

Financial Information

**2003 Annual Results:
Earnings Per Share up 5%
Record Free Cash Flow of EUR 1 Bn**

- Return to sales growth (1.4% on a constant basis) amplified by stepped-up growth plans
- Operating margin maintained at a high level (11.5% of sales) thanks to continued execution of efficiency plans
- New high-potential growth platforms created by targeted acquisitions strategy
- Favorable outlook for 2004

Rueil Malmaison, February 20, 2004 – Meeting on February 19, 2004 under the Chairmanship of Henri Lachmann, the Board of Directors approved the financial statements for the year ended December 31, 2003.

in EUR millions	2003	2002	% Change
Sales	8,780	9,061	-3%
Gross margin (% of sales)	42.3%	41.5%	+0.8 pt
Operating income	1,007	1,040	-3%
Operating margin (% of sales)	11.5%	11.5%	-
Net income before amortization of goodwill	624	615	+1%
Net income after amortization of goodwill	433	422	+3%
Earnings per share	1.94	1.85	+5%

Commenting on the results, Henri Lachmann, Chairman and Chief Executive Officer, noted: *“This solid performance demonstrates the quality of Schneider Electric’s business model and the effectiveness of the action plans deployed as part of the NEW2004 program. At constant exchange rates, the operating margin widened by 1.5 points to 13%. Thanks to our forefront positions in emerging countries, our aggressive growth strategy and our lowered break-even point, Schneider Electric is particularly well placed to benefit from the worldwide economic recovery and from the high potential of its accessible markets.”*

Free cash flow = Operating cash flow – Net capital expenditure +/- Change in working capital



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I. RETURN TO SALES GROWTH WITH A FASTER RISE IN THE FOURTH QUARTER

Full-year **sales** rose **1.4%** on a constant structural and currency basis to **EUR 8,780 million**. After reaching a low in the first quarter, sales gradually recovered during the year.

A very significant currency effect stemming from the higher euro had a negative impact on sales of EUR 682 million (7.5%). This was partially offset by the contribution of acquisitions, which had a positive impact of 3%. On a current structural and currency basis, sales therefore declined by 3.1% over the full year.

Schneider Electric's products and services continued to enjoy very strong demand in emerging countries, with constant sales up 11.6% in the International division. In other regions, the Company's growth plans should allow it to benefit from the gradual recovery in its markets.

II. SIGNIFICANT IMPROVEMENT IN OPERATING MARGIN IN THE SECOND HALF

Rigorous execution of the productivity plans deployed as part of the NEW2004 program kept Schneider Electric in line with its gross margin growth target despite the currency effect.

The **gross margin widened by nearly 1 point** in 2003 to **42.3%** from 41.5% in 2002. Excluding the currency effect, the gross margin exceeded the 2003 target at 42.9%.

Thanks to improved Purchasing productivity and stepped-up application of the Lean Manufacturing plan, Schneider Electric recorded gross productivity gains of EUR 195 million in 2003. Taking into account higher payroll costs, primarily related to an increase in pension costs and fringe benefits in North America, net productivity gains totaled EUR 131 million.

These gains partially offset the negative EUR 223 million currency effect, which had a negative 1.5 point impact on the operating margin.

Operating income totaled **EUR 1,007 million**, for an **operating margin of 11.5%**, on a par with 2002. Despite the currency effect, the operating margin improved significantly in the second half of 2003 to 12.5%, from 10.4% in the first half 2003 and 12.2% in the second half of 2002.

In North America, cost-cutting plans boosted the operating margin by around 3 points to 10.9%. In the International Division, the operating margin (11.4%) was impacted by the currency effect (around 5 points), while in Europe it held stable at 11.8%.

There was no noticeable change in operating margin by business, excluding changes in perimeter (12.3% in Electrical Distribution and 9.6% in Automation & Control).



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III. STEPPED-UP GROWTH AND EFFICIENCY PLANS

Schneider Electric stepped up its Growth and Efficiency plans during the year to adapt continuously to changes in its markets and foster profitable growth.

Europe

- Continued commercial deployment in the Residential Market with dedicated lineups and implementation of a development plan for the Industry Market
- Integration in the offering of building automation products and services in France, Italy and Eastern Europe following the acquisition of T.A.C. in September 2003
- Accelerated measures to optimize manufacturing base in the UK, Ireland and Germany and to adjust support functions to business levels in France and Italy

North America

- Specific plan for the Industry Market and actions to support distributors and develop partnerships with systems integrators
- Sustained plans to optimize manufacturing base and transfer production to Mexico
- Continued rationalization of sales and marketing and administrative functions

International

- Geographic expansion in Vietnam, Korea, China and India and plan to conquest the intermediate market
- Targeted development in the Industry Market with our automation and speed drive ranges, and human-machine interface solutions from Digital Electronics (acquired in December 2002)
- Growth in the Residential Market with the December 2003 acquisition of Clipsal, the leader in British Standard wiring devices, which enjoys very strong positions in Asia.
- Continued efforts to deploy resources in regions with high growth potential (production facilities in China and R&D center in India)

IV. RECORD FREE CASH FLOW AND INCREASE IN EARNINGS PER SHARE

Cash Flow

At **EUR 942 million**, or **10.7%** of sales, **operating cash flow** generated by the Group was again high in 2003.

Thanks to sustained control over capital expenditure and a noticeable decrease in non-operating working capital, **free cash flow** rose sharply to a record **EUR 989 million** in 2003, or **11.7%** of sales for this year.



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Net Income

Net income after amortization of goodwill rose **3%** to **EUR 433 million** in 2003, reflecting lower interest expense as the Company paid down debt and the recognition of an additional deferred tax asset for tax loss carryforwards related to the sale of Legrand.

Earnings per share increased **4%** to **EUR 2.79** before amortization of goodwill and **5%** to **EUR 1.94** after amortization of goodwill.

V. PROPOSED DIVIDEND FOR 2003 AND SHARE BUYBACK PROGRAM IN 2004

The Board of Directors, confident in Schneider Electric outlook, decided to propose to the General Shareholders' Meeting, held on May 6, 2004, the distribution of a dividend of **EUR 1.10** before tax credit. This represents **an increase of 10%** from 2002. The dividend will be paid in cash as from May 10, 2004.

The Board of Directors approved the implementation of a share buyback program in 2004 within the limit of **5% of the capital**.

VI. MEMBERSHIP OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

Board of Directors

The Board of Directors will ask shareholders to elect two new Directors at the Annual General Meeting:

- Caisse des Dépôts et Consignations, represented by Jérôme Gallot. Since Caisse des Dépôts et Consignations holds 4.3% of Schneider Electric's outstanding shares and 5.2% of the voting rights, it will be considered an independent non-executive Director as defined in the Bouton report on corporate governance.
- Chris Richardson, former Executive Vice-President of Schneider Electric North America. Mr. Richardson will replace James Hardymon, who does not wish to be re-elected when his term expires at the Annual General Meeting on May 6, 2004.

The Board of Directors will also ask shareholders to re-elect Alain Burq as Director representing employee shareholders, and to re-elect Daniel Bouton, Thierry Breton, Willy Kissling and Piero Sierra as Directors.

Remunerations and Appointments Committee

The Board of Directors has appointed Willy Kissling to the Remunerations and Appointments committee to replace James Hardymon. Mr. Kissling is an independent non-executive Director.



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VII. Outlook for 2004

Schneider Electric is pursuing an aggressive growth strategy that involves:

- Expanding geographically and investing in high-growth countries such as China, Eastern European countries, India and Brazil,
- Maintaining powerful innovation capabilities with an R&D investment representing 5.6% of sales,
- Extending and differentiating the lineup to optimize the business portfolio,
- Developing positions in the Residential Market as strong as in the Building Market with dedicated lineups.

To expand its accessible markets, the Company is focusing on developing in strategically-related activities with high potential. These new growth platforms include building control and automation, secured power, energy management systems and specific segments such as components for repetitive applications.

Acquisitions since the end of 2002 (Digital Electronics, T.A.C, Clipsal and MGE UPS Systems) will add sales of EUR 1.3 billion over a full year, with current average profitability of 11%. Schneider Electric intends to pursue a rigorous strategy of targeted acquisitions in 2004.

This acquisitions drive is governed by strict selection criteria concerning the sector's attractiveness, strategic fit with Schneider Electric's business, the target's quality and ability to create value. In addition, return on capital employed should cover the cost of capital within a maximum of three years.

For 2004, in light of current market conditions and assuming an exchange rate of USD 1.25 for EUR 1, Schneider Electric aims at:

- **Sales** growth of **8% to 10%** on a current basis,
- A **more than one-point** increase in **operating margin**.

First quarter 2004 sales will be released on April 20, 2004.

Schneider Electric: Giving the best of the New Electric World to everyone, everywhere, at any time

Schneider Electric is the world's power and control specialist. Through its world-class brands, Merlin Gerin, Square D and Telemecanique, Schneider Electric anticipates and satisfies its customers' requirements in the residential, buildings, industry, energy and infrastructure markets. With 74,300 employees, Schneider Electric generated sales of EUR 8.8 billion in 2003 through 13,000 sales outlets in 130 countries.



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