

Letter to *Shareholders*



Henri Lachmann
Chairman and CEO

Dear Shareholder,

Your Company turned in an excellent performance in the first half of 2004. Sales rose 18% thanks to an upturn in business in Western Europe and North America, remarkable performance in all of the emerging countries and the contribution from new acquisitions made over the last few months.

This growth, combined with sustained implementation of our productivity-enhancement plans, helped to drive a very strong increase in earnings. Operating margin widened by more than one point and operating income rose 30%. Operating cash flow was up 19% and remained at more than 10% of sales, despite the surge in business. Free cash flow was high thanks to tight control over spending and capital employed. Schneider Electric ended the first half with earnings per share up 19% over the year-earlier period.


Thanks to the implementation of our growth strategy, we are well positioned to leverage the full potential of our markets. We have deployed targeted growth plans by market segment and distribution channel in North America and Western Europe, while sustaining our expansion by building on our forefront positions in the emerging economies. We are gradually enhancing our positions in the residential market and rolling out dedicated solutions to meet growing customer demand in the areas of environmental protection and energy management. Lastly, we are developing value-added services that help customers optimize installation performance and management.

As part of the implementation of this strategy, which combines innovation and differentiation, Schneider Electric is continuing to focus on organic growth while resolutely expanding into strategically related businesses with high growth potential through targeted, top quality acquisitions.

In light of our markets' current recovery and our strong growth capacity, we have revised our full-year forecasts upwards. Based on an exchange rate of 1.25 to the dollar, we expect sales to rise by more than 15% and operating income by more than 25%, corresponding to a one-point increase in operating margin.

I am confident in Schneider Electric's excellent fundamentals and our strong ability to grow and create wealth for our shareholders.

Thank you for your loyalty and trust.

Schneider
 **Electric**

Building a New Electric World

Merlin Gerin

Square D

Telemecanique

Strong growth in sales and earnings

Sales

€4,984 million, an 18% increase

At constant structure and exchange rates, sales rose a strong 8.6% in the first half of 2004, led by remarkable growth in emerging countries and a business recovery in Europe and North America.

The acquisitions of MGE UPS Systems, TAC and Clipsal contributed a significant €556 million to first-half sales (13.1%). The currency effect remained highly unfavorable at €171 million (-4.0%).

Gross margin

42.7% of sales, a 0.8-point gain

A total of €78 million in net productivity gains were generated during the first half, thanks to productivity plans implemented as part of the NEW2004 program.

Operating margin

11.5% of sales, a 1.1-point improvement

The target of achieving a 5% gain in purchasing productivity was met. The Lean Manufacturing plan has been deployed at 108 production units since launch. Hedging has so far limited the impact of higher raw materials prices. The currency effect reduced operating margin by 0.6 points. At constant exchange rates, interim operating margin would have reached 12.1%, or a 1.7-point improvement compared to first-half 2003.

Operating cash flow

10.9% of sales

Operating cash flow remained high over the period, at €543 million.

Net income after goodwill amortization

€226 million, up 19%

Earnings per share

€1.01, a 19% increase

Second-quarter 2004 sales

In the second quarter of 2004, sales amounted to €2,612 million, a 10.1% gain at constant structure and exchange rates that partially reflected low prior-year comparatives.

Sales by the Growth Platforms division, formed by the acquisitions of TAC in building automation and MGE UPS Systems in secured power, rose by around 12% like-for-like, demonstrating the strong potential of these businesses.

News **Acquisitions**

➤ Stronger Positions in Building Automation and Security

Following the acquisition of TAC in June 2003, Schneider Electric has pursued its development in Building Automation and Security with the acquisition of US-based Andover Controls. The company, which has 690 employees worldwide, reported 2003 sales of \$169 million and an operating margin of 16.7%.

This latest acquisition is in line with our objective of becoming a leader in Building Automation, one of our new, high potential growth platforms.

Building Automation involves products and systems to regulate, monitor and control a building's utilities—a business in which TAC and Andover Controls will derive extensive benefit from the close fit between their market positions.

Security (intruder alarms, access control and CCTV systems) is a key Building Automation application and a major emerging need of customers in the Building market. With Andover Controls, Schneider Electric will have

a platform well suited for expansion in electronic Security, which is a €20 billion market growing by 7% a year.

"This acquisition of a focused and very well managed company in Building Automation and Security fits perfectly with our strategy of

developing our new growth platforms," noted Henri Lachmann, Chairman and Chief Executive Officer. "Andover Controls will bring us a new dimension, notably in the US, with a strong reputation, a large

installed base and a high quality offering. Combined with the competencies of TAC, Andover Controls will make us the clear leader in open and integrated Building Automation systems, while providing a strong basis for future expansion in Security. With these two key players, Schneider Electric will be able to offer a valuable alternative to the largest competitors and meet growing customer needs for comfort, efficiency and security."



News **Visits**

➤ New Electric World Center

As announced in issue 20, a dedicated New Electric World Center has been opened so that visitors can learn more about Schneider Electric, our latest, most innovative products, and the technologies we're developing to build the electric world of tomorrow.

At the last Annual Meeting, Henri Lachmann invited shareholders to visit the Center, which is located in Rueil Malmaison near Paris. In response to strong demand, visits have been organized for October and November 2004, with other dates to be set.



If you would like to visit the Center, contact the Investor Relations Department at 0 800 20 55 14 (toll free; from France only) or connect to the Finance section of our website: www.schneider-electric.com.

➤ Schneider Electric participated at the Athens 2004 Olympic games

Schneider Electric supported the 2004 Olympic Games with mission-critical electrical equipment to distribute, control and manage the power needed to run the sports infrastructure and ensure a comfortable environment. More than eight Olympic venues were equipped with our products, under contracts worth more than €10 million.

By making it possible to televise the Games live and around the clock, Schneider Electric met the difficult challenge of enabling nearly four billion people around the world to watch all or part of the Olympics. We supplied safe, reliable electrical equipment to ensure uninterrupted operation of the broadcast facilities, including 78 Prisma Plus low-voltage switchboards, 12 Merlin Gerin capacitor banks and a Telemecanique automa-



tion system to control master switches and data transmission to the building management system.

Schneider Electric also guaranteed high facility uptime for the safety and comfort of users of the Greater Athens Subway system. The installed solution comprises 119 Merlin Gerin medium-voltage cubicles to deliver power for station lighting and ventilation systems and for train traction systems.

The project enabled us to gain an important foothold in the market by paving the way for a new €2.2-million contract to extend lines 2 and 3 by 7.7 kilometers to link up with the commuter rail network being built in the Athens suburbs.

In its own special way, Schneider Electric was instrumental in making the 2004 Olympics a success.

Over the Past Six Months

Schneider Electric and Fuji Electric FA Components & Systems Join Forces in Low Voltage Circuit Breakers

The new venture, Schneider Fuji Breakers Dalian, is owned 60% by Schneider Electric and 40% by Fuji. It will employ 160 people in a new production facility in Dalian, China.

The partnership is designed to accelerate the launch of more compact molded case circuit breakers offering higher performance at a competitive price. This type of equipment features a thermo-hardened polyester case that provides greater structural rigidity and effective housing for live components.

Annual production capacity is expected to reach 600,000 units in a few years' time. Product launches began in China in July 2004 and will be gradually extended to the rest of Asia.

➤ Prisma Plus Low Voltage Switchboards

Building on the reputation of the original Prisma line, Prisma Plus has set the new benchmark in the area of 125-3,200A low voltage switchboards for commercial and industrial buildings. This comprehensive lineup offers a wide range of technical solutions that cover all electrical distribution, building management and Voice Data Image (VDI) requirements.

Electrical switchboards or enclosures contain all of the switchgear that protects electrical circuits in homes, commercial buildings and industrial facilities. Circuit breakers and other equipment safeguard circuits from surges, which can start fires, and insulation failures, which carry the risk of fire or electrocution. Switchboards therefore play a critical role in protecting people, installations and applications. They must be easy to access at all times and quick and simple to install.

That's why the new Prisma Plus line's key concepts are innovation and simplicity. Pre-fabricated solutions were chosen for switchgear distribution and hook-up to ensure fast installation and the ability to meet specific customer requirements, such as local standards and practices.

The market leader in Southern Europe for the last 15 years, Schneider Electric intends to use this new range to pull far ahead of the competition and become the leading supplier in Europe as a whole.



Schneider Electric ranks among the top 50 Mexican companies

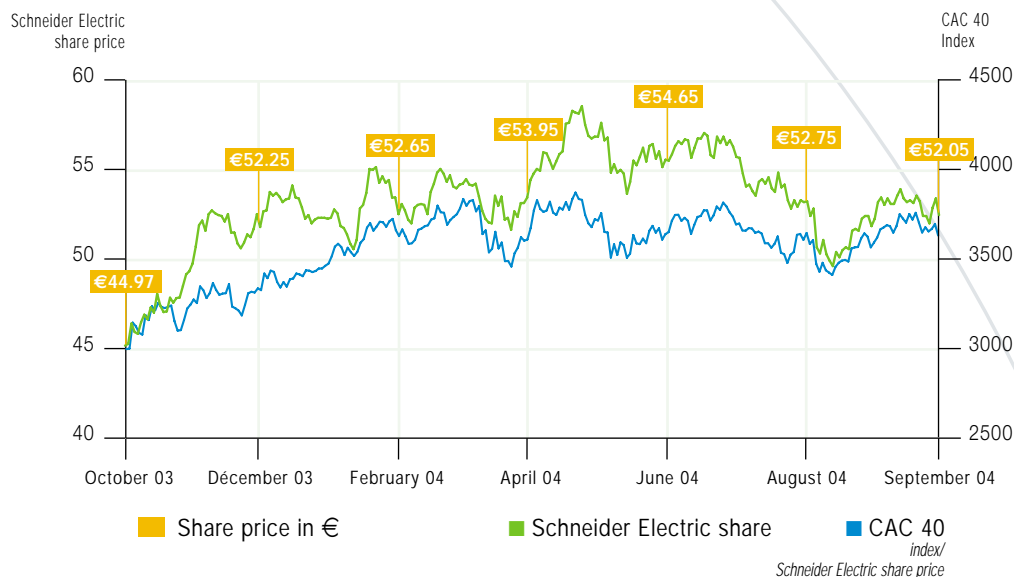
In cooperation with Hay Group, Gestion de Negocios, Latin America's flagship business magazine, has published a list of Mexico's top 50 companies based on a survey of nearly 900 executive decision makers.

Schneider Electric Mexico was ranked 26th, ahead of all its rivals and such major multinationals as General Motors, 3M and General Electric.

The magazine defined a business leader as a company whose practices are considered admirable by the people interviewed. The ranking was not based on size or profitability but rather on the extent to which the companies were seen by Mexican managers as role models.

Schneider Electric Share/CAC 40 Index

➤ **Over one year**
October 2003 – September 2004



Share data - Sept. 2004

- Shares outstanding: 233,194,177
- 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: €12 billion

Investor calendar

October 21, 2004

Nine-month 2004 sales

October-November

Tour of the New Electric World Center (Rueil Malmaison)

February 17, 2005

Full-year 2004 results

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

Annual and Extraordinary Shareholders' Meetings (Hotel Concorde Lafayette, Paris)

July 29, 2005

Half year 2005 results

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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➤ **Over five years**
January 1999 to September 2004



➤ New Members Needed for Consultative Shareholders' Committee

The Consultative Committee was created in May 2001 to communicate financial information to individual shareholders and to relay shareholders' concerns to the Company. Its ten members are selected to represent a broad cross-section of the individual shareholder base.

Schneider Electric is issuing a call for new candidates to replace five members whose terms will expire in May 2005. If you are interested in serving on the Committee, please send us a cover letter along with the application form available from the Investor Relations office (0 800 20 55 14 toll-free in France) or on our website (www.schneider-electric.com/Shareholders).