

# Letter to *Shareholders*



## Succession and **new mode** of governance



**Jean-Pascal Tricoire**  
*President and  
Chief Executive Officer*

Dear Shareholders,

After your Annual Meeting on May 3, 2006, the Supervisory Board of Schneider Electric has appointed me as President and Chief Executive Officer.

I thank you for your trust and confidence in our company. I have been working in Schneider Electric for 20 years now, including Chief Operating Officer for the past two years. I am extremely honored and humbled to take on the leadership of our company.


I have been smoothly prepared for my new job by Henri Lachmann, who will stay on board and ensure continuity as Chairman of the Supervisory Board. Henri has driven our strategy and business redeployment over the past seven years with an indisputable drive.

I am committed to our strategy of business development and operational excellence. We shall keep on growing in selected new businesses, new markets and new geographies. In addition, we shall keep on deploying our just started new<sup>2</sup> program. new<sup>2</sup> will reveal more of the potentials of our company over the next three years.

I am convinced that electricity, with its dual components of power and control, is one of the key industries of the future. The impact of electricity and automation and the need for energy savings, efficiency and comfort will transform the face of electricity as we know it today. Whatever the future will be, the future will be electric.

I believe that Schneider Electric is in a unique position in this industry to drive this transformation and capture all possible opportunities. We are focused on our customers, we are a pure player, we are truly global, we operate a good and integrated portfolio of businesses, we invest more than our competition in innovation and we embrace diversity in our management teams. We also show solid strength and reactivity in good and bad environments.

I am confident and enthusiastic about our potential and I thank you for your investment in us. I can assure you our entire team, and especially Pierre Bouchut and myself, will do our best to meet your expectations. I am also committed to our continuous dialogue, so that we can get and integrate your comments and give you the best visibility on our operations, our opportunities and our strategy.

**Schneider**  
 **Electric**

*Building a New Electric World*

# First-quarter 2006 Sales

**Exceptional growth of first-quarter 2006 sales : +25.9%**

Sales for the first quarter of 2006 totaled **€3,180 million**, up a particularly strong 25.9% on a current structure and exchange rate basis from the year-earlier period.

On a constant structure and exchange rate basis, sales growth set a new record at 13.3% in the first quarter 2006 compared to the same period last year.

## Breakdown by region

(in € millions and like-for-like % increase)

**Europe: 1,489**  
+10.1%

**North America: 891**  
+12.2%

**Asia-Pacific: 532**  
+17.8%

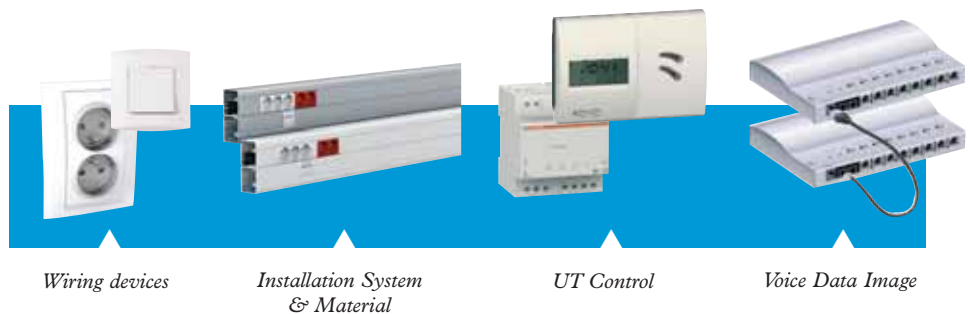
**Rest of the World: 268**  
+28.6%



**Ultra Terminal** products and solutions are all around you, in your house or apartment, your office and in stores. The range covers a host of functionalities, from the most basic to the most advanced. Wiring devices are among the most visible products in a room, but it also includes installation material and systems; heating, lighting, access and other control systems, and solutions for voice-data-image transmission.

**Customer needs** have changed substantially, with increasing demand for flexibility, ease of use, optimized communication methods and automation functions. Our Ultra Terminal range meets these needs with solutions that fit in with your home's decoration scheme while offering the highest level of comfort and safety.

Rising demand for housing and higher expectations for comfort, safety and sophisticated functions are **the growth drivers** of this market, which is currently worth an estimated €30 billion. There is strong potential for market consolidation, as the five leading global players account for less than a quarter of total sales.



## World wide positions & recognized brands



In Europe, investments recovery in virtually all countries is amplified by the positive impact of the development in new businesses - Ultra Terminal, Services, Automation.

In North America, a buoyant demand and the development of Energy Management and Services have driven still high levels of growth.

In the Asia-Pacific and the Rest of the World regions, the remarkable performance in all countries reflect a sustained investment trend and the Group's wide and solid geographic positions.

# products meet new needs

## *Schneider Electric*

revolutionizes the Surge Arrester



*Domae Quick PF  
Surge Arrester*

Lightning can cause fires, damage electrical installations and destroy sensitive and costly electrical appliances. Domae Quick PF Surge Arrester, designed, produced and introduced by Schneider Electric in June 2006, is an innovative, ergonomic and effective solution to this problem. It targets the needs of residential and small commercial buildings, offering

optimal protection from lightning-related overvoltage for electrical and electronic equipment. A pure product of Schneider Electric R&D, Domae Quick PF represents a major technological leap forward thanks to the integration of a grounding device and a complete end-of-life security system, for a truly secure installation.

## **An ambitious growth strategy**

Absent from the field just ten years ago, Schneider Electric now ranks second worldwide in Ultra Terminal. Revenue from the Ultra Terminal business, which is growing by an average 13% a year, totaled €1.2 billion in 2005, or 10% of total global sales.

### **Schneider Electric's growth strategy in this area has a dual focus.**

The first is to penetrate new markets by leveraging the Company's solid positions in low voltage, primarily in Eastern Europe, Asia and the Rest of the World. The second is to speed growth in countries where Schneider Electric already leads the market by expanding the line-up. At the same time, the Company intends to enhance its portfolio by pioneering innovation in home automation - a business that offers substantial technological synergy with building automation.

### **To strengthen its competitive position and deploy its strategy in the market...**

Schneider Electric recently announced four major acquisitions in Ultra Terminal.

The addition of Germany's Merten has brought in a remarkable home automation range in Europe, while OVA Bargellini in Italy and AEM S.A. in Spain have contributed market-leading lighting ranges and installation systems to the portfolio.

As a result of these acquisitions, Schneider Electric now ranks second in Germany - Europe's largest market - and leads in Asia, thanks to Clipsal.

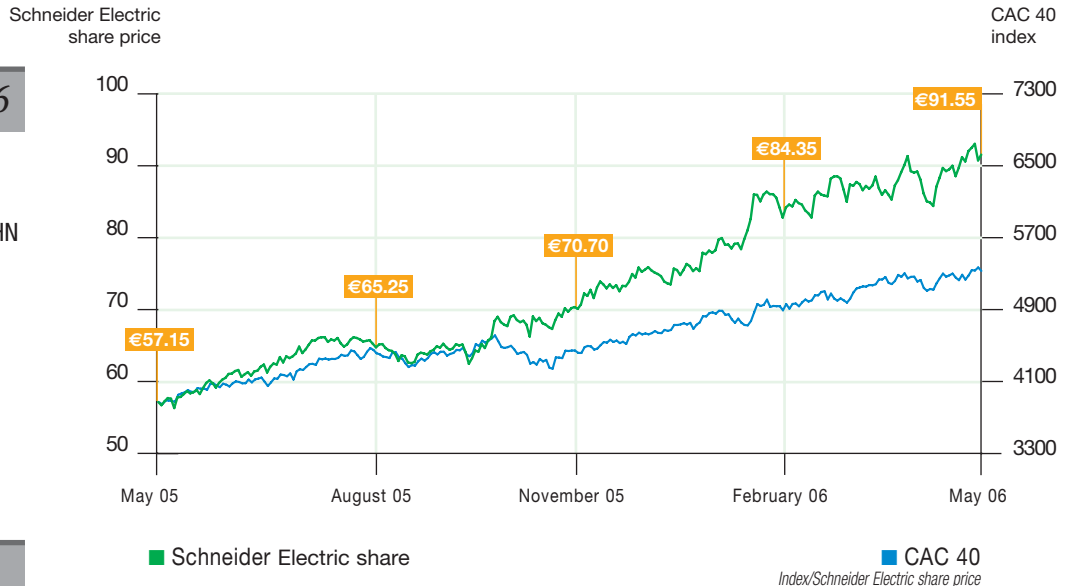
With an even stronger position as global number 2, the Company should generate revenue of €1.5 billion from Ultra Terminal electrical distribution in 2006.

Schneider Electric is leveraging its widely recognized brands and worldwide positions to expand rapidly in ultra terminal and offer high value-added solutions for homes.

The goal is to delight customers by constantly adapting products to their needs and by helping to upgrade installation standards to reflect and anticipate changing lifestyles.

## Schneider Electric Share/CAC 40 Index

Over one year  
May 10, 2005 - May 10, 2006



### Share data - May 2006

- Shares outstanding: 226,619,227
- ISIN code: FR0000121972
- Stock market site codes: SU ou SCHN
- Traded on the Euronext Paris First Market
- Par value: €8.00
- Market capitalization: €20.7 billion

### Investor calendar

**July 28, 2006**

Second-quarter 2006 sales  
Interim 2006 financial results

**October 24, 2006**

Third-quarter 2006 sales

## Projet



### OPTIMIZING ENERGY USE IN BUILDINGS



The Industrial Innovation Agency (All) set up by the French government in 2005 has decided to support Schneider Electric's highly innovative **HOMES** project, which is designed to define new energy distribution control architectures for the vast buildings market.

Thanks to innovative sensing, monitoring and power technologies, the HOMES solution will be able to reduce energy use by up to 20% in commercial or residential buildings, in both the new and renovation segments. Through active building control, HOMES will address the growing need to manage rising energy costs and protect the environment.

Several European leaders with key technologies will pool their know-how to make the project impelled by Schneider Electric a success. **HOMES** fits in perfectly with **Schneider Electric's growth strategy in the area of energy efficiency.**

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

N° Vert 0 800 20 55 14

[www.schneider-electric.com](http://www.schneider-electric.com)



SCHNEIDER ELECTRIC SA  
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92500 Rueil Malmaison, France

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

# Your Annual Shareholders' Meeting of May 3, 2006

N°27  
JUNE 2006



**Serge Weinberg**  
*Vice-Chairman of the  
Supervisory Board*

Schneider Electric shareholders met in Annual and Extraordinary Meeting on May 3, 2006, primarily to hear the report of the Board of Directors, approve the financial statements for 2005 and modify the governance mode of the company in order to set up a Management Board and a Supervisory Board. The Meeting was chaired by Henri Lachmann, Chairman and Chief Executive Officer.

The Supervisory Board held its first meeting after the Annual and Extraordinary Shareholders' Meeting. It appointed Henri Lachmann as its Chairman and Serge Weinberg as its Vice-Chairman. The Supervisory Board also appointed the Management Board, which has two members: Jean-Pascal Tricoire, Chairman, and Pierre Bouchut.



**Pierre Bouchut**  
*Member of the  
Management Board*

The Chairman reviewed the highlights of 2005:

- Strong sales growth and gradual change in the company's growth profile, with an increasing contribution from emerging countries and active development in new businesses,
- Strongly improved profitability, with significant increase in operating margin and a higher return on capital employed (ROCE),
- Strong earnings growth - earnings per share up 22% - above the new<sup>2</sup> company program's targets,
- Preparation for the succession and proposal of a new mode of corporate governance.

Shareholders approved the proposed resolutions, which concerned:

- Approval of the 2005 financial statements,
- Payment on May 9, 2006 of a net dividend of €2.25 per share, up 25% over the previous year,
- Transformation of the mode of governance with the implementation of a Supervisory Board and a Management Board,
- Election of the members of the Supervisory Board,
- Financial authorizations given to the Management Board.



**Cathy Kopp**  
*Member of the  
Supervisory Board*

The quorum was 43.9% and the resolutions were adopted with a majority vote of between 70.4% and 99.8%.



## Shareholders' questions

*Could you tell us exactly what the Services business represents for Schneider Electric today?*

We want to have a targeted approach to services, at two levels. The first involves providing services in Electrical Distribution and in Automation & Control and helping customers achieve energy savings in both areas. The second is to deliver only services with a high technological content. We have ruled out facility management. Customers often contact us, for example, to provide automation-related energy savings. HVAC and electrical systems represent between 50% and 80% of a building's operating costs, so if you can deliver a comprehensive, innovative solution you can also deliver savings in these areas.



*Return on capital employed would have been higher without the acquisitions. Does this mean that you paid a lot for these acquisitions or that, unlike the rest of your businesses, they are more capital intensive?*

The companies we acquired are not less profitable, but it will take time to integrate them and leverage all the available synergy. Very clearly, our goal is to create value in a time frame of two to three years. This means that we want the ROCE of acquired companies to at least match our cost of capital within two to three years.

Our business model calls for a sharp focus on our two core businesses and high margins from our traditional activities. Our industry is still highly fragmented, with a large number of regional players. Your Company's success lies in globalizing research and production and in globalizing geographically. We generate cash from very carefully managed businesses and we reinvest this cash in acquisitions to unite the companies and make our model even more effective. We intend to pursue our strategy by exploring all opportunities that will allow us to continue consolidating and globalizing our industry.



*Operating margin for the new growth platforms is significantly lower than for your core Electrical Distribution and Automation & Control businesses. Will you be able to close this gap?*

Profitability is slightly lower, but not that far from the Company-wide average. What is striking at Schneider Electric is the relatively small variation in margins among the geographic divisions. This shows that we are much less exposed to problems that may arise in a given activity or country.

*Concerning R&D, how far have you advanced in your project to transmit data, TV and the Internet over electric wires?*

Your question concerns the ability to reinvent electricity for new applications. We have a technology that works very well, and we have invested heavily in this area. This investment is part of the outlays we have to make to prepare the future. At present, the market is taking a relatively conservative stance towards this type of technology. The electrical infrastructure exists and we have the ability to transmit several gigabits of data over an electric wire.



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