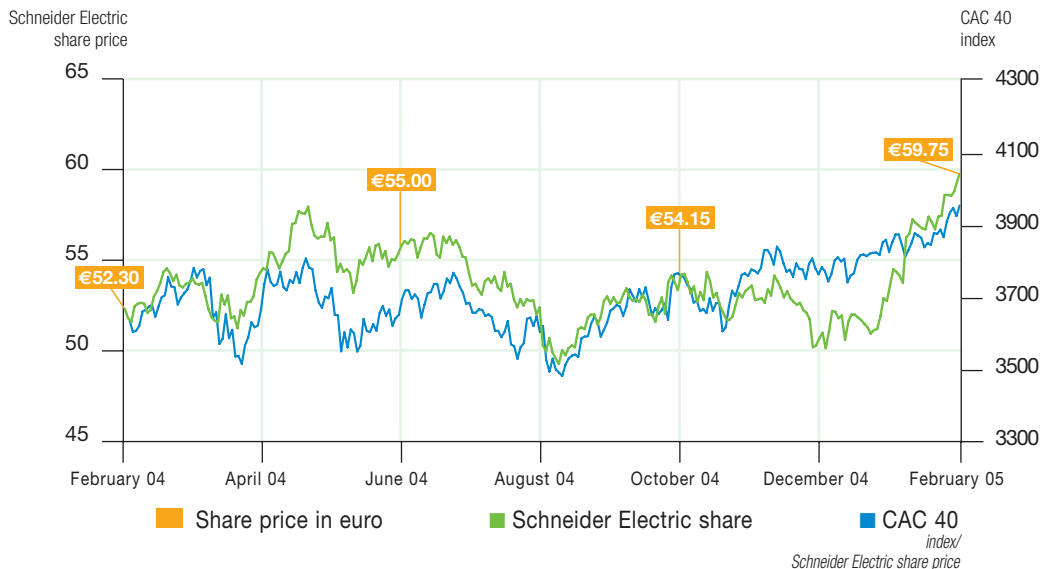


SCHNEIDER ELECTRIC SA
43-45 boulevard Franklin Roosevelt
92500 Rueil-Malmaison, France

Incorporated in France with limited liability and issued capital of €1,809,553,416
Registered in Nanterre B 542 048 574

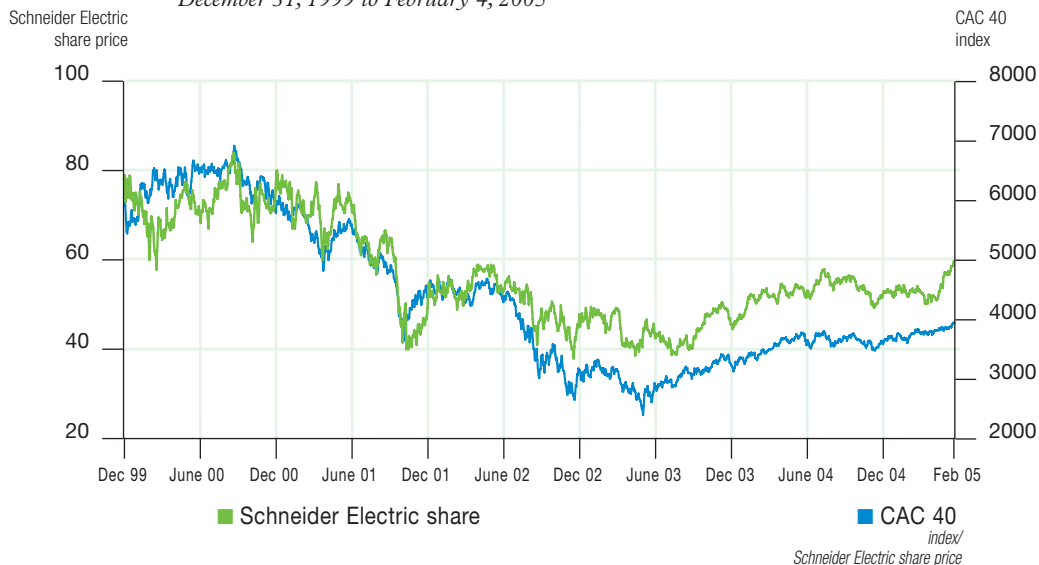
Over one year

February 3, 2004 - February 4, 2005



Over five years

December 31, 1999 to February 4, 2005



Annual and Extraordinary Shareholders' Meeting to be held on May 12, 2005

Agenda: Approval of the 2004 financial statements; distribution of a dividend of €1.80 per share, to be paid as from May 17, 2005; membership of the Board of Directors, with the proposed election of two new Directors (Jérôme Gallot and Serge Weinberg) and re-election of two existing members (Henri Lachmann and René Barbier de La Serre); renewal of certain financial authorizations (to buy back shares, issue shares with or without pre-emptive subscription rights, etc.); and approval of a resolution to grant shares without consideration to corporate officers and employees.

To attend the meeting, send your request along with proof from your bank or broker that your shares have been placed in a blocked account to Société Générale, BP 81236, 44312 Nantes Cedex 3, France by May 9, 2005. Registered shareholders must simply show valid ID on the day of the meeting to attend.