

Letter to *Shareholders*



Safe, reliable electricity for our customers



Henri Lachmann
*Chairman and
Chief Executive Officer*

Dear Shareholder,

At Schneider Electric, we do more than just sell electrical products and automation systems. **We also sell energy efficiency, comfort and safety.** Building a new facility is always a major investment, and while a company may be tempted to cut costs, it can't take the risk, for example, of an elevator breakdown that would prevent employees from getting to their offices. Similarly, a carmaker wouldn't want to see production halted because of an unreliable automation system. And you, in your own home, certainly wouldn't want to expose your children or grandchildren to the risk of electrocution.

Uncontrolled, electricity is a hazard, not only for people but also for installations and the environment. **Our business is to ensure energy quality and personal safety.** Since demands vary from one region, country, and market to another, we need to be close to **our customers** and attentive to **their expectations and specific needs.**

The Initi@tive 2005 campaign fair is designed to respond to these demands and strengthen our special relationship with customers around the world by anticipating their needs and presenting not just products, but solutions and services. Our local partners, who are a key component of our strategy, also attend the event.

In this letter, you'll learn more about **Initi@tive 2005.** Journalists, financial analysts and investors were invited to attend the fair in Istanbul, where we spotlighted electricity management and our specific solutions in this area. In the next issue, we'll discuss the technological innovations presented at **Initi@tive 2005.**

I'm confident in our ability to maintain our leadership in innovation. I hope you enjoy reading this issue and wish you a pleasant summer.

First-quarter 2005 sales

Schneider Electric sales in the first three months of 2005 totaled €2,526 million, up a significant 6.7% from the year-earlier period on a current structure and exchange rate basis. At constant scope of consolidation and exchange rates, the increase was a strong 4.8%.

Breakdown by region

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

Europe: 1,310

Up 0.9%

Asia-Pacific: 404

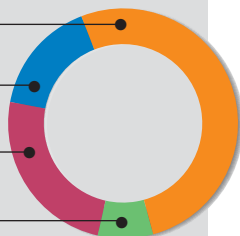
Up 4.9%

North America: 615

Up 7.0%

Rest of the world: 197

Up 28.1%



In North America, favorable market conditions and effective marketing initiatives produced excellent results.

In Western Europe, first-quarter sales were adversely affected by the number of business days, which was significantly lower than the previous year. Performance varied from one country to another.

Emerging economies continued to enjoy sustained growth, with remarkable sales increases in the rest of the world offsetting moderate early-year demand in Asia-Pacific.

Initi@tive 2005

From Sao Paulo to Istanbul of the best of the New Electric World



Under the bright lights of the Andalusian capital, Schneider Electric unveiled the New Electric World's technologies and applications for its key European customers. Held from May 9 to 13, the invitation-only event innovated by allowing visitors to prepare their own itineraries depending on their needs and interests. In testimonials, conferences, exhibits and demonstrations, Initi@tive 2005 showcased the very

best of what Schneider Electric and its partners have to offer.

This included the house of the future, featuring automation devices that make life easier, as well as models of robotic, pumping and lifting devices and the most recent technological innovations like AltiVar 71. These will be presented in our next letter.

Testimonials from customers who worked with Schneider Electric teams to design effective solutions supported the presentations and gave tangible examples in a wide range of industries, from airports and office buildings to machine building and lumber.

Some 4,700 visitors attended the Seville event.

Initi@tive 2005 in Seville, Spain



> **4,700** visitors,
representing 41 nationalities, in 5 days

> **4** demonstration centers

> **3,400 sq.m** of exhibitions

> **580 sq.m** exhibit
of the new electric house

> **49** booths for Schneider Electric's
major brands

> **108** conferences

> **30** booths for Schneider Electric
partners

> **15** conference rooms,
including a 900 sq.m space
for plenary sessions

Initi@tive 2005 around the world



via Seville-customers are getting a glimpse Electric World

Energy management: a burgeoning market

On Thursday, August 14, 2003, in just nine seconds, nearly 50 million people in eight US states and part of Canada were left without power during peak consumption. A rundown transmission grid and inadequate monitoring systems were the probable cause.

Energy management will be a key challenge in the coming years as fuels become depleted, energy costs per kWh rise, power grids deteriorate, processes become more and more complex and environmental concerns take center stage. Users not only want high-quality, reliable energy, available everywhere at any time, but they also want increasingly efficient, cost-effective power solutions.



Protection Center (420 to 675 VA)
The first 3-in-1 product combining a 30-minute UPS, a lightning arrester and multiple outlets

Schneider Electric's dual challenge in this burgeoning market is to **improve energy efficiency and provide high-quality power**. The long-term growth prospects associated with **energy management** and the potential to develop a host of ancillary services make **this market a strategic priority** for Schneider Electric.

Thanks to our **PowerLogic®** range and recent acquisitions of **MGE-UPS** and **Power Measurement Inc.**, we can offer extensive expertise in electrical power management.

Our **PowerLogic®** and **Power Measurement Inc.** solutions enable us to track, monitor, forecast and manage all aspects of energy production and consumption for energy suppliers and users.

Metering systems can help reduce a customer's energy bill by 2% to 4% by indicating where and how power is consumed. Our solutions can also shave 2% to 5% off operating costs by optimizing consumption and generate resource savings of at least 10% by increasing productivity through less downtime.



Comet EX RT (5 to 11 kVA)
The highest availability and most compact (6U) UPS system in the market

With **MGE-UPS**, we supply **high availability solutions** for critical applications. These include protection devices for consumers and professionals, uninterrupted power supplies for PCs and servers, and protection systems for companies. We serve markets that are extremely sensitive to electrical disturbances, with the guarantee of high quality services throughout an installation's lifetime.

Energy performance contract *with Carrefour*

Carrefour and Schneider Electric have signed their first **guaranteed performance** contract to reduce energy consumption in Carrefour Group stores.

This is the first agreement of its type in France. The goal is to reduce the stores' energy consumption by 10% to 15%, which for one hypermarket corresponds to the annual consumption of 150 households. Schneider Electric has guaranteed this target, and in return, Carrefour has committed to making the necessary investments, installing equipment, refurbishing when needed, and supporting the deployment of good practices in its stores. Because of its technical nature, the energy performance project will be tested in 15 hypermarkets in 2005 and then rolled out gradually across the different store formats.

Chilling, for walk-in refrigerators and frozen-food displays, is the main area for improvement, as it represents 40% of a hypermarket's energy consumption. Air conditioning, heating and lighting are also key targets. Aside from generating savings, energy management solutions will create a more pleasant environment for shoppers and staff and maintain a uniform temperature throughout the stores, from the freezers to the check-out counters.

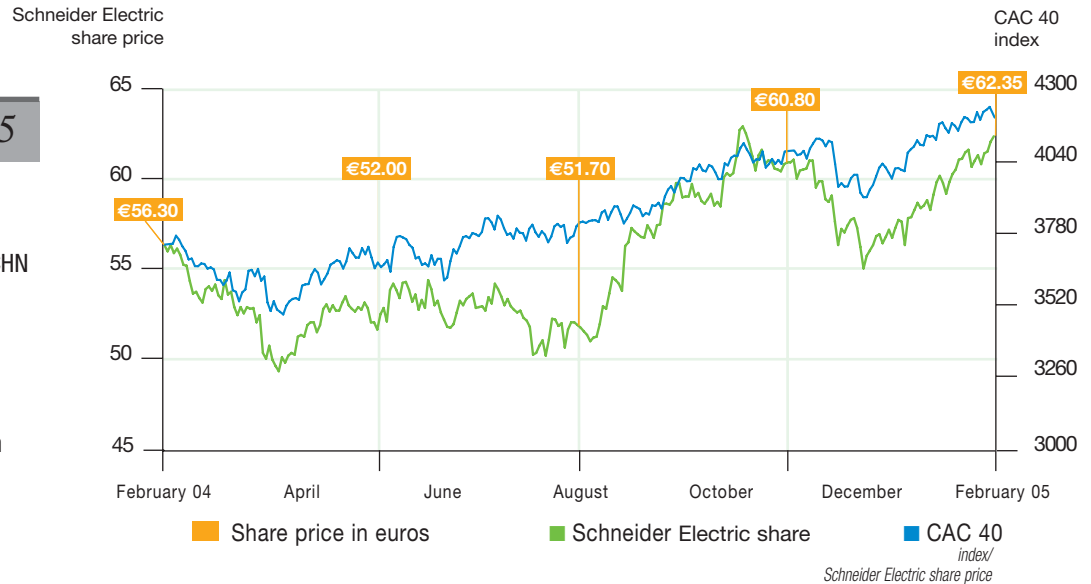
The potential energy savings for the Group's hypermarkets totals 113 GWh, equivalent to more than a quarter of the energy consumption of the city of Paris.



Nathalie Darbellay

Schneider Electric Share/CAC 40 Index

Over one year
June 24, 2004 - June 24, 2005



Share data - June 2005

- Shares outstanding: 226,194,377
- 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: €14.1 billion

Investor calendar

July 29, 2005

Second-quarter 2005 sales
Interim 2005 financial results

October 20, 2005

Third-quarter 2005 sales

V. Neiter, not present on photography



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

New Shareholders' Relations Committee

Following a call for candidates to replace retiring members, Mr. Giroud, Mr. Helie and Mr. Laurent have joined the Committee. They met with their predecessors at the first meeting on May 12. The Company would like to thank Mrs. Saint-Sernin, Mr. Cognat, Mr. Harcaut, Mr. Marx and Mr. Pfeffer for their insightful comments and involvement during their terms.

The main areas of discussion in 2004 and 2005 covered:

- Ways to improve the corporate website, especially the financial section.
- Changes in the content, format and frequency of the Letter to Shareholders.
- Organizational procedures for the Annual Meeting.

At the Annual Meeting of May 12, Mr. Alluaume opened the Q&A session, speaking on behalf of the Committee and shareholders who had phoned in or sent questions via the toll-free number and the corporate website.

Your Annual Shareholders' Meeting of May 12, 2005

No. 24
JUNE 2005



M. Forgeard

The Annual and Extraordinary Shareholders' Meeting, chaired by Chairman and CEO Henri Lachmann, was held on May 12, 2005. Shareholders were invited, in particular, to hear the reports of the Board of Directors and to approve the financial statements for the year ended December 31, 2004. Prior to the meeting, the Board co-opted Noël Forgeard as Director to replace Thierry Breton, who had resigned.

During the Meeting, the Chairman reviewed the year's highlights:

- an excellent operating and financial performance, with sales up 18% and net income up 30%,
- deployment of a new, efficient organization,
- continuation of an aggressive strategy to acquire less cyclical businesses with high growth potential,
- introduction of the new2 company program, with ambitious financial targets for 2005-2008 concerning organic sales growth, operating margin, return on capital employed, payout and gearing.



M. Gallot

Shareholders approved all of the resolutions tabled. In particular, they resolved to:

- approve the financial statements for the year ended December 31, 2004,
- distribute a dividend excluding tax credit of €1.80 per share, up 64% from the year before, to be paid in cash as from May 17, 2005,
- elect Jérôme Gallot and Serge Weinberg as Directors,
- re-elect Henri Lachmann and René de la Serre as Directors,
- set the annual amount of attendance fees paid to members of the Board of Directors,
- authorize the Board of Directors to buy back the Company's shares, increase the capital with or without pre-emptive subscription rights, issue shares to employees who belong to the Corporate Savings Plan and grant shares without consideration to employees.



M. Weinberg

The quorum was met (45.0%) and the resolutions were approved by a majority of between 67.5% and 99.7%.



Giving shareholders the floor

Because of its past, Schneider Electric is seen as a cyclical stock. What measures have been taken to reduce the Company's exposure to economic cycles?

It's true that we have a cyclical image, which isn't entirely justified since **60% of our sales come from newbuilding or capital investment and 40% come from renovation**. To reduce our exposure, we need to expand in the **residential** market, which enjoys steady growth, as well as in our **growth platforms**. These platforms comprise less cyclical activities with high growth potential such as energy management, industrial and building automation and services. We also need to **internationalize our business even more**, to take advantage of the fact that the economic situation varies from continent to continent, and from country to country. Re-balancing our **operations geographically** and **by market** will help reduce our cyclical nature.



I read in the press recently that some of your products were not reliable. What impact has this had on Schneider Electric's reputation?

Around the world, when people buy a Schneider Electric product, they know that they won't have any problems. We continue to leverage this core competitive advantage in the marketplace. To keep up with the changing business environment, we have to become even more demanding with ourselves so we can offer even greater quality. When we have doubts about a product—and that happens when you've got a catalog of 300,000 items—we launch a recall. In the US, for example, we suspected a highly random defect in an electronic component in one of our residential products. Even though the possible defect did not in any way compromise the product's safety, we immediately recalled the units in North America.

We measure quality. The indicators have improved year after year, and we believe it is our duty to continue improving them.

Today, we have more than 1,500 team members trained in Six Sigma methods, which allow us to identify quality problems, solve them, increase our quality and reduce costs. These people are known as quality black belts and green belts.

We will continue to invest and take increasingly systematic action when eventual problems arise.

What are your main challenges and who are your main challengers?

Our main challenges in the medium-to-long term are:

- **Technological innovation**. We are far ahead of the competition, but we need to make another quantum leap. We are involved in a single business. We must maintain our position as the leader and pioneer in what we do. Our products and services, based on technological innovation, will drive our growth.
- **Geographic coverage**. We must absolutely redeploy our entire organization.
- **Growth**. We have two differentiating advantages in relation to our very high quality competitors: **a single business focus and worldwide coverage**. None of our challengers has our global spread, notably in the emerging markets, nor can they respond as quickly as we do because of their size.

These are the challenges we have set for ourselves and started to address. We are working on extremely simple, common sense issues but which represent major challenges at the industrial and business levels. In the first three months of the year, our 80,000 employees have already made these challenges their own, as part of the new² company program.



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