

Letter to Shareholders



2005 Financial Results



Henri Lachmann
*Chairman and
Chief Executive Officer*

Dear Shareholder,

2005 was a remarkable year for your Company. The strong rise in sales, for the second year in a row, reflects the gradual shift in Schneider Electric's growth profile thanks to the contribution from emerging markets and new activities. This performance, combined with the initial results of our new2 efficiency plans, has lifted our earnings by nearly 60% over two years and put us at the top of the pack in our industry.

We intend to actively pursue a strategic path that will increase our potential for profitable growth, reduce the cyclical nature of our business and allow us to take advantage of value-creating acquisition opportunities.

- Emerging markets accounted for 30% of total sales and generated nearly 50% of our organic growth in 2005. We will continue to invest heavily in these high-potential markets to maximize our coverage and enhance our leadership positions.
- Our expansion in new, high-growth activities is allowing us to meet new customer needs. In particular, we have a unique portfolio of energy management solutions that can help customers optimize their energy strategy and costs. We also offer automation functionalities in all our markets to enhance installation performance, efficiency and ease-of-use.
- Lastly, we're stepping up our R&D efforts in France, the US and Asia with a budget equal to 5% of sales in 2006.

At the same time, we're **accelerating deployment of our operating efficiency plans.** Measures to rebalance our production costs and optimize the supply chain will drive a significant improvement in industrial profitability. We're also taking specific steps to promote employee training and development.

To prepare my succession, you will be asked to approve a new corporate governance system consisting of a Supervisory Board and a Management Board at the next Annual Shareholders' Meeting. To ensure a smooth succession and continuation of our development strategy, the Board of Directors will propose that I chair the Supervisory Board and that Jean-Pascal Tricoire be appointed chairman of the Management Board. Jean-Pascal has pursued a remarkable career here at Schneider Electric over nearly 20 years, in China, the United States and France.

You will also be asked to approve a 25% increase in the **dividend to €2.25 per share**, to be paid in cash on May 9, 2006.

I am particularly confident in Schneider Electric's ability to generate lasting, profitable growth given the deep commitment of our entire workforce and the high quality of our new leadership team.

Schneider
 **Electric**

Building a New Electric World

Financial results for the year ended December 31, 2005

An excellent performances

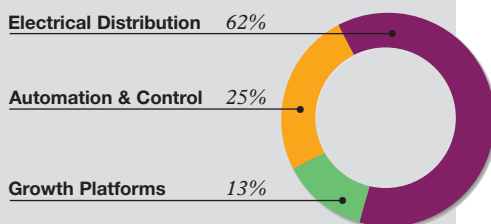
The *International*

8,000 people 4

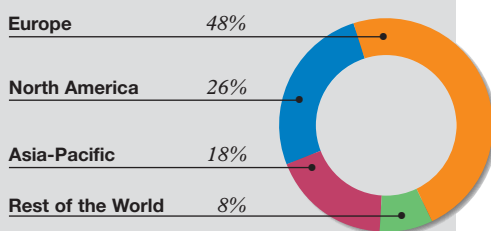
2005 SALES

up + 13 %
to €11,679 million

Breakdown by business



Breakdown by Operating Division



OPERATING INCOME

up 22% to €1,565 million

EARNINGS PER SHARE

up 22% to €4,56 million

PROPOSED DIVIDEND*

up 25% to €2,25 million

RETURN ON CAPITAL EMPLOYED (ROCE)

up 0,8 point to 10,5%



From the Atlantic to the Mediterranean, the International & Iberian Operating Division's teams cover four continents, combining a commitment to cohesion with respect for local practices.

**Executive Vice-President
Julio Rodriguez**

explains how this subtle balance works.

Why were these different regions combined into a single division?

The division was created in 2003 when the Company deployed its new organization. It covers four continents, with operations in the Iberian Peninsula, South America, the Middle East and Africa. The decision to link the Iberian Peninsula, which geographically is European, to the other regions was made for a number of reasons. Obviously, language and culture played a role, but the main driver was the volume of business among the regions. Spanish enterprises are responsible for most of the major investments in South America and flows between Spain and North Africa are constantly growing. It's also helpful for the other countries to have an economically strong and active locomotive like Spain in the division.

With 8,000 employees, the division generated sales of €1,685 million in 2005. Our growth and profitability performance has been among the best in the Company since 2003.

Is the mixture of unity and diversity a strength for your division?

The division's coverage of four continents makes it both complex and exciting to lead. Its **diversity** is reflected in the different perspectives and backgrounds of our management team. The wealth of viewpoints and working methods is an important strength that allows us to share best practices and resources.

We foster **unity** through our shared and joint commitment to achieving our targets. The challenge is to focus our teams on common issues by setting up industry-specific communities for which we establish dedicated action plans. Each country can contribute to these plans in its own way. For the oil & gas industry, for example, we've defined particular specifications for safety and communication PLCs. In the ultra terminal sector, we're developing comprehensive lineup plans that take all local constraints into account.

That said, these regions have very different characteristics, don't they?

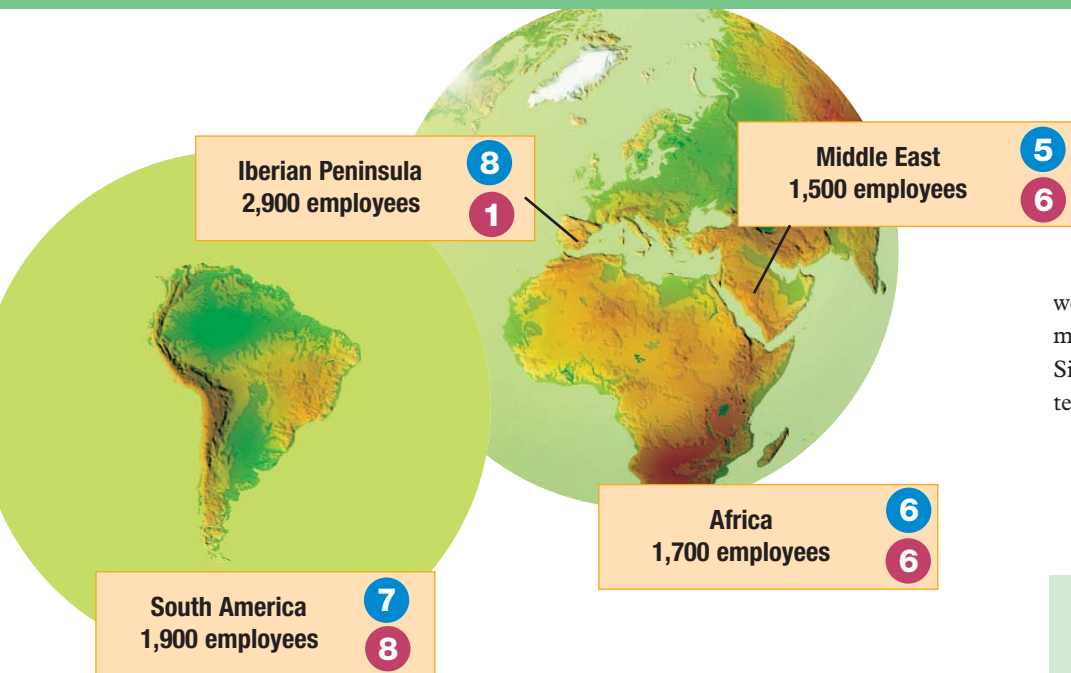
To be sure, each country has its own rules and expectations. The diversity of our managerial base helps us understand these differences and be even closer to our customers.

In certain countries of the Middle East and South America, we have to deal with major, unpredictable swings in economic conditions. We have to be able to adapt quickly while maintaining a certain unity among our regions. We may have to apply a policy to control prices in countries with currencies linked to the dollar, for example, but concentrate on security in countries experiencing political unrest or instability.

*Subject to shareholder approval at the Annual Meeting. To be paid in cash on May 9, 2006.

& Iberian Operating Division

continents More than **100** countries **21** manufacturing facilities **24** distribution centers



- Manufacturing facilities
- Distribution centers

What initiatives are you taking to promote growth?

We need to accelerate our geographic expansion to be closer to customers and take advantage of the considerable growth opportunities in the **oil & gas** and **mining** industries and in infrastructure. The infrastructure market is developing considerably in most of our countries and is among our priorities when it comes to defining tailored lineups. We're also paying close attention to **ultra terminal** distribution and **services** and we're continuing to explore new investment paths.

Could you give some examples?

In the Middle East, growing global demand for oil and gas is generating greater revenues and much of this money is being reinvested in local infrastructure like schools and hospitals. We're deploying all the necessary resources to respond effectively to these new markets.

As for South America, with its vast underground deposits, we've organized and expanded our product and service portfolio to meet the mining industry's specific needs. In Brazil, for example,

we've set up a dedicated organization to manage our major mining accounts. Similarly, we've set up a regional skills center for the oil & gas industry in Argentina.

To conclude, I'd say that the International & Iberian Operating Division's diversity in terms of economic situations, resources and cultures makes for successful experience sharing. Thanks to our highly professional teams and top-quality organization and products, we are in a position to take advantage of all growth opportunities that may arise in these high-potential regions.

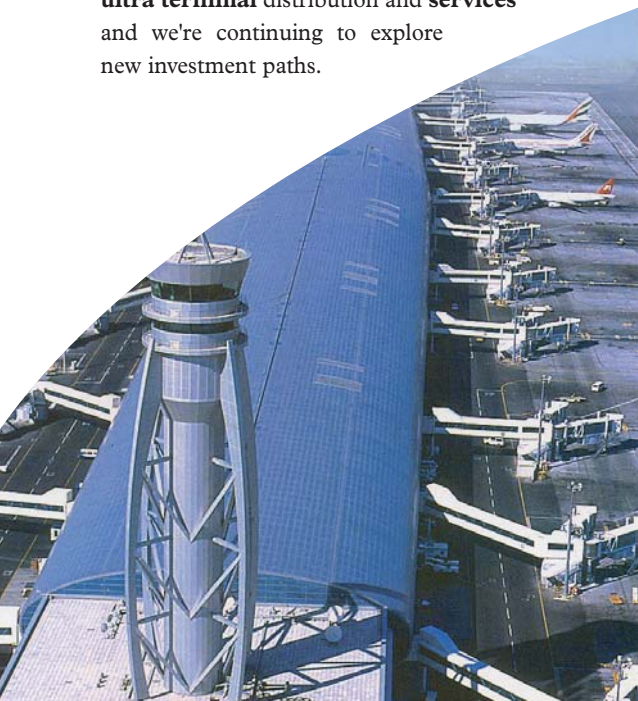
Colombia and Dubai Two success stories

Continuous access control at the Pribbenow coal mine

Schneider Electric Colombia supplied products and installations from TAC and Andover Control to control access at the Pribbenow coal mine (the biggest opencast mine in the world) and its shipment port in Colombia's northwestern Cesar region. The solution includes in a single platform the CCTV and access control systems, which are interconnected through the mine's wireless communication network and linked to the shipment port on the Pacific Ocean. This project puts the mine at the cutting edge of technology in security systems thanks to remote management of the ten most critical access control points.

Extension of Dubai's showcase airport in the United Arab Emirates

In 2005, Schneider Electric participated in the extension of the Dubai airport. We supplied all of the low voltage equipment, including switchboards, circuit breakers and other products, for the duty free shops, the aircraft hanger-which will ultimately house the Emirates' 32 Airbus 320s-and the private facilities for the royal family and VIPs.

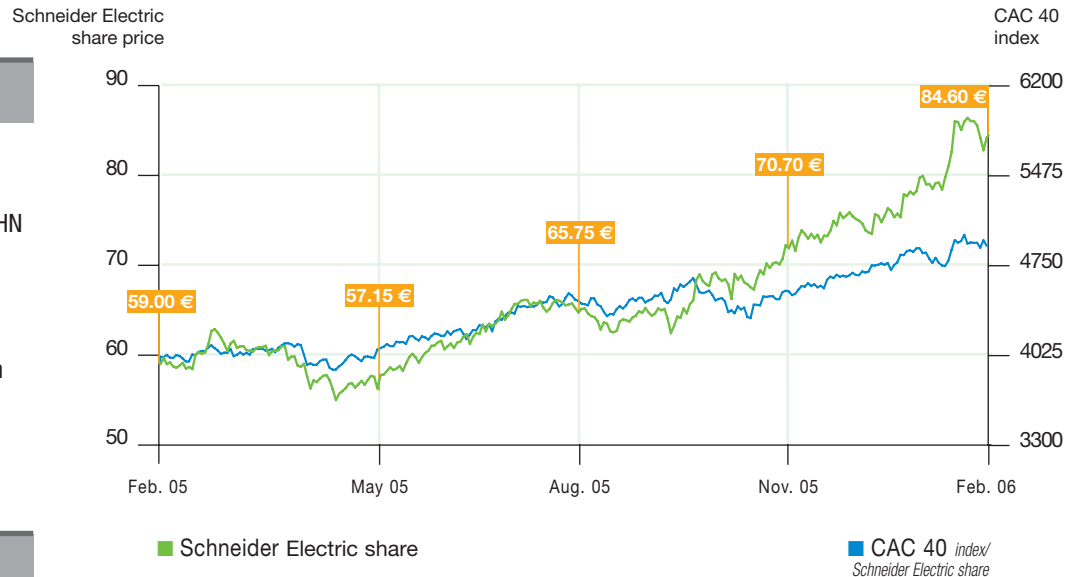


Schneider Electric Share/CAC 40 Index

Over one year
Feb. 10, 2005 - Feb. 10, 2006

Share data-Feb. 2006

- Shares outstanding: 226,619,227
- ISIN code: FR0000121972
- Stock market site codes: SU or SCHN
- Traded on the Euronext Paris First Market
- Par value: €8.00
- Market capitalization: €19.2 billion



Investor calendar

April 20, 2006

First-quarter 2006 sales

May 3, 2006 at 3:00 p.m.

Palais des Congrès de Paris
Annual Shareholders' Meeting

May 9, 2006

Dividend payment in cash

July 28, 2006

2006 interim results and
second-quarter 2006 sales

October 24, 2006

Third-quarter 2006 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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92500 Rueil Malmaison

Incorporated in France with limited liability and issued capital of €1,812,953,816
Registered in Nanterre B 542 048 574

Shareholder base at December 31, 2005

Treasury stock - Intragroup cross shareholdings

3.6 %

Employees

3.3 %

Caisse
des Dépôts et
Consignations

4.4 %

Rest of the World

1.5 %

North America

19.7 %

Rest of Europe

41.7 %

France

25.8 %

