

Letter to *Shareholders*



Annual Shareholders' Meeting of May 27, 2002



Henri Lachmann,
*Chairman and
Chief Executive Officer
during the meeting.*

The Annual Shareholders' Meeting, chaired by Henri Lachmann, was held on May 27, 2002. Shareholders were informed of the 2001 financial results, which included a solid operating margin corresponding to 11.4% of sales and a net loss (group share) of euros 986 million, due to the impact of the exceptional provision set aside for the Legrand investment. These results were achieved under challenging market conditions.

Shareholders approved all of the resolutions tabled at the meeting. In particular, they:

- Approved the 2001 financial statements and the distribution of a dividend of euro 1.30 per share (paid on May 31, 2002) in the form of a return of capital. This payment does not give rise to a tax credit and is not considered as taxable income in France.
- Ratified the appointment of René Barbier de la Serre and Willy Kissling as Directors.
- Approved amendments to the bylaws to include the new rules contained in the "NRE" Act of May 15, 2001.
- Renewed financial authorizations to buy back shares, issue bonds and related securities and, if necessary, cancel shares acquired under the terms approved by shareholders, within a limit of 10% of the Company's capital.
- Authorized the Board of Directors to use the authorizations to issue shares while an offer for the Company's shares is in progress.

The quorum was 42.2% and the resolutions were adopted by a majority vote of between 72.8% and 99.7%.

First Quarter Sales

Sales totaled euros 2.25 billion at March 31, 2002, a decline of 7.1% from the year-earlier period, or down 8.6% at constant scope of consolidation and exchange rates.

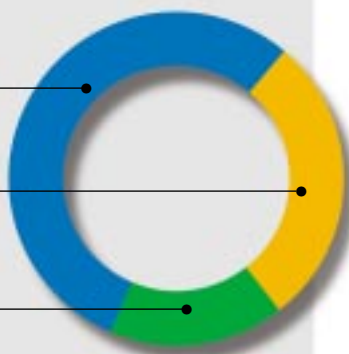
Sales by region

(in billions of euros; change at current scope and exchange rates in %)

Europe
1.16
-6.1%

North America
0.67
-11.7%

Rest of World
0.41
-1.4%



2001 saw a sustained decline in sales that accelerated in the fourth quarter. As a result, the prior-year sales gave a very challenging basis of comparison.

So far this year, we have continued to experience difficult market conditions due to weak industrial capital spending and low demand in non-residential buildings. Business trends are more favorable in electrical distribution than in industrial control and automation.

However, the sales figures for the first four months show signs of an upswing, particularly in North America. This could lead to higher sales in the second half, even though it is difficult to predict the size of the recovery.

Shareholders *questions*

➤ What were the main highlights of 2001?

Last year was shaped by a number of exceptional events: much more difficult market conditions than in 2000, the September 11 attacks in New York, and for our Company the European Commission's veto of the Legrand merger.

Nevertheless, Schneider Electric's fundamentals remain exceptionally strong. We continue to enjoy good profitability, solid financial resources and numerous growth opportunities in an industry of the future.

Another key highlight of the 2001 year was the elaboration of the NEW2004 strategic program, which builds on the successes of Schneider 2000 and Schneider 2000+. This ambitious, motivating program includes financial objectives for growth and profitability, with a focus on improving the gross margin (difference between sales and cost of sales before R&D, selling, general and administrative expenses). NEW2004 goes beyond the need to control base costs to focus on direct production, supply chain and purchasing costs.

➤ What were the lessons of the failed merger with Legrand?

It is important to understand that in France, a public offer to buy or exchange shares cannot be made conditional on approval from the anti-trust authorities. What's more, the anti-trust commission doesn't examine proposed mergers until they are in a relatively advanced stage.

At our request, the Audit Committee reviewed the process and concluded that we were not at fault. That said, we assume full responsibility for this setback and regret that we will not be able to complete a magnificent project that offered real strategic benefits. We have expressed a disagreement with the procedure, the way in which it was carried out and, most important, the reasons for the European Commission's veto.

➤ Where are you in the separation process?

We are looking at three options simultaneously: selling Legrand, IPO or demerger spin-off. Preparatory work on each of these options is well advanced and the separation should be completed in the second half of the year.

➤ What is the outlook for 2002?

First-quarter sales were down from the year-earlier period (see sidebar). Our objective of achieving 2002 sales close to the previous year depends on a recovery in our markets.

Under the circumstances, we are pursuing in 2002 our programs to control costs and improve the gross margin.

➤ What is the outlook for the Schneider Electric share?

Obviously, we cannot make any forecasts about future trends in the share price. Nevertheless, we can give one point of view: the share's performance over the last 18 months has not been satisfactory. This could be attributable to the European Commission's veto, difficult economic conditions and our lower financial results in 2001. However, in light of the medium-term outlook in our markets, our fundamentals and the action plans to be deployed as part of NEW2004, it is difficult not to be optimistic about the future.

➤ Six new ranges introduced in industrial control and automation

Schneider Electric has launched six new product ranges in industrial control and automation. These new networked, intelligent devices are designed to be integrated in open architectures that are upgradable and compatible with most existing products on the market. They reflect our strategic commitment to developing new technologies within the Transparent Ready™ concept. The idea is simple: replace proprietary architectures that are cumbersome to manage, difficult to upgrade and unable to communicate with each other with architectures based on web technologies. The numerous advantages include the ability to share data thanks to a universal protocol, simplified access via an ordinary web browser such as Netscape or Internet Explorer and remote access in real time.

These new product ranges combine high performance with ease of use to meet customers' constant need to improve productivity of their equipments.

The **Tesys U-Line** was one of the ranges presented at the Hannover Fair.



This **starter/controller** is the first product on the market to combine a circuit breaker and a contactor on a single base. Depending on their needs, users can integrate electronic control modules, automation functions and communication functions, all without wires. Tesys U-Line is flexible, modular and easy to install and operate. What's more, the number of SKUs is divided by ten.

**Industrial automation:
Sales of euros 2.9 billion**

These projects represented an investment of euros 120 million and involved 250 people in Japan, Europe and the United States. The products comply with the various standards in effect around the world to serve international customers wherever they are located and to meet the needs of local customers worldwide.

Our objective is to generate sales of euros 500 million with these new ranges in three years' time.

Shareholders' *Relations Committee*

➤ Since its first meeting in May 28, 2001 the Committee has met four times



Topics discussed at the meetings include the Letter to Shareholders, Schneider Electric's financial communication policy with individual shareholders, plant tours and the Annual Shareholders' Meeting.

Among the numerous suggestions made during the year, the following have been adopted:

- Lowering the minimum number of shares required to receive the Letter to Shareholders to 100.
 - Changes in the format and content of the Letter to Shareholders.
- Organization of plant tours for individual shareholders, to begin in the second half of 2002.
 - For the Annual Shareholders' Meeting, maintaining a light buffet and a gift (two tickets to the Louvre Museum valid for one year).
 - Ensuring an active role for the Committee at the Annual Shareholders' Meeting.

The Committee reminds shareholders that it is available at all times to present their requests concerns to Schneider Electric management. Shareholders can contact the Committee at a toll-free number in France (0 800 20 55 14) or via the Schneider Electric website: www.schneider-electric.com/Investors'Corner

First-half highlights

United States

Responding to environmental challenges with ISO 14001 certification

The Schneider Electric plant in Monroe, North Carolina has received ISO 14001 certification from Underwriters Laboratory (UL), reflecting a year of work and the continuous commitment of all Schneider Electric employees to protect the environment. At present, 105 Schneider Electric plants have been certified to ISO 14001 standards.

Germany

Hannover Fair

The world's largest industrial trade show, held from April 15 to 20 in Hannover, Germany, attracted more than 250,000 visitors. Of the 6,900 exhibitors, more than 3,000 were from foreign countries, notably Italy, France, Switzerland, China and the UK. Schneider Electric presented its latest innovations in industrial control and automation (see article) and in electrical distribution at the fair.

Tunisia

SIEL trade show

Schneider Electric Tunisia participated in the 8th "Salon International des Industries Electriques et Electroniques" in March 2002.

As the Tunisian market leader,



Schneider Electric wanted to meet with current and potential customers and present its new products for the Residential, Buildings, Industry, Energy and Infrastructures markets.

Schneider Electric Share/CAC 40 Index

On May 15, 2002, the Schneider Electric share was down 22% year-on-year. During the same period, the CAC 40 index lost 19%. September 11 had a considerable impact on the stock market in general, while the European Commission's veto negatively affected Schneider Electric's performance. The veto effect has weakened gradually, leaving a difference of only a few points between the share and the CAC 40 index. Over the past five years, the Schneider Electric share has achieved average annual growth of 8% versus 13% for the CAC 40.

Share data – May 2002

- Shares outstanding: 240,260,029
- Euroclear code: 12197
- Listed on: First Market of the Euronext Paris market (accessible to deferred settlement service)
- Par value: euros 8.00
- Market value: euros 13.2 billion

Investor calendar

April 23, 2002

Q1 2002 sales

May 27, 2002

Annual Shareholders' Meeting
(Carrousel du Louvre, Paris)

May 31, 2002

Dividend payment

July 23, 2002

Interim 2002 sales

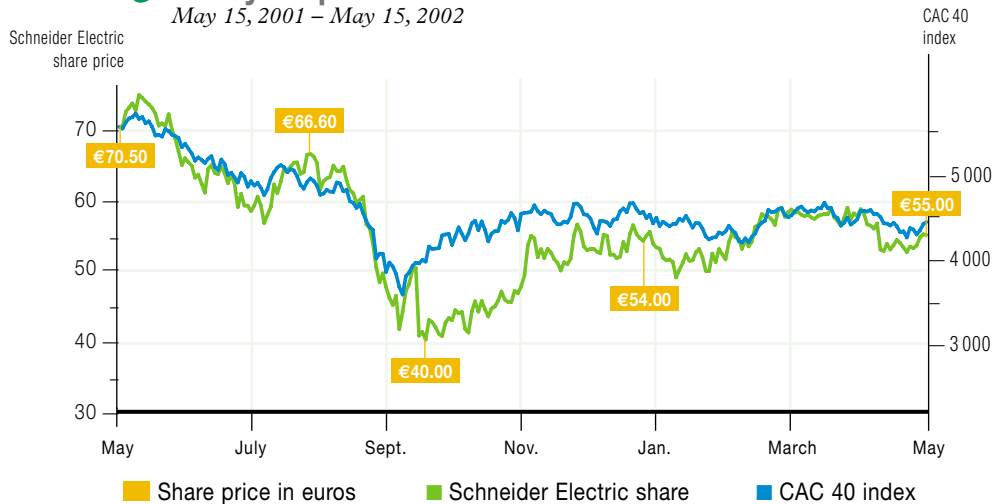
September 5, 2002

Interim 2002 earnings

October 22, 2002

Nine-month 2002 sales

One-year performance May 15, 2001 – May 15, 2002



Five-year performance Dec. 31, 1996 – May 15, 2002



Want to find out more?

www.schneider-electric.com

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Incorporated in France with limited liability and issued capital of €1,922,080,232
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For your information

All of the information published for the Annual Ordinary and Extraordinary Shareholders' Meeting of May 27, 2002, including the presentation to shareholders and the 2001 Annual Report, are available on our website. You'll also find a time-delayed broadcast

of the presentation and the voting results for the resolutions.

To obtain a hard copy of the Annual Report, call the toll-free number in France or contact us on the Investors' Corner section of our website.