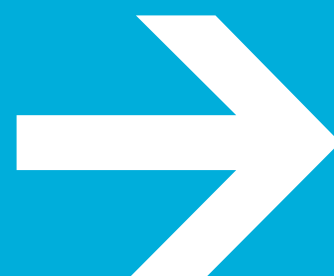


Schneider Electric SA

# 2006 annual report



Registration document



Merlin Gerin  
Square D  
Telemecanique

**Schneider**  
 **Electric**  
*Building a New Electric World*



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# Profile

**The world leader** in electricity and automation management, Schneider Electric harnesses electricity to support customer performance and enhance quality of life. Thanks to a unique portfolio of products and services, Schneider Electric offers integrated, intelligent and networked solutions that allow customers to use electricity in complete safety, put automation everywhere, improve energy efficiency, ensure a high quality power supply and manage building utilities and communication networks. By leveraging the deep commitment of its 105,000 team members in 106 countries, Schneider Electric gives the best of the New Electric World to everyone, everywhere, at any time.

- The Company's shares are traded on Eurolist by Euronext™ Paris.
- A signatory of the United Nations' Global Compact, Schneider Electric has made sustainable development an integral part of its strategy.

---

**€13.7 billion**  
revenue  
from 190 countries

**€1.3 billion**  
net profit

**14.6%**  
operating margin

---

**105,000**  
employees  
in 106 countries

Close to **5%**  
consolidated revenue  
invested in R&D

**205**  
plants worldwide to  
serve customers locally



# Interview with Jean-Pascal Tricoire

Chairman of the Management Board  
and Chief Executive Officer



***The Company turned in a record-breaking performance in 2006, with net profit exceeding €1 billion for the first time ever. Was this a historic year for Schneider Electric?***

Yes, Schneider Electric beat all past records with organic revenue growth of 10.7%. Backed by a favorable environment, we advanced in all our markets and all our businesses at a much faster pace than the world economy, gaining market share along the way.

Operating margin widened again, by one point to 14.6%. Despite higher raw material prices and the strong euro's negative impact on our costs, operating profit has doubled since 2003 to €2 billion.

These results demonstrate the dynamics of our business and our efficient business model. Two years into our new<sup>2</sup> company program, we are already ahead of the target.

***What's fueled this acceleration?***

To start, a growing number of customers are turning to us to meet their needs for comfort, productivity, safety and energy efficiency. Second, we have exceptionally energetic teams, who are making growth happen. Third, we've expanded our lineup of products and services and developed new businesses that allow us to offer even more comprehensive solutions.

We are one of the only companies in the world with such a broad and deep portfolio of integrated solutions and a tight focus on electricity. What's more, we benefit from truly global geographic coverage. We sell our solutions in 190 countries, including in emerging markets where we are constantly strengthening our presence.

Lastly, innovation is a major growth driver at Schneider Electric. Each year, we devote close to 5% of total revenue to R&D. In the past year, sales of products from our 40 major innovation programs increased by more than 50%.

***What are you doing to become more efficient?***

We've made quality and customer satisfaction our number one priority, and we're developing ambitious, innovative programs to meet this priority. At the same time, we're engaged on four paths to greater efficiency. First, we're moving closer to our customers by rebalancing our manufacturing and supply chain base, so that we can be more competitive and provide quality service.

Second, we're simplifying our organization to be more nimble and proactive. Third, we're rationalizing our supply chain. And fourth, we're stepping up our industrial productivity programs. In all, we achieved productivity gains of more than €300 million in both 2005 and 2006. This is considerable—and indispensable given the heavy impact of higher raw material costs.

***How are you supporting your fast pace of growth on the human resources front?***

We spend a great deal of time thinking about the competencies we'll be needing in the future. We've hired a large number of people and increased the resources we invest in training to adapt to changes in technology, our geographic presence and our businesses.

We're also investing in the commitment of our 105,000 team members in 106 countries. Their involvement is what makes the difference. To strengthen this competitive advantage, we're giving them a better understanding of our environment and challenges, bringing them into closer contact with management and developing our profit sharing programs.

Lastly, we're cultivating and enhancing diversity in preparation for our very fast expansion into a growing number of regions and activities. That said, we still have a long way to go to bring in more women throughout the Company, and particularly at the executive management level. I am personally involved in these efforts.

***Schneider Electric has a long-standing tradition of corporate responsibility. What progress have you made in this area?***

We've made good progress on eight of the ten objectives set out in our Planet & Society Barometer. First of all, I'm proud that we significantly improved occupational health and safety in 2006.

We have set ambitious sustainable development targets. Virtually all of our manufacturing and logistics sites are certified ISO 14001, and our products comply with the RoHS Directive. We're also satisfied with the results of our own program to save energy at our production sites—it gives a good example of what we can do for customers in this area. We're also as involved as ever in programs to train young people and help them in the workforce. Lastly, we lend support to people in disaster-stricken areas, in cooperation with our deeply engaged local teams. In 2006, less than two years after the tsunami, more than 800 Indonesian and 600 Thai schoolchildren went back to school in four of the twelve establishments that we helped build and equip.

***Let's go back to your businesses. How is demand changing? Do you think it will stay this strong in the future?***

We're at the center of the markets of the future. We serve fundamentally buoyant markets with long-term promise. The world has huge electrification needs, whether for renovating grids in mature countries or developing them in emerging countries. At the same time, automation is showing up everywhere—in plants, offices, homes and even cars.

Demand for energy savings is booming as fossil fuel prices soar and people the world over take welcome notice of the need to eliminate polluting emissions caused by excessive consumption.

Lastly, demand for ultra-pure and ultra-secure power is growing. The quality of electric power has become an absolutely critical factor in numerous high-growth industries, including electronics, information technology, Internet services and healthcare, just as blackouts are becoming a more frequent occurrence. Schneider Electric has the solutions to keep these applications up and running even when the grid goes down.

***How do the Company's acquisitions fit into this picture?***

They allow us to offer much more comprehensive solutions by adding new activities to our lineup. We can now deliver integrated solutions to save energy, automate buildings and infrastructure and provide uninterrupted power for critical systems. Through these acquisitions, we're also participating in the consolidation of an industry that is still quite fragmented at the global level. We're able to do this because of the financing power generated by our carefully managed existing operations.



A growing number of customers are turning to us to meet their needs for comfort, productivity, safety and energy efficiency.

Jean-Pascal Tricoire





We have fantastic growth potential and a unique business model that offers both great resilience and high performance.

Jean-Pascal Tricoire



***APC is by far the largest acquisition of the past few years. What is its status?***

APC is now part of Schneider Electric. It is the global leader in integrated critical power and cooling systems, with 2006 revenue of close to \$2.4 billion—a 20% increase from 2005. This transaction gives Schneider Electric world leadership in one of the fastest growing areas of electrical distribution. The acquisition was finalized on February 14, 2007. We've created a critical power and cooling services business unit that combines APC's resources with those of Schneider Electric subsidiary MGE UPS Systems. Their people have been brought together under a single management team.

We confirm our synergy target of \$220 million. If we meet this target—and we fully intend to do so—the value created will total \$3.3 billion or €11.4 per Schneider Electric share.

***You're now half-way through new<sup>2</sup>, the company program for 2005-2008. How do things look for the second half?***

Things look very good. Our business backlog and very solid outlook have led us to revise our 2008 targets upwards.

We're now aiming for organic growth of more than 6% instead of 5%, which is twice the global economic growth estimate of 3%. And we're raising our EBITA\* margin forecast to 13%-15% from 12.5%-14.5%. This includes APC, which for the moment has a much lower margin than Schneider Electric. We also think we can repeat our performance of the past two years and improve return on capital employed (ROCE)\*\* by another two points from a base that includes the APC acquisition.

We have fantastic growth potential and a unique business model that offers both great resilience and high performance. Our strengths are clear, and we are determined to develop them to generate wealth for all of our stakeholders.

We're also investing in the commitment of our 105,000 team members in 106 countries. Their involvement is what makes the difference.

*\*EBITA: operating profit before amortization of purchase accounting intangibles.*

*\*\*ROCE: After-tax operating profit before amortization of purchase accounting intangibles/Capital employed = Shareholders' equity + Net debt + Provisions.*



# Three questions for Henri Lachmann

Chairman of the Supervisory Board

*In May 2006, Schneider Electric moved to a new governance system with a Management Board and a Supervisory Board of which you are Chairman. Are you satisfied with this organization?*

We started organizing my succession with the Board of Directors quite some time ago, and we wanted to separate the oversight functions from responsibility for operation and execution. This separation is a guarantee of transparency and discipline.

The corporate governance system rolled out in the spring of 2006 after three years of preparation is working remarkably well and fully deserves our shareholders' confidence and support.

The Supervisory Board comprises nine independent members, of whom five are from industry and services and four from finance and insurance. In all, five different nationalities are represented. The members bring a remarkable set of competencies to the Board. They are all very involved in its operations and work very effectively as a team.

The Management Board and its broadly international Executive Committee are young, yet seasoned, with high ambitions for the Company and very complementary strengths. They have generated new energy, a new dynamic and efficiency that is very promising for the years ahead.



The Supervisory Board is extremely active and vigilant. Its members bring a remarkable set of competencies to the Board and are all very involved in its operations.

Henri Lachmann



*What role does the Supervisory Board play in major acquisitions such as APC?*

Over the past two years, Schneider Electric has acquired some twenty companies for a total €2.3 billion. The Supervisory Board, and the Board of Directors before it, has been extremely active and vigilant during all these transactions.

First of all, the Supervisory Board must approve all acquisitions, partnerships or joint ventures worth more than €250 million. What's more, we have very strict methodologies and rules for selecting and analyzing potential targets, as well as for return on investment and value creation. The Supervisory Board pays close attention to ensure that each acquisition is integrated smoothly and carefully tracks the business plan approved at the time of acquisition.

We were twice as attentive for a structuring acquisition as large and important as APC, as the Management Board can attest. During three specific meetings, we conducted an in-depth review of all the aspects of this transaction and unanimously agreed on its advantages, price and terms. As part of Schneider Electric, APC will benefit from synergistic know-how, broader market access, our customer presence and economies of scale. This should rapidly translate into improved margins. UPS systems are an integral part of electrical distribution and the addition of APC will energize this business.

*So you think Schneider Electric is an attractive investment?*

I certainly do. Schneider Electric has offered its shareholders a total return of 24% a year on average over the past three years, based on the December 31, 2006 share price.

In 2006, the Schneider Electric share rose by 12%. We are confident in our ability to keep delivering a very attractive return on our shareholders' investment.

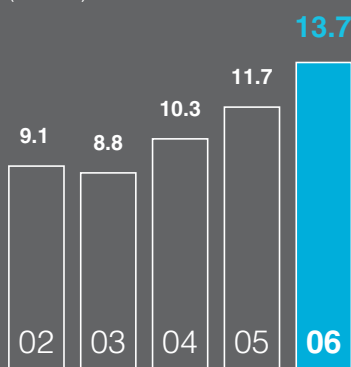
# Key Figures

## Record performance in 2006

2004-2006: IFRS  
2002-2003: French GAAP

### Consolidated revenue

(€ billion)



**up 17.6%**

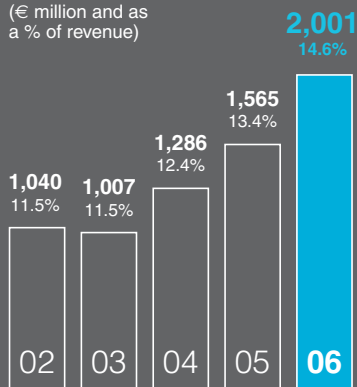
After two years of strong expansion, organic growth reached a record 10.7%. This performance reflects, in particular, the Group's growing presence in high-growth emerging countries and investments in promising new activities such as services and energy management. The year's acquisitions added 6.9%, while the currency effect had virtually no impact.

**€13.7**

billion in consolidated revenue

### Operating profit

(€ million and as a % of revenue)



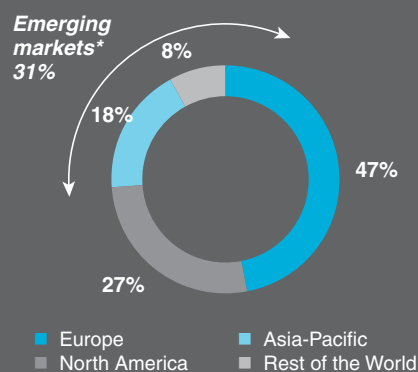
**up 27.8%**

Operating profit rose sharply again in 2006, growing 21% on a constant structure and exchange rate basis. This performance reflects a strong volume effect, the Group's ability to raise prices, productivity gains and good base cost management. Operating margin widened by 1.2 points from the previous year to a record 14.6%. All regions and operations showed a significant increase in operating profit.

**€2,001**

million in operating profit

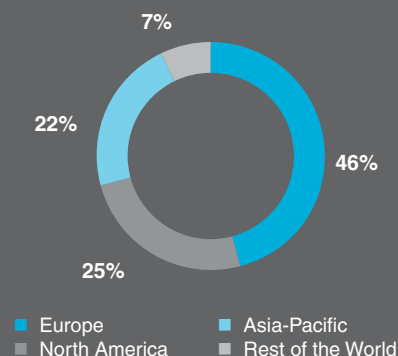
### 2006 consolidated revenue by region



\*Asia-Pacific, Rest of the World, Eastern Europe.

### Workforce by region

**105,000 employees**



Legend: Europe, Asia-Pacific, North America, Rest of the World

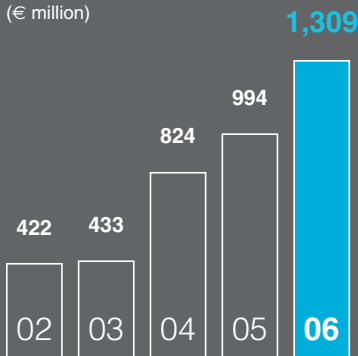


## 2006: a historic year for Schneider Electric

In 2006, Schneider Electric actively pursued its strategy to increase its growth potential. Thanks to action plans deployed as part of the new<sup>2</sup> company program, the Group energetically repositioned itself towards emerging markets and in new activities, with a focus on technological innovation. This new dynamic resulted in strong revenue growth, which, combined with stepped-up efficiency plans, led through to significantly higher profits and an attractive return on investment for shareholders.

### Profit attributable to equity holders of the parent

(€ million)

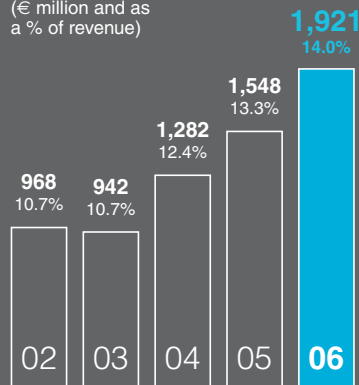


**up 32%**

Profit attributable to equity holders of the parent increased by a strong 32%, reflecting good interest expense management during a sharp increase in net debt and a 0.6-point decrease in the effective tax rate to 28.5% from 29.1%. Earnings per share rose 31%, in tandem with attributable profit, to €5.95.

### Operating cash flow

(€ million and as a % of revenue)

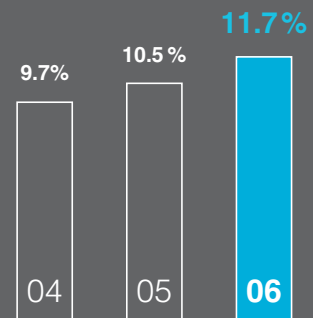


**up 24%**

Operating cash flow totaled €1,921 million and represented 14.0% of revenue. After changes in working capital and net investment, free cash flow rose 30% to €1,107 million.

### Return on capital employed

(in %)



**up 1.2 pt**

Return on capital employed increased by 1.2 points to 11.7% thanks to tight control over capital employed, which rose by only 15% during a period of strong business and earnings growth.

**€1,309**

million in net profit attributable to equity holders of the parent

**€1,921**

million in operating cash flow

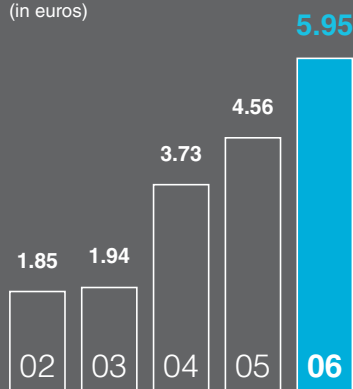
**€1,107**

million in free cash flow

# Key Figures (continued)

## Earnings per share

(in euros)

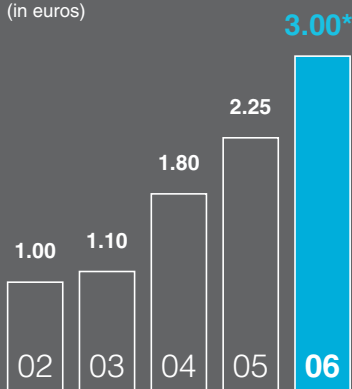


# €5.95

in earnings per share  
up 31%

## Dividend per share

(in euros)



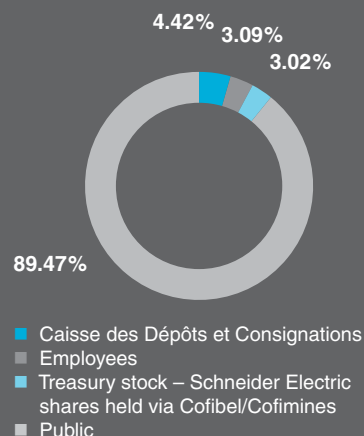
# €3.00\*

dividend  
up 33%

*\* Recommended for shareholder approval at the Annual Meeting of April 26, 2007. The dividend will be paid as from May 2, 2007.*

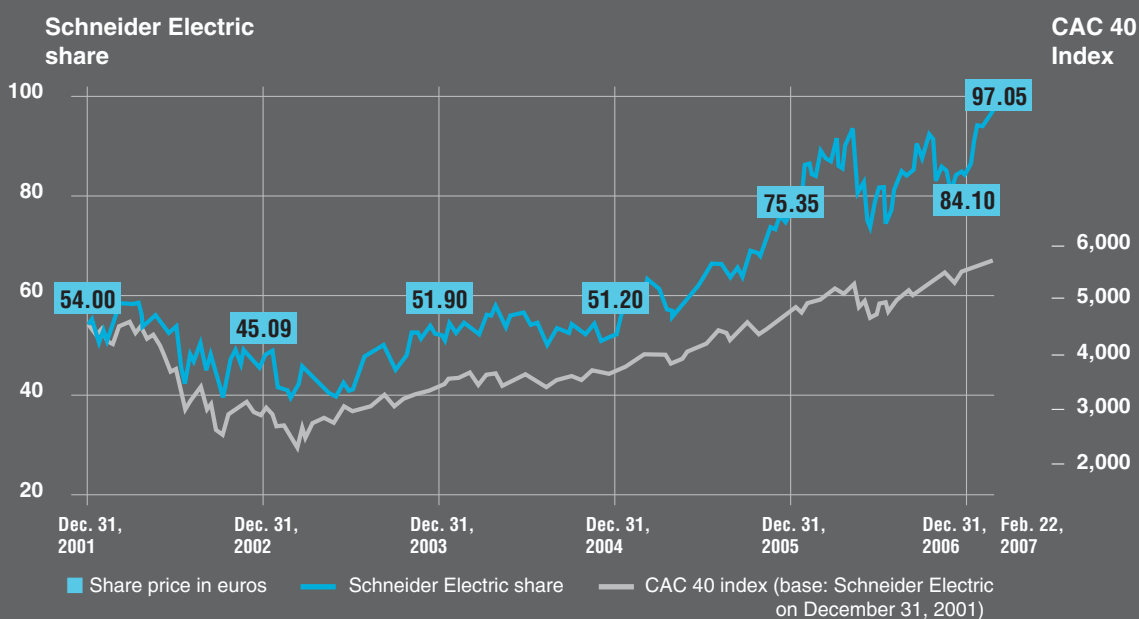
## Ownership structure

at December 31, 2006



## The Schneider Electric SA share vs. the CAC 40 index over 5 years

(Thomson Financial data)



# 2006 In Brief



Schneider Electric has set up a Supervisory Board, chaired by Henri Lachmann, and a Management Board, chaired by Jean-Pascal Tricoire, to clearly separate the Company's management and oversight functions. In 2006, the three strategic priorities of Growth, Efficiency and People were given tangible meaning through numerous initiatives and projects.

## Growth

### Electrical distribution: new developments in China

- Medium voltage: announcement of a 70%-30% joint venture called SSBEA to produce vacuum circuit breakers and launch of a 40% interest in SBVE, a vacuum switch manufacturer.
- Low voltage: announcement of a 50-50 joint venture with Delixi Group called Delixi Electric to market a specific range of low voltage products in China through a dedicated network.

### Installation systems and control: stepped-up growth with five acquisitions

- Clipsal Asia.
- OVA Bargellini (Italy).
- AEM SA (Spain).
- Merten (Germany).
- GET Group plc (United Kingdom).

### Building automation: enhanced presence in North America and Asia

Acquisition of Invensys Building Systems (IBS).

### Automation & Control: two acquisitions

- Citect, an Australian manufacturer of Supervision Control and Data Acquisition (SCADA) solutions and Manufacturing Execution Systems (MES).
- Va Tech Elin EBG Elektronik, an Austrian company that develops and manufactures high-power speed drive products and solutions.

### A major move in critical power

Friendly offer to purchase all outstanding shares of American Power Conversion (APC), the global market leader. The offer was finalized on February 14, 2007.

### Award

2006 Award for Competitive Strategy Leadership from Frost & Sullivan, a global growth consulting company.

## Efficiency

### New customer-focused organization

- 8 Business Units.
- 4 Central Functions, including a new Strategy, Customers & Technology function.
- 4 Operating Divisions.

### Strengthened innovation resources

- New Innovation Department.
- Inauguration of Electropole in France, the leading global design and development center for power protection and control.
- Launch of the HOMES project, supported by France's Industrial Innovation Agency (All), with the goal of reducing energy use in building by 20%.

### 90.6% of manufacturing and logistics sites certified ISO 14001

18 new certifications in 2006.

## People

### An expanded mission for Schneider Electric University

Training on customer focus, innovation and entrepreneurial spirit offered by new expertise institutes.

### Workplace health and safety

A health policy deployed across the entire Group.

### Support for 205 associations in 69 countries

The 2006 Luli international fund-raising drive brought in €1.4 million for association-backed projects in the areas of education and training.

# New governance structure

The new corporate governance system is well-suited to the challenges facing Schneider Electric today. Comprising a Supervisory Board and a Management Board, supported by an Executive Committee, this system offers an efficient and synergistic division of oversight and management responsibilities.

## Supervisory Board

as of February 20, 2007

**Henri Lachmann**  
68, French  
Chairman of  
the Supervisory Board

**Serge Weinberg\***  
56, French  
Vice Chairman, Chairman  
of the Supervisory Board  
of Accor

**Alain Burq**  
53, French  
Member of  
the Supervisory Board of  
the "Schneider Actionnariat"  
corporate mutual fund

**Noël Forgeard\***  
60, French  
Corporate Director

**Jérôme Gallot\***  
47, French  
Chairman of CDC Entreprises

**Willy. R. Kissling\***  
62, Swiss  
Corporate Director

**Cathy Kopp\***  
59, French  
Human Resources  
General Manager, Accor

**René Barbier de La Serre\***  
66, French  
Corporate Director

**Gérard de La Martinière\***  
63, French  
Chairman of Fédération  
Française des Sociétés  
d'Assurances (F.F.S.A)

**Chris Richardson**  
62, American  
Former Executive  
Vice President of  
Schneider Electric's North  
American Division

**James Ross\***  
68, British  
Chairman of the Leadership  
Foundation for Higher  
Education, Corporate Director

**Piero Sierra\***  
72, Italian  
Special Advisor for  
the administration of Pirelli's  
international companies

*\*Independent director, as defined  
in the Bouton report on corporate  
governance.*

### Non-voting Director

**Claude Bébéar**  
Chairman of the  
Supervisory Board of AXA

### Board Secretary

**Philippe Bougon**



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## Audit Committee

**G rard de la Martini re\***, Chairman

**James Ross\***

**Piero Sierra\***

**Serge Weinberg\***

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## Remunerations and Appointments & Corporate Governance Committee

**Henri Lachmann**, Chairman

**Claude B b ar**

**Willy Kissling\***

**Ren  Barbier de La Serre\***

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## Auditors

Statutory Auditors

**Ernst & Young et Autres**

**Mazars & Gu rard**

Substitute Auditors

**Charles Vincensini**

**Philippe Diu**

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## Management Board

as of February 20, 2007

**Jean-Pascal Tricoire**, Chairman of the Management Board and CEO

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

## Executive Committee

as of February 20, 2007

**01 Jean-Pascal Tricoire**  
Chairman of the Management  
Board and Chief Executive Officer

**02 Eric Rondolat**  
Executive Vice President  
Power Business Unit

**03 Laurent Vernerey**  
Executive Vice President  
Critical Power & Cooling Services  
Business Unit

**04 Claude Graff**  
Executive Vice President  
Renewable Energies Business Unit

**05 Dave Petratis**  
Executive Vice President  
North American Operating Division

**06 Jean-Fran ois Pilliard**  
Executive Vice President  
Human Resources and Managerial  
Communication

**07 Hal Grant**  
Executive Vice President  
Globalization & Industry

**08 Michel Crochon**  
Executive Vice President  
Automation Business Unit

**09 Arne Frank**  
Executive Vice President  
Building Automation Business Unit

**10 Russell Stocker**  
Executive Vice President  
Asia-Pacific Operating Division

**11 Pierre Bouchut**  
Member of the Management Board  
Chief Financial Officer

**12 Christian Wiest**  
Executive Vice President  
European Operating Division

**13 Julio Rodriguez**  
Executive Vice President  
International & Iberian Operating  
Division

**14 Eric Pilaud**  
Executive Vice President  
Strategy, Customers & Technology,  
Executive Vice President Services  
and Projects Business Unit









# Description of the company and its businesses

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## 1. From steel to electricity: 170 years of history

Schneider Electric's history is a rich tapestry woven from the achievements of Schneider, Merlin Gerin and Telemecanique in France, Square D in the United States, and many other companies that have joined the Group around the world. All are fully devoted to controlling and optimizing electricity and automation management to build the new electric world. Each strengthens the Group with its market positions and know-how, as well as with its people's skills and diversity. Openness and diversity are at the center of the Schneider Electric model as the Group works to develop and promote high-quality multicultural teams around the world.

### 1836 – 1980: the gradual creation of a conglomerate

■ In 1836, Adolphe and Joseph-Eugène Schneider acquired steel foundries in Le Creusot, France. They founded Schneider & Cie in 1838. From that point until the mid-twentieth century, the Company steadily built a presence in heavy mechanical engineering and transportation equipment, gradually becoming a huge, highly diversified conglomerate.

■ Merlin Gerin, a leading French manufacturer of electrical distribution equipment, joined the Group in 1975, strengthening a position in electricity that had been established at the end of the 19th century.

### 1981 – 2001: refocusing and building on electricity

■ In 1988, Schneider Electric acquired France's Telemecanique, a pioneer in remote control systems for electric motors.

■ In 1991, the Group made a major acquisition in the United States, bringing in Square D, the US electrical equipment market leader with sales of \$1.65 billion.

■ At the same time, the Group accelerated its international expansion. It set up operations in China in 1987. The country, with 17 production units, now ranks third in terms of revenue generation, contributing some €800 million in 2006.

■ Schneider Electric completed its refocusing on electricity in 1997 with the sale of building and public works company Spie Batignolles.

■ In 1998, the Group created the Schneider Electric Youth Opportunities Foundation to promote its values of involvement and solidarity. The Group's employees work in close partnership with the Foundation around the world.

## Description of the company and its businesses

■ In 1999, the Group acquired Lixel, Europe's second largest supplier of installation systems and control. This was followed in 2000 with the acquisitions of Crouzet Automatismes, a French leader in electronic control, small automation devices and custom sensors, and Positec, a European leader in motion control.

■ In 2000, Schneider Electric created a 60-40 joint venture with Toshiba called Schneider Toshiba Inverter (STI) to develop, manufacture and market both partners' industrial speed drives. STI now leads the global industrial speed drive market. That same year, the Group launched the Schneider Electric Ventures fund with a capital of €50 million to acquire interests in innovative start-ups with technologies that can enhance the lineup.

■ In 2001 Schneider Electric deployed its first three-year company program, NEW2004. The Group acquired installation systems and control leader Legrand, but the European Commission vetoed the merger. As a result, Schneider Electric had to sell its interest in Legrand even though the Court of First Instance of the European Communities overruled the Commission's decisions on October 22, 2002.

### 2002-2006: an assertive strategy of global growth through targeted acquisitions

Since 2002, Schneider Electric has pursued an assertive strategy of organic growth and acquisitions to enhance its geographic coverage, strengthen its core business, broaden its lineup through the addition of synergistic activities and expand its potential accessible markets.

The Group has also confirmed its commitment to corporate social responsibility by creating a Sustainable Development Department in 2002 and setting up a quarterly Planet & Society Barometer in 2005 to track and report on its performance in this area.

This strategy has produced significant advances in the Group's core businesses.

### Electrical Distribution

#### Installation systems and control

Schneider Electric now ranks second worldwide in installation systems and control thanks to the acquisitions of Clipsal, the Asia-Pacific market leader, in 2003; Juno Lighting, America's leading manufacturer of trac and recessed lighting, in 2005; and Clipsal Asia, Merten (Germany), OVA Bargellini (Italy), AEM SA (Spain) and GET (UK), in 2006.

#### Energy efficiency

In 2005, Schneider Electric acquired Canada's Power Measurement Inc., a leader in metering systems, software and services for managing energy supply and consumption.

#### Critical power and cooling services

In 2004, Schneider Electric became the European leader in critical power with the acquisition of MGE UPS Systems in France. In October 2006, it made a friendly offer to purchase all outstanding shares of American Power Conversion (APC), the global market

leader. The transaction, which was approved by competition authorities and by APC's shareholders, was finalized on February 14, 2007.

### Automation & Control

#### Automation and industrial control

Schneider Electric gained world leadership positions in human-machine interface (HMI) with the 2002 acquisition of Digital Electronics Corporation in Japan, and in automation solutions for packaging machines with the 2005 acquisition of Elau AG in Germany.

In 2006, it expanded its lineup of high power speed drives with the acquisition of Austria's VA TECH ELIN EBG Elektronik. The Group also broadened its industrial automation portfolio with the acquisition of Citect, an Australian manufacturer of Supervision Control and Data Acquisition (SCADA) solutions and Manufacturing Execution Systems (MES).

#### Custom sensors

The Group offers the most comprehensive lineup of custom sensors in the market after bringing in Hyde Park Electronics, the North American leader in ultrasonic sensors, in 2003; Kavlico and Dinel, manufacturers of sensing and optoelectronics devices, in 2004; and US-based BEI Technologies, in 2005.

#### Building automation

The Group is a major player in this market. In 2003, it acquired Sweden's TAC, which was joined in 2004 by Tour Andover Control and Abacus Engineered Systems in the US. ABS (Advanced Buildings Systems) EMEA, which operates in Europe and the Middle East, came on board in 2005, followed by IBS (US and Asia) in 2006.

## 2. An ambitious strategy of profitable growth

Demand for electricity is expected to double between now and 2030, according to the International Energy Agency. At the same time, automation is expanding everywhere and in all areas, from cars to industrial and commercial buildings to homes. Meeting this very strong demand, supporting business performance while saving energy, helping enhance the quality of life in developed nations and emerging markets and managing the environmental impact of growth are the major challenges here—as well as major opportunities for Schneider Electric.

As the world leader in electrical distribution and automation and control, Schneider Electric intends to harness customer satisfaction to drive growth and profitability. In doing this, it will help customers use electricity safely, make installations more energy efficient, ensure a secure power supply for critical applications, manage indoor environment and communication networks in buildings, consume less and more effectively and facilitate the development of renewable energies.

This ambitious strategy of profitable growth is driven by three key priorities.

## Accelerate growth

- Schneider Electric is investing heavily in innovation and technology, with nearly 5% of revenue devoted to R&D. At the same time, it is internationalizing its R&D resources and moving them closer to customers to innovate faster and more effectively.
- The Group has accelerated its expansion in the fastest-growing regions. Between 2001 and 2006, the percentage of consolidated revenue generated in emerging markets rose from 18% to 31%.
- Schneider Electric is developing activities that complement its core businesses through both organic growth and acquisitions. These high-potential activities target the most promising market segments, including installation systems and control, critical power and energy management systems, and automation everywhere. Less exposed to capital spending cycles, they have significant value-added services content and offer excellent prospects. New activities accounted for 42% of revenue in 2006 and have given Schneider Electric the ability to offer an unparalleled range of solutions and services for energy management.

## Enhance operating efficiency and competitiveness

The Group globalizes its purchases, produces near customers to ensure top-quality service and develops continuous improvement programs in all areas. It is also deploying a single IT system with harmonized processes worldwide.

Between 2004 and 2006, production in emerging markets rose from 18% to 28% of total output thanks to the transfer of €529 million worth of production costs over two years.

## Promote employee involvement

At Schneider Electric, people and their commitment is what makes the difference. Human resources evaluation and management resources are being harmonized worldwide so that all team members can fully express their potential and help execute Group strategy. Schneider Electric is enhancing its forward-looking management, deploying competency plans to match new needs, increasing investment in training and stepping up programs with schools and universities to attract talent.

At the same time, it is applying a global program to improve workplace health and safety.

This aggressive strategy of profitable growth has significantly modified Schneider Electric's performance profile, driving faster growth and a higher operating margin. The Group has become less exposed to capital spending cycles and exchange rate fluctuations, and enjoys even brighter prospects.

# 3. The new<sup>2</sup> company program

Schneider Electric's strategy is being deployed within the framework of the new<sup>2</sup> company program for 2005-2008. Through new<sup>2</sup>, the Group has reaffirmed its ambition to be a great company to do business with, a great place to work, a great world partner and a great investment.

Schneider Electric has set ambitious targets for 2005-2008.

## Customers

- Increase the rate of very satisfied customers by 30%.
- Reduce the rate of dissatisfied customers by 50%.

At end-2006, the rate of very satisfied customers was up 10%, while the percentage of dissatisfied customers was down 34%.

## Employees

- Reduce the number of days lost due to work accidents by 20% per employee per year.
- Develop competencies through three-year plans.
- Produce a quarterly report on progress plans implemented in response to employee satisfaction surveys.

At end-2006, the lost-time injury rate was down 38%. Three-year competency plans have been set up and quarterly reports have been produced on progress plans for employees.

## Planet and society

- Publish a quarterly barometer with 10 indicators tracking the Group's social, environmental, societal and corporate governance performance.

The Planet & Society Barometer is available online at [www.barometer.schneider-electric.com](http://www.barometer.schneider-electric.com).

- Improve the Group's performance to 8/10 by end-2008. At December 31, 2006, the barometer showed a rating of 7.01.

## Shareholders

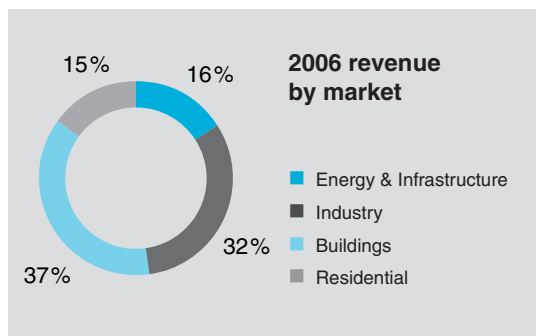
- Achieve organic revenue growth of more than 5%.
- Deliver an operating margin of between 12.5% and 14.5% throughout the business cycle. In 2006, the operating margin stood at 14.6%.
- Improve return on capital employed (ROCE) before tax by 2% to 4% improvement between 2004 and 2008. ROCE improved by 2% in 2006 to 11.7%.
- Pay out 50% of net profit before goodwill to shareholders. The recommended dividend for 2006 corresponds to this rate.
- Optimize the balance sheet, with a debt-to-equity ratio of 30%-40% at end-2006. Taking into account the APC acquisition on a pro forma basis before the impact of the €1 billion capital increase, the ratio came to 69%.

See Outlook for 2007, page 93.

## 4. Major prospects in four main markets

Schneider Electric serves customers who build and operate all types of buildings, from homes, stores, offices and hotels to hospitals, schools and cultural and sports facilities. The Group also delivers solutions for numerous applications to manufacturers, OEMs, transportation and communication infrastructure managers, and water and energy suppliers.

The accessible Energy & Infrastructure, Industry, Buildings and Residential markets represent more than €200 billion worldwide.



### Energy & Infrastructure

This market covers electricity generation and distribution; gas, oil and water distribution; transportation infrastructure such as airports, tunnels and subways; and telecommunication and data exchange and processing infrastructure. The Group's solutions help ensure that installations are available and safe while enhancing energy efficiency and controlling costs.

Population growth and economic development are opening up huge prospects for infrastructure, as well as for energy, where deregulation and the rise of renewable resources are also impelling new management and distribution solutions.

In the **Energy** market, Schneider Electric offers products, systems and services to optimize the reliable generation, distribution and sale of electricity. Its solutions are designed to enhance the quality and reduce the cost of each distributed kilowatt hour. The Group serves power companies, systems integrators, OEMs and panelbuilders with a lineup of high value added products and services—often leveraging Internet technologies—that can be used to create and manage smart electrical networks, measure power consumption, supervise processes, and offer prepayment systems that bring electricity to disadvantaged consumers.

In the **Infrastructure** market, where uninterrupted service is mission critical, Schneider Electric offers efficient, web-enabled metering, monitoring, critical power, management and remote-management solutions. Infrastructure operators, engineering firms, systems integrators, OEMs and contractors can find products, systems and services for electrical distribution, automation and control that meet their applications' specific requirements.

### Water & electricity: immense needs

- 1.6 billion people do not have access to electricity.
- Power consumption is expected to double by 2030.
- Annual investment in generation and distribution capacity amounts to €370 billion.
- Renewable energies are expected to account for 13% of electricity generation in 2030.
- 1.2 billion people do not have access to clean drinking water.
- Annual investment in water production, distribution and treatment amounts to €80 billion.

Source: IEA, World Water Council

### Airports: more than 600 projects in the pipeline

- 3 billion passengers a year.
- A market growing by 7% a year.
- 100 megaprojects worth more than €500 million.
- 500 medium-sized projects, including 118 regional airports in China by 2015.

Source: IATA, Adpe

### Industry

Schneider Electric offers products and services for all types of industry. Packaged goods, electronics, automobiles and pharmaceuticals are key markets. In particular, Schneider Electric targets major end users who are looking for a partner that can help them make their worldwide installations more competitive and efficient.

Makers of packaging, conveying and other machines requiring a completely reliable power supply, such as elevators and medical equipment, are also an important focus among OEM customers.

Business in the Industry market is being driven by the massive expansion of automation, tighter requirements for energy savings and environmental protection, outsourcing of electrical installation management and demand for value added services.

Schneider Electric works closely with customers to get a thorough understanding of their applications and to help enhance productivity, flexibility, process safety and product traceability. The Group offers end-to-end electrical installations that are both energy efficient and highly reliable, as well as flexible, open and easy to install automation solutions and remote management services via the Internet.

### Buildings

This market covers all types of service, commercial and industrial buildings, including offices, hotels, hospitals, shopping centers, manufacturing facilities, sports and cultural centers and ships.

Automation and centralized building management systems have expanded strongly in response to growing user demand for comfort, safety, communication and energy efficiency.

The Group serves this market with solutions for electrical supply and distribution, as well as supervision and management systems for lighting, HVAC, elevators and access control. The lineup includes Voice-Data-Image (VDI) and Power Line Carrier (PLC) solutions that use the electrical wiring to transfer data; services to optimize maintenance, costs and energy consumption; and web-based systems for multi-site remote monitoring. The lineup is available everywhere, with networkable products that are easy to install and operate. These products and systems also comply with local standards and practices.

**Housing: a €29 billion market**

- A market growing by more than 5% a year.

*Schneider Electric estimate*

**50% of the world's people live in cities**

- In 2015, 36 mega-cities will have populations of more than 10 million (compared with 23 in 1996).
- Cities in developing nations will be home to 4 billion people by 2030.

*Source: UN World Urbanization Prospects, October 2006.*

### Residential

The market for single-family homes and apartment buildings is extremely diverse in terms of standards and regional characteristics. It offers significant growth prospects that vary from region to region. In Western Europe and the US, demand for comfort, safety and energy savings dominates, which is why renovation and home improvement represent nearly two-thirds of the market. In emerging markets, the Group is targeting new buildings to serve immense needs, with a particular focus on large housing programs in Eastern Europe, the Middle East, China and other Asian countries.

Schneider Electric's lineup delivers comfort and safety while facilitating communications. The Group offers easy-to-use, open-ended and attractive solutions for electrical distribution, home automation and VDI/PLC communication networks, with products that comply with local standards, tastes and practices.

## 5. Forefront positions worldwide

To meet customer needs more effectively, the Group has rapidly staked out solid positions in new activities strategically related to its core businesses, such as critical power, building automation and custom sensors. At the same time, it has developed a vast range of services.

Schneider Electric's lineup comprises market-leading global brands (Merlin Gerin, Square D, Telemecanique), powerful local or regional brands (notably for installation systems and control), and benchmark specialist brands.

### Schneider Electric's positions in electrical distribution\*

	Medium voltage	Low voltage	Installation systems and control	Critical power
No. 1	ABB	<b>Schneider Electric</b>	Legrand	American Power Conversion
No. 2	<b>Schneider Electric</b>	ABB	<b>Schneider Electric</b>	<b>MGE UPS Systems</b>
No. 3	Siemens	Siemens	Leviton Matsushita	Emerson

### Schneider Electric's positions in automation & control\*

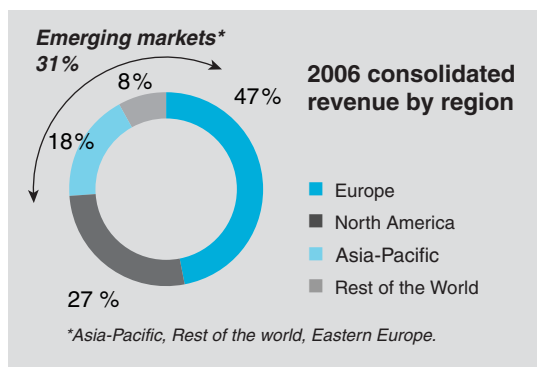
	Automation	Industrial control	Custom sensors	Building automation
No. 1	Siemens	<b>Schneider Electric</b>		Honeywell
No. 2	Rockwell	Rockwell	Fragmented market	Siemens
No. 3	<b>Schneider Electric</b>	Siemens		Johnson Control <b>Schneider Electric</b>

\* This document provides information on Schneider Electric's businesses and competitive position in 2006. To the best of the Group's knowledge, no exhaustive report has been drafted on products and systems for electrical distribution, automation and control. The Group has compiled data on its businesses through formal and informal contacts with industry professionals, especially trade associations. Schneider Electric estimates its market positions based on this data and actual revenue in each business.

## Description of the company and its businesses

The Group has many rivals, but who are often limited in their scope. The competition breaks down into four broad categories:

- Large non-specialist manufacturers with diversified business bases, such as ABB, General Electric, Mitsubishi Electric and Siemens.
- Multinational specialist manufacturers, such as Omron and Rockwell Automation.
- Medium-sized companies—primarily in electrical distribution—with a more regional presence, including Eaton, Hager and Legrand.
- Smaller local companies such as Gewiss in Italy, Simon in Spain, Vacon in Sweden, Stick in Germany and STI in the US.



### The only player who complies with all national and international standards

Schneider Electric is the only player in its industry that complies with all prevailing standards around the world. The majority of its lineup complies with world-recognized International Electrotechnical Commission (IEC) standards. In North America, Group products generally meet standards set by the National Electrical Manufacturers Association (NEMA), Underwriters Laboratory (UL) or American National Standards Institute (ANSI). Products in the UK, Australia and Asia comply with British Standards, while those in China and Japan meet the China Compulsory Certification (CCC) and Japan Industrial Standard (JIS).

Since Schneider Electric's products comply with the dominant standards in its host markets, the Group is able to meet most all of its customers' needs.

### Integrated, intelligent, networked solutions

In both electrical distribution and automation, customers increasingly want a comprehensive solution to their needs. In response, Schneider Electric has developed end-to-end offerings by market segment, backed by a wide range of services. This is the idea behind the Group's "Recommended Architectures" which combine different products from the lineup to meet specific customer requirements. Examples include critical power architectures for hospital operating rooms, optimized automation and control architectures for machines, and electrical distribution/VDI architectures for office buildings.

These architectures are designed in the Group's 60 application centers around the world. Specialized by industry and application, these centers leverage their in-depth understanding of business processes and needs to guide customers to the best solution.

To facilitate installation management and optimize performance, Schneider Electric was one of the first to take advantage of the Internet's efficiency and ease of use. Thanks to embedded web servers, operators can check data from PLCs at any time. With an ordinary web browser, users can manage their installations in real time from any location, program and monitor equipment, and optimize energy consumption and preventive maintenance. In buildings, these solutions can be used to manage all interior environment and safety systems via a local network. The Group is continuing to broaden its lineup with open, standard systems that are easy to install and use.

## Electrical distribution

- Number 1 worldwide in low voltage*
- Number 2 worldwide in medium voltage*
- Number 2 worldwide in installation systems and control*
- Number 2 worldwide in critical power*

Schneider Electric's electrical distribution lineup ensures a safe, reliable, uninterrupted and effective supply of electric power. Historically the market leader in low and medium voltage, the Group had no presence in installation systems and control just ten years ago. It now ranks second worldwide, thanks to organic growth and acquisitions.

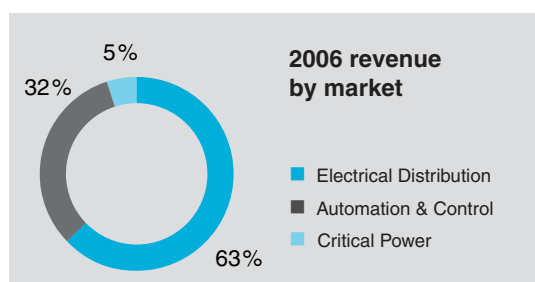
The Group has also made deep inroads into the highly promising critical power market, where it now ranks first worldwide following the acquisition of the global leader, American Power Conversion. The acquisition was finalized on February 14, 2007.

### Medium voltage

The products in this category, rated from 1 kV to 52 kV, are generally used to transform and manage high voltage electricity from the distribution grid. The medium voltage power is then sent directly to end users in industrial buildings and large commercial installations or transformed into low voltage power for small commercial buildings and homes.

### Low voltage and installation systems and control

This category includes wiring products, low voltage equipment, and installation systems and control used in industrial and commercial buildings and homes.





Schneider Electric offers comprehensive solutions for the residential market, with protection devices like circuit breakers and contactors; switches, sockets, drives and thermostats; control systems for doors, gates and shutters; and security, fire alarm and intruder alert systems. The Group's VDI networks also bring telephone, television and Internet capabilities into each room. The low voltage lineup, rated up to 1 kV, complies with local standards.

### **Energy efficiency and optimized electricity management**

The 2005 acquisition of Power Measurement Inc. strengthened the Group's position in the distribution of high-quality electricity and in electricity management. The lineup combines intelligent measurement and monitoring devices with Internet-interface software to manage complex energy contracts in real time, improve energy quality and ensure uninterrupted service.

### **Critical power and cooling services**

The critical power market is in the midst of strong and lasting growth driven by increased demand for high-quality, reliable electricity for a growing number of applications. American Power Conversion offers a strong fit with Schneider Electric subsidiary MGE UPS Systems in terms of products, geographic coverage and sales channels, plus the possibility of capitalizing on its powerful innovation capabilities.

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## **Automation & Control**

*Number 1 worldwide in industrial control*

*Number 3 worldwide in automation devices*

*Number 4 worldwide in building automation*

Since acquiring Telemecanique in 1988, Schneider Electric has constantly strengthened its presence in automation and industrial control.

The Group has pursued an active policy of partnerships and acquisitions to broaden its lineup, which comprises speed drives, human-machine interface (HMI) terminals, supervision, control and data acquisition (SCADA) software, packaging machine automation systems and motion control solutions.

Schneider Electric is also active in the fast-growing market for customized automation devices and sensors, thanks to acquisitions of such technological leaders as BEI.

At the same time, the Group has taken a firm foothold in the sizeable and promising building automation market (worth some €1 billion). In the past three years, Schneider Electric has created one of the world's leading players in this market.

### **Automation devices and industrial control**

Schneider Electric supplies programmable logic controllers and automation platforms, as well as specialized configuration, programming, operating assistance and supervision software.

Its industrial control lineup ranges from contactors, overload relays and motor circuit breakers to speed drives, motion controllers, sensors, control units and operator terminals.

### **Custom sensors**

Schneider Electric offers the most complete lineup in the market, with leadership positions in angular speed sensors (number one worldwide in leading-edge quartz gyro technology), and in position and pressure sensors for the automobile, aeronautic and manufacturing industries.

### **Building automation**

The Group has put together a comprehensive, innovative range of automation solutions backed by design and supervision software to manage building utilities. The range is based on open, integrated systems that address operators' real needs. These solutions make it possible to optimize installations, modernize them cost effectively, reduce maintenance costs and energy consumption and enhance comfort and security.

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## **An extensive array of services**

Schneider Electric offers an increasingly comprehensive, high value-added range of services to support customers throughout their installations' useful lives. Electrical distribution and automation systems have become highly computerized and extremely complex, driving strong demand for services. More and more, equipment management and maintenance are being outsourced. Users want expert advice when they make investment decisions to enhance installation performance, improve energy efficiency and reduce maintenance expenses.

### **Installed base services**

Schneider Electric handles electrical maintenance for existing installations, on- and off-site management of spare parts, warranty extensions, and upgrading to extend useful life.

### **Studies and projects**

This entails auditing facilities and recommending solutions to modernize, extend or optimize them, as well as setting up management and monitoring systems to align power quality and distribution with needs and to ensure a secure supply for critical applications.

### **High value added services**

In response to the need for reliable, safe and high performance buildings and to help customers meet the growing challenge of energy efficiency, Schneider Electric is developing customized services to:

- Optimize energy consumption for greater efficiency.
- Enhance electrical installation reliability and availability.
- Manage costs and risks related to operation and maintenance.

### **Energy efficiency: a major challenge**

- By accelerating efficiency gains, global energy demand in 2050 could be reduced to nearly half the level of today's consumption.

*Source: IEA, June 2006*

## Training

Schneider Electric has created an exhaustive range of training courses worldwide in the areas of electricity and automation to help customers get the most out of their legacy, new or renovated installations. These courses cover products, solutions and know-how. Different programs have been devised to meet the needs of electricians, engineering firm technicians, project designers, engineers, contractors, operators and maintenance technicians.

Seasoned specialists lead the courses, which are organized in Group training centers in each country, at customer facilities, at inter-company sessions or online. Standard or customized, they included numerous sessions in real-life conditions.

Schneider Electric also publishes many technical documents. The Technical Files collection of more than 100 publications is designed to help users understand the design and operation of electrical installations, systems and equipment and automation devices. These files, like most Group publications, are available for downloading on the Internet.

## 6. Our customers are our partners

Backed by its unique business model, Schneider Electric reaches its customers through diversified channels, unlike its competitors. The Group makes a large portion of sales through distributors, systems integrators, contractors and specifiers. These partners provide strong, strategically related value, and extend and amplify the Group's commercial and technical resources.

## Quality and customer satisfaction: a strategic priority

Customer satisfaction is an integral part of Schneider Electric's strategy to grow a loyal customer base. Surveys are conducted in all countries to measure progress in customer satisfaction. To enhance its team members' competencies, the Group has set up a sales and marketing institute within Schneider Electric University. More than 7,000 sales people and marketing specialists have attended institute programs over the past two years.

Customers also have access to call centers, online diagnostics and support services, an e-catalog, downloadable software, and online information and training.

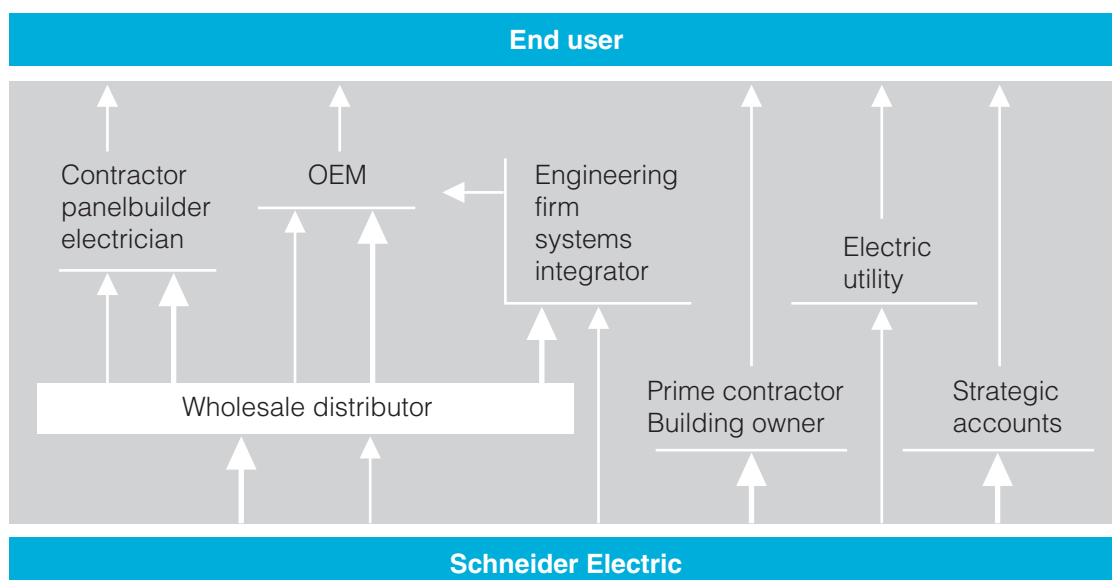
Around the world, Schneider Electric serves 90% of distributor and user needs within 48 hours.

To forge close contacts with customers and present the extremely diverse range of solutions offered by Schneider Electric and its partners, the Group organizes private professional trade shows called Initi@tive. The shows feature Schneider Electric's main products and solutions, as well as those of its partners, demonstrations, and an "à la carte" schedule of conferences. Three Initi@tive shows were held in 2006. More than 2,500 customers attended Initi@tive China in Xiamen; nearly 2,000 dropped by Initi@tive Sydney, for customers from New Zealand, the Pacific islands, Australia and South Africa; and close to 1,400 visited Initi@tive Orlando, for customers from the eastern United States, Mexico and Canada.

## Distributors: a daily partnership

Electrical equipment distributors account for around 50% of our total sales and 70% of catalog product sales. They offer a tight-knit network of 15,000 sales outlets worldwide.

This partnership includes local distributors, wholesalers, non-specialized professional distributors and large international groups such as Rexel and Sonepar in France, Hagemeyer in the Netherlands, Nordisk Solar







in Denmark, CED-Edmundson in the United Kingdom, and Graybar and Grainger in the United States.

In the residential renovation market, Schneider Electric also sells products through large home improvement chains such as Home Depot and Lowes in the US, Kingfisher in the UK and Saint Gobain Distribution in France.

Lastly, the Group uses specialist distribution channels for highly technical products such as human machine interface and VDI transmission equipment, PLCs and industrial software.

Schneider Electric nurtures close relationships with distributors to provide end users with unparalleled local service, advice and product availability in 190 countries.

To maintain a high performance network, the Group works hand in hand with distributors on supply chain issues, technical training and marketing. Distributors have numerous resources at their fingertips, including the dedicated "My Schneider Electric" portal, through which they can access prices and technical information, place orders and download installation manuals around the clock.

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### Panelbuilders: ease of use and services

Panelbuilders make and sell electrical distribution or control/monitoring switchboards, primarily for the Buildings, Energy and Infrastructure markets. Their main customers are contractors. Panelbuilders mostly buy low and medium voltage devices, such as circuit breakers and contactors, and increasingly, prefabricated systems.

There are more than 20,000 panelbuilders around the world with very diverse expertise and areas of specialization. Schneider Electric serves each group with a tailored set of products and services that can help enhance their end product. Selected panelbuilders, chosen for their professionalism and ability to promote Schneider Electric's quality and safety values, receive advanced technical and marketing support.

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### Contractors: active cooperation

To devise customized solutions to end-users' specific needs, Schneider Electric works closely with contractors—a broad category that ranges from large companies specialized in implementing equipment and systems to small, specialized or general electricians, and from systems integrators to OEMs.

These partners add unique value by turning customers' ideas into working, purpose-designed systems. In addition, they often advise customers about the different possible solutions before a project begins.

Schneider Electric works actively with contractors by offering technical training and advice to help them devise the best response for a given project, from simple to complex applications.

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### Systems integrators: a dedicated alliance

Systems integrators, the Group's historical customers, install automation devices for end users.

The Group has developed the "Schneider Electric Alliance" with them to provide users with effective turnkey solutions and proactive local support. Thanks to this alliance of carefully selected partners, customers with automation projects can easily find qualified professionals located near their installations. The Schneider Electric Alliance has more than 700 members in some 30 countries.

Along with technical support, Schneider Electric provides these partners with advanced engineering resources so they can develop their business and become more competitive.

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### OEMs: partners in performance

Original Equipment Manufacturers (OEMs) continuously seek to improve machine performance and maintenance to meet their customers' needs in areas ranging from packaging to textiles, elevators to conveying, and materials handling and hoisting to HVAC. As a result, they are increasingly demanding when it comes to high-performance solutions, competencies, reliability, quality, cost, innovation and time to market.

Schneider Electric works with nearly 30,000 OEMs through its global operations, bringing all its strengths to their special partnership. These include:

- Extensive knowledge of their applications.
- Dedicated centers of excellence that offer the most competitive solutions for new machines.
- International customer support to deliver high-performance after-sales service worldwide.
- A dedicated program for multi-site and global OEMs that enhances their ability to offer superior solutions on an international level.

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### Energy suppliers: local expectations

There are some 11,000 electric companies around the world. They use Schneider Electric products and services in power generation (electricity for power plant equipment, automation and control), distribution (medium and low voltage networks) and marketing (pre-payment meters, related services).

The Group responds effectively to their expectations for local service with applications support and innovative products that help them meet important challenges like market deregulation and the development of renewable energies.

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### Global Strategic Accounts: a dedicated organization

Schneider Electric has a dedicated organization for global enterprises interested in developing special relationships with their key suppliers. The Group's preferred supplier contracts ensure high-level contacts for these global strategic accounts.

## Description of the company and its businesses

Thanks to shorter communication and decision-making circuits, this organization can leverage resources across the Group and around the world very quickly. Dedicated teams and direct senior executive-level involvement offer tangible value added that sets Schneider Electric apart in its relationship with major accounts. The goal is to provide the right solutions and services at each stage of their international expansion and achieve the highest level of customer satisfaction.

Some 70 global customers benefit from this organization, including Air Liquide, Carrefour, Ford, Glaxo Smith Kline, IBM, Lafarge, Nestlé, PSA Peugeot Citroën, Total, Toyota, Unilever, Veolia and Wal Mart. They are able to tap into the Group's deep knowledge of process automation (automobile manufacturing, cement production, etc.), energy management in large industrial and commercial buildings (pharmaceuticals, mass retailing, etc.), IT center protection and electrical distribution and monitoring for water treatment.

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### Specifiers: well-informed relays

Specifiers, including engineers, architects and design firms, play a key role in meeting growing demands for comfort, ergonomics and design. The Group keeps these indispensable partners informed of all innovations and solutions that improve installation performance, safety and comfort.

To do this, it organizes reserved exhibits, prepares electrical installation guides, develops installation design software and sets up training centers.

## 7. A global organization with local roots

Schneider Electric has 105,000 employees around the world. Thanks to its global organization and local operations and distribution networks, the Group can serve international customers everywhere and meet local customers' expectations with solutions that comply with each country's specific standards and practices.

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### An organization focused on growth and efficiency

Schneider Electric's organization is designed to put customers at the center of the product design process, speed growth and execution, leverage all the benefits of the Group's global scope, and make it easier to integrate acquisitions and deploy new activities.

The Group comprises:

### 8 business units

- Building automation
- Automation
- Custom sensors and technologies
- Power
- Critical power & cooling services
- Renewable energies\*
- Services and projects
- Installation systems and control.

### 4 corporate divisions

- Strategy, Customers & Technology
- Finance
- Human Resources and Managerial Communication
- Globalization & Industry.

### 4 operating divisions

- European Operating Division
- North American Operating Division
- Asia-Pacific Operating Division
- International & Iberian Operating Division.

\* Created in February 2007.

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## Powerful innovation resources

Schneider Electric's sustained innovation strategy for products, services, software and solutions helps it widen its technological lead, enhance competitiveness and quality, refresh and broaden the lineup more quickly and generate high value-added growth.

The Group created an Innovation Department in November 2006, headed by Bernard Larrourou, former director of the French applied mathematics and information technology public research institute (INRIA) and French national scientific research center (CNRS). The department's mission is to deploy an ambitious innovation process to bring innovative solutions in the areas of energy efficiency, electrical distribution and industrial automation to the market faster. It is also responsible for strengthening Schneider Electric's ties to the global scientific community in order to extend technical partnerships with the world of research.

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## Customer-oriented processes

Innovation at Schneider Electric is primarily devoted to making products, systems and services safe, easy to install and use and futureproof—all with a clear focus on customer expectations. Improving design quality, offering simplicity through innovation, guaranteeing technical compliance and reducing time to market are ongoing objectives.

The Group involves its country organizations in devising the lineup and increasingly co-develops with major customers, notably OEMs.

Schneider Electric is committed to developing and patenting products that can be marketed worldwide. This strategy of globalization allows the Group to penetrate a maximum number of markets while optimizing costs.

## Worldclass R&D

The Group's R&D investments put it among the top world players in its businesses.

Around a third of the R&D budget is devoted to maintaining the product ranges, increasing quality levels, reducing raw material, component and process costs, and adapting products to new environmental regulations such as RoHS and WEEE—a Schneider Electric priority.

Nearly two-thirds go to innovation and new product research. The objective is to offer products and solutions that deliver more and more value to users.

### Innovation: a priority

- Around 5% of revenue devoted to R&D (€500 million in 2006).
- 6,500 R&D team members in 25 countries.
- Cooperation agreements with more than 50 prestigious laboratories.
- A venture capital fund focused on advanced technologies.

## An international base

Schneider Electric has internationalized its R&D base to put R&D centers closer to customers, innovate next to needs and adapt production processes to local conditions.

In addition to France, the Group has highly effective R&D teams with some 1,500 people in Germany, the US and Japan.

New centers in Bangalore, India and Shanghai, China had nearly 700 employees at the end of 2006.

The Group works with some fifty university and private laboratories and has forged technological partnerships with manufacturers offering strategically related expertise. These include Toshiba for speed drives, Fuji Electric for low voltage circuit breakers, Tata Elxsi for embedded software and IBM for quality control and traceability solutions for the microelectronics and food and beverage industries.

Sixty centers dedicated to applications such as elevators, packaging, textiles and data centers support this system. Their mission is to develop the best possible solutions with customers, with input from contractor and systems integrator partners.

Lastly, Schneider Electric Ventures performs technology intelligence and looks to acquire new competencies. The fund invests in start-ups whose technologies will form the core of the Group's future lineup. These include software, network and communication electronic components, radio-frequency identification (RFID) solutions, network security, voice-data-image (VDI) systems, radio communication, sensors and micro-electrical-mechanical systems (MEMS).

## Plentiful and promising areas of research

The Group has stepped up research and innovation in digital electronics, power electronics, mechatronics, software and Internet-based technologies.

■ January 2006: Electropole, the world's leading power protection and control R&D center opens in Grenoble, France. More than 1,000 people work at Electropole, which offers 35,000 square meters of laboratories and design offices.

■ February 2006: Launch of the Airlink lineup based on radio technology for installation and monitoring systems.

■ March 2006: France's newly created Industrial Innovation Agency (AII) selects Schneider Electric's HOMES project among its first five programs. In cooperation with world leaders in lighting, building control, shutters, HVAC and other systems, Schneider Electric will develop technologies and solutions to actively control energy. Designed to reduce energy consumption by up to 20% in new and existing buildings, these solutions will confirm Schneider Electric's ambitions in the energy efficiency market.

■ May 2006: The Schneider Electric-led Minalogic industrial cluster is certified. Bringing together research and manufacturing skills in the Grenoble region, Minalogic develops embedded intelligence technologies that will form the core of future smart systems for electrical distribution and automation.

■ September 2006: Square D introduces the Intelligent Load Center in the US, which allows users to connect to an alternate power source and effectively manage loads connected to that source. This opens the door to distributed power generation and smart consumption management.

■ October 2006: The Information Technology for European Advancement (ITEA) program attributes its Achievement Award to the SIRENA project led by Schneider Electric. SIRENA is designed to develop technologies that facilitate systems integration in real time. It leverages emerging web services technology for plug and play connection, easier upgrading and simplified maintenance. This technology will be used in industrial applications, buildings, homes and water treatment.

■ November 2006: Schneider Electric Ventures invests in Semisouth, an American start-up specializing in silicon carbide (SiC) materials and electrical components that will drive very high yield power conversion products in the future.

■ December 2006: Schneider Electric and France's Laboratoire d'Electronique de Technologie de l'Information (LETI) sign a cooperation agreement to develop new MEMS silicon technologies and components and create a dedicated joint laboratory.

## Global, selective purchasing

Purchases correspond to around 40% of consolidated revenue and play a crucial role in the Group's technical and business performance. To use this lever to the fullest, the Group has decided to globalize 75% of purchases and increase local sourcing in emerging markets as part of its program to re-balance costs and revenue.

## Description of the company and its businesses

Schneider Electric primarily purchases raw materials such as silver, copper, aluminum, steel and plastics, as well as components, electronic products and services. The supplier list includes international firms, as well as many medium sized companies.

Suppliers are selected for their know-how, the quality of their products and services, their competitiveness and their compliance with environmental and human rights requirements. Schneider Electric supports the United Nations' Global Compact and encourages its suppliers to join as well. A sustainable development agreement sets out each party's specific commitments.

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### Worldwide redeployment of production and supply chain resources

Schneider Electric has more than 200 production sites, of which 45% manufacture for the global market. The other units are located as close as possible to their end markets. Although design or esthetic features may be adapted to meet local requirements, the Group standardizes key components as much as possible to maximize economies of scale. This global/local approach helps Schneider Electric optimize profitability.

Drawing on its global scope, the Group intends to build lasting competitive advantage to support long-term, profitable growth. A large number of projects have been initiated around the world to re-balance and optimize manufacturing and supply chain resources. The Group's objectives are to:

- Produce as close to customers as possible to improve service quality and responsiveness.
- Achieve a lasting balance between production costs and revenue within each currency zone to limit the impact of foreign exchange fluctuations.
- Produce and source in the most competitive region for a given product. This means low-wage countries for products with a high labor content, for example, and developed countries for complex, highly automated processes and services that require a strong local presence.

In Western Europe and the United States, rightsizing plans have been deployed with a focus on specializing units, reducing their number and increasing their size. At the same time, the Group has moved manufacturing closer to demand by increasing capacity in Eastern Europe, Mexico, India, China and the rest of Asia.

An industrial excellence program called Schneider Production System has been deployed in all plants to substantially and continuously improve quality, service and productivity. Based on a Lean Manufacturing approach, SPS is supported by the extension of Six Sigma and Quality and Value Analysis programs across the Group. By deploying these optimization methods globally and sharing best practices, the Group intends to lift the operational performance of all its plants to the same high standard.

Schneider Electric's plants and products comply with increasingly extensive and stringent environmental laws and regulations in all host countries, often antici-

pating new legislation when appropriate. Plants and products also comply with international standards governing environmental protection in all host countries.

In order to limit risks related to the environment generally, the Group has implemented an ISO 14001-compliant process to continuously improve the environmental performance of its plants and logistics centers, along with an eco-design process for products.

In 1992, Schneider Electric defined a formal environmental policy, which was revised in 2004 to take account of changes both inside and outside the Group. This policy is designed to improve production processes, promote eco-design, integrate customer expectations into the Group's environmental protection approach and raise awareness among all employees and partners about environmental protection and energy savings.

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### A major IT systems project

On November 2, 2004, Schneider Electric signed a contract with Capgemini with the goal of enhancing efficiency and reducing the IT function's overall cost. The two-pronged contract involves outsourcing all of the Group's IT functions and departments in Europe and designing, developing and deploying a global SAP-based ERP system called Bridge that will be installed in all units. The IT departments of some 100 European subsidiaries in 31 countries were effectively outsourced in 2005.

Bridge's design phase was completed at the end of 2006 and construction is scheduled for the first quarter of 2007. The system will be deployed at several pilot sites from 2007 to 2009. Bridge will then be installed throughout the Group over a period of four years.

A dedicated governance and cost-control organization has been set up to monitor the challenges and reduce the risks involved in this project.

## 8. Human Resources

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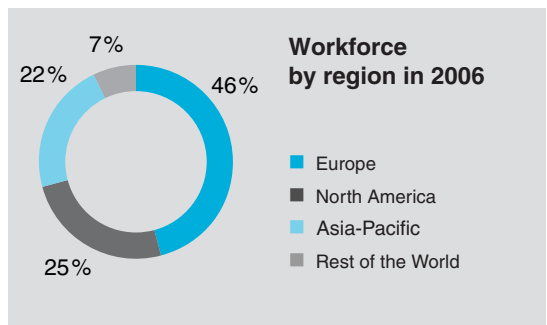
### Developing a global system for managing human resources

The human resources function's missions are to support growth, prepare the future, develop competencies, anticipate changes in the Group's businesses and create an attractive and stimulating work environment. At the corporate level, human resources management policies focus on training, compensation, international mobility and workplace health and safety. These policies provide general guidelines that are applied through local programs.

The Group is in the process of deploying a global human resources management system. Designed with input from human resources managers and team members around the world, the system is based on a shared set of job classifications and competencies that provides the basic information needed for human resources management. The system was tested in France and India in 2006 and will be gradually deployed across the Group starting in 2007.

The system's competency plans allow the country organizations and various departments to define the skills sets they will be needing in three years' time based on business plans and analyses of changes in the business. This information can then be used to establish the necessary hiring, training and mobility programs. The competency plans are used in all the Group's units.

All employees have the opportunity to map out their career paths with their managers during individual competency interviews, taking into account changes within the Group's businesses. In this way, they can discuss possible directions for development and identify useful training programs. Lastly, the Group gives employees a stake in achieving targets and in Schneider Electric's performance through profit-linked incentive plans, employee share ownership, stock option programs and bonuses.



### Attracting and developing talent

The diversity of the countries, markets and customers served by Schneider Electric is reflected in its workforce. The Group is committed to developing and promoting multi-cultural teams with managers from different countries who are able to take on major responsibilities in a decentralized organization. This policy helps Schneider Electric attract, lock-in and develop the best people in all of its host countries.

The Group encourages geographic mobility and nurtures international leadership. This is one of the goals of the Marco Polo international hiring program, which recruits some 100 people a year. Marco Polo gives high potential graduates interested in international mobility the opportunity to kick off their Schneider Electric careers with a job in a foreign country.

Training is a key success factor at all levels of the organization. Schneider Electric has developed partnerships with prestigious business and engineering schools and targeted universities around the world. In 2006, it stepped up its programs with INSEAD in

France, IESE in Barcelona and the London Business School to bolster MBA recruitment.

Also during the year, Schneider Electric University considerably expanded its programs on customer focus, continuous change, leadership skills and attitudes and professional expertise through several specialized institutes.

Seminars on developing leadership and global expertise attracted 1,126 participants from 72 countries in 2006, an increase of 66% from 2005. More than 400 customers worldwide were interviewed as part of these programs.

The Commercial Institute offers training for team members in customer relations departments and centers.

The new Industrial Operations Institute held its first sessions for 91 plant managers from around the world. The Institute's mission is to offer comprehensive training to current and future plant, purchasing and supply chain managers.

The Felix program, which develops high potential junior managers worldwide, celebrated its tenth anniversary in 2006. The year's first session was held in Beijing, with 31 participants from 23 countries. Some of the training was administered through the newly opened Schneider Learning Institute China.

More than 4,000 employees benefited from e-learning in 2006, notably for English language training. More than 6,000 received training locally thanks to the deployment of the Schneider Electric institutes' programs in the Country Organizations. The Group is also deeply committed to keeping its employees' competencies fresh through regular evaluations, appropriate information and training and skills certification programs. When headcount needs to be scaled back, the units take vigorous steps to find inplacement solutions or to help those made redundant to start their own businesses.

See Schneider Electric's social performance indicators, pages 73-90.

### A global program to promote workplace health and safety

Defined in 2005, the Group's health and safety policy is discussed in all of Schneider Electric University's management seminars. The policy was widely distributed among the units in 2006, with the Country Organizations responsible for deploying action plans. A health community was created to share and spread best practices within the Group.

Each year, the local health and safety policy is formalized and presented to employees. The number of days lost due to work injuries is tracked on a monthly basis in all host countries to get a precise view of the local action plans' impact. The goal is to reduce the number of lost days from work accidents by 20% per employee per year over the period covered by the new<sup>2</sup> company program.

## 9. Risk factors

### Business risks

#### **The Group operates worldwide, in competitive and cyclical markets**

The worldwide markets for the Group's products are highly competitive in terms of pricing, product and service quality, development and introduction time and customer service. The Group faces strong competitors, some of whom are larger or developing in certain lower cost countries. The Group is exposed to cyclical fluctuations in the rate of economic growth of, and level of capital expenditures in, the various countries in which it operates, though the impact of downturns in a particular market may be limited by its broad geographic reach and the diversified nature of its end user markets.

As the Group also operates in emerging or developing countries for around 30% of its business, it is exposed to the risks associated with those markets.

The Group's wide international presence exposes it to many economic, legal and political risks in its host countries. These include risks arising from social unrest (particularly, strikes and walk-outs), political instability, unforeseen regulatory changes, restrictions on capital transfers and other obstacles to free trade, and local tax laws, all of which may have an adverse effect on its business, results of operations or financial position.

The Group has implemented procedures designed to protect it from the effects of these risks, which are generally beyond its control, and to manage them as effectively as possible. The protection provided by these measures may nevertheless prove to be inadequate.

#### **The development and success of the Group's products depend on its ability to develop new products and services and to adapt to the market and to customer needs**

The markets in which the Group operates experience rapid and significant changes due to the introduction of innovative technologies. Introducing new technology products and innovative services, which the Group must do on an ongoing basis to meet its customers' needs, requires a significant commitment to research and development, which may not result in success. The Group's sales and margins may suffer if it invests in technologies that do not function as expected or are not accepted in the marketplace or if its products, systems or service offers are not brought to market in a timely manner, become obsolete or are not responsive to customers' requirements.

In order to meet these challenges, the Group has an R&D budget, which, at approximately 5% of revenue, is among the highest in the industry. R&D involves some 6,500 employees around the world, a number of them in development centers located in 25 countries. This ongoing commitment has allowed the Group to accelerate time to market and leverage the technology of strategic partners with whom it has also forged alliances to expand its lineup or geographic coverage. The Group has brought together all of its electrotech-

nical, electronic, electromechanical, software and other technical competencies by creating technology parks in China, the US, France and Japan.

Global support centers have also been established in Mexico, India and China to provide the technology parks with additional skills and development capacity at a very competitive cost.

The Group's business growth depends on its ability to develop, deepen and enhance customer relationships. The Group must constantly offer customers innovative solutions built around high quality products and services incorporating leading edge technologies that are closely tailored to customer needs and expectations. However, the Group does not have any exposure with a particular customer. Its ten largest customers represent less than 25% of its revenue.

Increasingly high customer satisfaction rates represent an important source of competitive advantage for the Group. It closely tracks the results of the quarterly surveys conducted in 55 countries among customers representing some 96% of annual sales. Improvement targets are set for each country, backed by specific action plans and progress monitoring procedures.

#### **The Group's strategy involves growth through acquisitions, joint ventures and mergers, which may be difficult to identify and/or execute**

The Group's strategy involves strengthening its capabilities through acquisitions, strategic alliances, joint ventures and mergers.

External growth projects are examined in detail by the business units, country organizations and corporate functions (Strategy, Finance, Legal Affairs and Human Resources) concerned under a rigorous internal process developed and led at Group level. A launch committee is responsible for initiating the review process to identify the risks and opportunities associated with each external growth project, while a validation committee reviews the results. Projects that successfully come through the review process are submitted for approval to the Group acquisitions committee made up of the main members of senior management. The largest projects require the prior approval of the Management Board and, in some cases, the Supervisory Board.

External growth transactions are inherently risky because of the difficulties that may arise in integrating people, operations, technologies and products, and the related acquisition, administrative and other costs. The Group has therefore developed a process for integrating newly acquired businesses that extends over a period of 6 to 24 months depending on the type and size of the newly acquired entity. The integration scenario for each acquisition varies depending on whether the business was acquired to strengthen the Group's existing lineup, extend the lineup or penetrate a new segment. All told, there are five scenarios ranging from total integration to separate organization. Depending on the strategic objective, a matrix is drawn up showing the required level of integration for each of the newly acquired business's core functions, i.e. front office (sales force and brand), back office, R&D, corporate functions and management reporting. An integration plan is drawn up for each acquisition and submitted to the Acquisitions Committee for approval. The

plan is implemented by an integration manager who reports to a Steering Committee that initially meets at monthly intervals and then on a quarterly basis.

The unit that presents the external growth project is accountable to Group senior management for meeting clearly defined business plan targets covering the performance of the new business and expected synergies with existing businesses. Actual performance is measured against business plan targets during quarterly business reviews and, for the largest acquisitions, by the Management Board and Supervisory Board.

The follow-up of the value of the acquisitions implemented is done through annual impairment tests.

Value in use is determined by discounting estimated future cash flows that will be generated by the tested assets. Estimated future cash flows are based on management's economic assumptions and operating forecasts, as well as long-term growth prospects generally equivalent to forecast inflation. The discount rate corresponds to Schneider Electric's weighted average cost of capital (7.5% at December 31, 2006 and 2005 and 8.5% at December 31, 2004), plus a risk premium depending on the region in question.

The Group's goodwill is mainly allocated to cash-generating units (CGU) located in Europe and in the United States. Tests performed on goodwill allocated to European and American CGUs are implemented with a discount rate equal to Schneider Electric's weighted average cost of capital, free of a risk premium. Moreover, the infinite growth rate of these CGUs is equal to 2% and has not changed for the last financial year.

#### **The Group may be the subject of product liability claims and other adverse effects due to defective products, design faults or harm caused to persons and property**

Despite its testing and quality procedures, the Group's products might not operate properly or might contain design faults or defects. These design faults and defects could result in product liability claims, loss of revenue, warranty claims, litigation, a fall-off in demand or harm to the Group's reputation for safety and quality. To prevent or limit these risks, the Group recalls products if there are any doubts about a component, even if the defect is random and does not pose a safety risk.

Schneider Electric is covered by a global liability insurance program. Insured values under these programs adequately cover the Group's exposure to liability claims in connection with its businesses.

#### **Information systems risks**

The Group operates, either directly or through service providers, a wide range of highly complex information systems (servers, networks, applications, databases, etc.) that are essential to the efficiency of its sales and manufacturing processes. Failure of any of these hardware or software systems, a fulfillment failure by a service provider, human error or computer viruses could adversely affect the quality of service offered by the Group.

The Group regularly examines alternative solutions to protect against this type of risk and has developed contingency plans to mitigate the effects of any information system failure. Dedicated governance structures have been set up to manage relations with serv-

ice providers responsible for outsourced IT systems operations.

Problems may also be encountered during the deployment of new applications or software. In particular, a project was launched in 2005 to design, develop and build a Group-wide SAP-based ERP system. The initial vision and detailed design phases were completed in July 2005 and the core system is now being built, for deployment on several pilot sites over the period 2007-2009. Once the trial phase has been completed at the end of 2009, the system will be rolled out to the entire Group over a period of around four years.

In view of the project's complexity, extensive functionalities and its worldwide deployment, a dedicated governance and cost control structure has been set up to track attainment of project milestones and limit the related risks.

However, despite the Group's policy of establishing governance structures and contingency plans, there can be no assurance that information systems projects will not be subject to technical problems or execution delays. While it is difficult to accurately quantify the impact of any such problems or delays, they could have an adverse effect on inventory levels, service quality and – consequently – the Group's financial results.

#### **The Group is dependent upon hiring and retaining highly qualified management and technical personnel**

Competition for highly qualified management and technical personnel is intense in the Group's industry. Its future success depends in part on the Group's ability to hire, assimilate and retain engineers and other qualified personnel.

The Group's human resources strategy is designed to create a motivating working environment. Specific policies have been developed covering international mobility, career development, training and compensation. The Group's expatriates help it to prepare the future of its business, build local teams and assemble the necessary skill-sets in targeted regions. The Group places considerable emphasis on training to deepen its skills base and retain employees.

#### **The development and success of the Group's products depend on its ability to protect its intellectual property against competitors**

The Group's future success depends to a significant extent on the development and maintenance of its intellectual property rights. Third parties may infringe the Group's intellectual property rights, and the Group may expend significant resources monitoring, protecting and enforcing its rights. If the Group fails to protect or enforce its intellectual property rights, its competitive position could suffer, which could have an adverse effect on its business.

In order to mitigate this risk, the patents developed or purchased by the Group are tracked by the industrial property team within the Finance & Control - Legal Affairs department. All industrial property information for the main Group subsidiaries is transmitted to this team, which is responsible for managing and protecting these intangible assets throughout the world. The same procedure is followed for trademarks.

## Description of the company and its businesses

Since 2005, the Group has decided to combat violations of industrial property rights more vigorously, taking legal action against patent counterfeiters in Germany, Italy, France and other jurisdictions.

### The Group's plants and products are subject to environmental regulations

The Group's plants and products are subject to extensive and increasingly stringent environmental laws and regulations in all of its host countries.

In order to limit risks related to the environment generally, the Group is involved in a process to continuously improve the environmental performance of its plants and products. In 1992, the Group published a formal environmental policy, which was recently redefined to take account of changes both inside and outside Schneider Electric.

The policy is designed to improve manufacturing processes, promote eco-design and integrate customer concerns in the area of environmental protection. It also aims to identify, assess and prevent environmental risks, in order to guarantee full compliance with all environmental laws and regulations applicable to the Group's businesses. Environmental provisions are booked when the risks can be reliably measured or it is probable that clean-up work will be performed and the related cost can reasonably be estimated. No estimate is made of the potential cost of unidentified environmental risks. The Group expects spending on environmental compliance programs to increase as a result of changes to existing environmental regulations and the introduction of new regulations.

There can be no guarantee that the Group will not be required to pay significant fines or compensation as a result of past, current or future breaches of environmental laws and regulations by companies that are currently or were previously members of the Group. This exposure exists even if the Group is not responsible for the breaches, in cases where they were committed in the past by companies or businesses that were not part of the Group at the time.

The Group may be exposed to the risk of claims for breaches of environmental laws and regulations. Such claims could adversely affect the Group's financial position and reputation, despite the efforts and investments made to comply at all times with all applicable environmental laws and regulations.

If the Group fails to conduct its businesses in full compliance with the applicable environmental laws and regulations, the judicial or regulatory authorities could require the Group to conduct investigations and/or implement costly clean-up measures to deal with the current or past contamination of current or former facilities or off-site waste disposal facilities, and to scale-back or temporarily or permanently close facilities in accordance with the applicable environmental laws and regulations.

### The Group's international operations expose it to the risk of fluctuations in foreign exchange rates

Because a significant proportion of transactions are denominated in currencies other than the euro, the Group is exposed to risk arising from changes in exchange rates. If the Group is not able to hedge them, fluctuations in exchange rates between the euro and

these currencies can have a significant impact on its results of operations and distort year-on-year performance comparisons.

The Group actively manages its exposure to currency risk to reduce the sensitivity of earnings to changes in exchange rates. Hedging programs mainly concern foreign currency receivables, payables and operating cash flows, which are generally hedged by means of forward sales. Depending on market conditions, risks in the main currencies may be hedged based on recurring forecast flows using contracts that expire in 12 months or less.

The Group's currency hedging policy is to protect subsidiaries against risks on all transactions denominated in a currency other than their functional currency. More than twenty currencies are involved, with the US dollar, Hong Kong dollar and British pound representing the most significant sources of risk.

The financial instruments to hedge the exposure of the Group to fluctuations in exchange rates are described in notes 20.4 and 20.6 to the consolidated financial statements for fiscal year 2006 pages 129 and 130 below.

In 2006, the revenue produced in foreign currencies came to €8,979 million. Foreign currency assets and liabilities represented respectively €1,973 million and €5,156 million. The main exposure of the Group in terms of currency exchange risks is related to the US dollar and to currencies influenced by the US dollar. The Group estimates that in the current structure of its operations, a 10% increase of the euro compared to the US dollar would have an impact of 0.3 points on operating margin.

### Interest rate risk

The Group is exposed to risks associated with the effect of changing interest rates. Interest rate risk on borrowings is managed at Group level, based on consolidated debt and according to market conditions. The main goal of interest rate management policies is to optimize Group financing costs. Most bond debt is fixed rate.

Less than one year and/or with a variable rate, the Group has a net cash available of about €1.7 billion.

	Up to 1 year	1 to 5 years	More than 5 years
Financial liabilities	884.6	2,312.7	1,144.4
Financial assets	2,544.1	315.7	
Net position before management	-1,659.5	1,997	1,144.4

A 1% change in interest rates would have an impact of around 15% on the Group's financial expense.

The financial instruments to hedge the exposure of the Group to fluctuations in interest rates are described in notes 20.4 and 20.7 to the consolidated financial statements for fiscal year 2006 pages 129 and 130 below.

### Counterparty risk

Transactions involving foreign currency and long and short-term interest rate hedging instruments are entered into with selected counterparties. Banking counterparties are chosen according to the customary



criteria, including the credit rating issued by an independent rating agency.

Group policy consists of diversifying counterparty risks and periodic controls are performed to check compliance with the related rules.

### Liquidity risk

Liquidity is provided by the Group's cash and cash equivalents and commercial paper programs. These programs are backed by undrawn confirmed lines of credit.

The Group's credit rating enables it to raise significant long-term financing and attract a diverse investor base. The Group's current credit rating is A, watch negative. The Group's liabilities and their terms and conditions are described in note 17, pages 126 and 127 below.

Currency and interest rate risks are generally managed at Group level, with the aim of limiting the impact on results of changes in exchange and interest rates without entering into any trading transactions. Hedging decisions are made by the Finance & Control - Legal Affairs department and are reviewed at regular intervals based on changes in financial market conditions.

In line with the Group's overall policy of conservatively managing liquidity risk and protecting its financial position, when negotiating new liquidity facilities the Group resists the inclusion of clauses that would have the effect of restricting the availability of credit lines, such as covenants requiring compliance with certain financial ratios and material adverse change clauses.

The loan agreements for some of its liquidity facilities nevertheless include cross-default clauses whereby if the Group were to default on any of its liquidity facilities, it would immediately be considered as having defaulted on all such facilities. Moreover, anticipated reimbursement provisions exist for certain financing and lines of credit in case of change of control.

### An increase in raw materials price could have negative consequences

The Group is exposed to fluctuations in energy and raw material prices (in particular steel, copper, aluminum, silver, nickel, zinc and plastic). If the Group is not able to hedge, compensate or pass on its increased costs to customers, this could have an adverse impact on its financial results.

The Group has, however, implemented certain procedures to limit its exposure to rising non-ferrous raw material prices. The purchasing departments of the operating units report their purchasing forecasts to the Corporate Treasury Center. Purchase commitments are hedged using forward contracts, swaps and, to a lesser extent, options.

The financial instruments to hedge the exposure of the Group to increase in raw materials price are described in note 20.4 to the consolidated financial statements for fiscal year 2006, page 129 below.

In 2006, purchases of raw materials totaled around €1 billion, including around €400 million for non-ferrous metals, of which more than 70% were for copper. The Group enters into swap and options agreements in order to hedge all or part of its raw material purchases. Decisions to hedge such purchases, mostly of non-ferrous metals, depend on Group forecasts of changes of raw material market prices. As of December 31,

2006, Group hedges for non-ferrous metal purchases amounted to €115 million, of which €80 million for copper.

### Equity risk

Exposure to equity risk primarily relates to treasury stock and shares in AXA. These positions are not hedged.

### The Group's products are subject to varying national and international standards and regulations

The Group's products, which are sold in national markets worldwide, are subject to regulations in each of those markets, as well as to various supranational regulations. Those regulations include trade restrictions, tariffs, tax regimes and product safety standards. Changes to any of these regulations or standards or their applicability to the Group's business could lead to lower sales or increased operating costs, which would result in lower profitability and earnings.

The products of the Group are also subject to multiple quality and safety controls and regulations, and are governed by both national and supranational standards, though the majority of the lineup complies with world-recognized International Electrotechnical Commission (IEC) standards. Costs of compliance with new or more stringent standards and regulations could affect its business if the Group is required to make capital expenditures or implement other measures.

Since the Group's products comply with the dominant standards in its host markets, the Group is able to meet most all of its customers' needs.

### Claims, litigation and other risks

In 2001, Schneider Electric made a public offer to purchase Legrand as part of a proposed merger project. When the offer closed in July 2001, the Company held 98.1% of Legrand. In an initial decision dated October 10, 2001, the European Commission vetoed the merger, and in a second decision dated January 30, 2002, it ordered the two companies to separate as quickly as possible. As a result, Schneider Electric sold its interest in Legrand to the KKR-Wendel Investissement consortium even though the Court of First Instance of the European Communities overruled the Commission's decisions on October 22, 2002. Schneider Electric launched proceedings against the European Commission to obtain damages for the prejudice caused, estimated at €1.6 billion. Hearings are scheduled for 2007.

Following public offers launched in 1993 by SPEP (the Group holding company at the time) for its Belgian subsidiaries Cofibel and Cofimines, Belgium initiated proceedings against former Schneider Electric executives in connection with the former Empain-Schneider Group's management of its Belgian subsidiaries. At the end of March 2006, the Brussels criminal court (tribunal correctionnel) ruled that some of the defendants were responsible for certain of the alleged offenses. The court also appointed an expert to assess the loss suffered by those plaintiffs whose claims were ruled admissible. The Group and its Belgian subsidiaries Cofibel and Cofimines were held civilly liable for the actions of their senior executives who were found liable. The Group is paying the legal expenses not covered by insurance of the former executives involved.

## Description of the company and its businesses

In connection with the divestment of Spie Batignolles, the Group booked provisions to cover the risks associated with certain major contracts and projects. Most of the risks were extinguished during 1997. Provisions were booked for the remaining risks, based on management's best estimate of the expected financial impact.

The Group is not aware of any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) during a period covering at least the previous 12 months, which may have, or have had in the recent past significant effects on the Group and/or the Group's financial position or profitability.

### Insurance

The Group's strategy for managing insurable risks is designed to defend the interests of employees and customers and to protect the environment, the Company's assets and its shareholders' investment. This strategy entails:

- Identifying and quantifying risk using different reporting systems.
- Preventing risks. The Group has a realistic prevention policy to ensure safety at its sites. The Triple A approach, conducted with insurance company experts, aims to enhance processes to control and manage risks by identifying vulnerable areas and implementing appropriate solutions to preserve the long-term sustainability of the Group's manufacturing resources and business. This approach builds on preventive measures already in place such as regular inspections, danger and vulnerability studies, safety management for people and equipment and security plans. As concerns risks of average frequency and intensity, the Group also has ongoing programs to prevent traffic accidents and work accidents and reduce transportation risk.
- Organizing and deploying crisis management resources, notably for technical and political risks and natural disasters.
- Maintaining the necessary insurance cover for the main risks facing Group companies (civil liability, property damage and business interruption, environmental accidents and transportation risk), under global programs. The Group continues to carefully screen insurance and reinsurance companies and evaluate their solvability. To maintain essential levels of cover while also optimizing insurance costs in light of constraints in the insurance and reinsurance markets, the Group has adopted a policy of self-insuring a certain number of recurring risks, whose frequency and financial impact can be reliably estimated (primarily automobile risks). Through its reinsurance subsidiary, the Group covers moderate property damage, business interruption and civil liability risks. The amounts involved are not material at the consolidated level.

In addition, the Group has taken out specific cover in response to certain local conditions, regulations or the requirements of certain risks, projects and businesses.

This cover has been renewed in 2007.

### Liability insurance

The Group is covered by a global liability insurance program. Insured values under this program total €230 million, representing adequate coverage of the Group's exposure to liability claims in connection with its businesses.

### Property and casualty/business interruption insurance

A global property and casualty/business interruption insurance program has been set up for the Group in all countries except for the United States, Canada and Mexico where a separate program has been established to take account of the specific requirements and characteristics of the North American market. Aggregate settlements under the global program are capped at €250 million and specific limits apply to certain risks, such as earthquake damage and machine damage. In 2007, a combined program will be set up, covering all sites worldwide. In 2006, external auditors prepared a report on the impact of a major event causing an interruption of one of the Group's businesses. The external auditors' findings were used to develop an analysis model that the Group is planning to roll out to other businesses.

### Transport insurance

A global transport insurance program has been set up for the Group in all countries except for the United States, Canada and Mexico where a separate program has been established to take account of the specific requirements and characteristics of the North American market. The program covers all goods shipments, including between Group facilities, by all means of transport, with a maximum insured value of €15.2 million per convoy.

# 2

# Corporate governance

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*This report includes the Chairman's report on the operations of the Supervisory Board and internal control.*

## **A Management Board/ Supervisory Board system**

To achieve a seamless transfer of powers to a new Chairman and support the ongoing implementation of the Group's growth strategy, at the Annual Shareholders' Meeting of May 3, 2006, the Board of Directors recommended changing to a two-tier management structure, with a Management Board and a Supervisory Board. Shareholders approved this recommendation and voted to amend the Company's bylaws accordingly, as well as electing the members of the new Supervisory Board. After the Annual Shareholders' Meeting, the new Supervisory Board met to appoint the members of the Management Board.

The Company applies AFEP-MEDEF corporate governance guidelines.

## **1. Supervisory Board**

The Supervisory Board may have between three and eighteen members, all of whom must be natural persons.

Throughout their term, Supervisory Board members must hold at least 250 Schneider Electric SA shares.

Supervisory Board members are elected for a four-year term and are eligible for re-election. However, in line with the AFEP-MEDEF recommendation that Supervisory Board members should retire by rotation, one half of the members of the first Supervisory Board were elected for an initial term of two years.

The age limit for holding office as a member of the Supervisory Board is 74 and no more than one third of the members may be aged over 70.

The Supervisory Board elected on May 3, 2006 has twelve members and one non-voting member. Nine qualify as independent directors according to the definition contained in the AFEP-MEDEF report on corporate governance. Four are foreign nationals (from the United States, the United Kingdom, Italy and Switzerland). Employee shareholders are represented by a member who sits on the Supervisory Board of the "Schneider Actionnariat" corporate mutual fund. The average age of Supervisory Board members is 62.

## Supervisory Board

(as of December 31, 2006)

### Chairman of the Supervisory Board

#### Henri Lachmann

Age: 68
Business address: Schneider Electric 43-45 bd Franklin Roosevelt – 92500 Rueil Malmaison, France
20,648 <sup>(1)</sup> Schneider Electric shares
First elected: 1996 / Current term ends: 2010

#### Other directorships and functions in French or foreign companies

■ Currently: Chairman of the Supervisory Board of Schneider Electric SA; Director of various AXA subsidiaries and Ansa; Member of the Supervisory Boards of Vivendi, AXA and Norbert Dentressangle; Chairman of the Board of Directors of Centre Chirurgical Marie Lannelongue; Chairman of Fondation pour le Droit Continental; Member of Conseil des Prélèvements Obligatoires; Member of the Steering Committee of Institut de l'Entreprise; Non-voting director of Fimalac and Tajan.

■ Previous directorships and functions held in the past five years: Chairman and Chief Executive Officer of Schneider Electric SA; Chairman of Schneider Electric Industries SAS; Director of a number of Schneider Electric Group subsidiaries, Vivendi Universal, Etablissements de Dietrich & Cie, Finaxa, Fimalac Investissements; Member of the International Committee of Daimler Benz.

#### Expertise and experience

A graduate of Hautes Etudes Commerciales (HEC), Henri Lachmann began his career in 1963 with Arthur Andersen. In 1970, he joined Compagnie Industrielle et Financière de Pompey. In 1971, he became Chief Executive Officer of Financière Strafor (later Strafor Facom), where from 1981 to 1997 he served as Chairman and Chief Executive Officer. He was elected to the Schneider Electric SA Board of Directors in 1996 and was appointed Chairman on February 25, 1999. On May 3, 2006, he became Chairman of the Supervisory Board of Schneider Electric SA.

### Vice Chairman of the Supervisory Board

#### Serge Weinberg\*

Age: 56
Business address: Capital Partners 40 rue de la Boétie - 75008 Paris, France
500 Schneider Electric shares
First elected: 2005 / Current term ends: 2010

#### Other directorships and functions in French or foreign companies

■ Currently: Vice Chairman of the Supervisory Board of Schneider Electric; Chairman of the Board of Directors of Accor; Chairman and Chief Executive Officer of

Weinberg Capital Partners; Member of the Supervisory Board of Gucci Group; Director of FNAC, RASEC (since February 2006), Team Partners Group (since November 20, 2006), Alliance Industrie (since October 5, 2006) and Financière Poinsetia (since September 11, 2006); General Manager of Adoval and Maremma.

■ Previous directorships and functions held in the past five years: Chairman of the Management Board of Pinault-Printemps-Redoute; Chairman of the Supervisory Boards of France Printemps, Conforama Holding, Guilbert SA and Redcats; Member of the Supervisory Boards of Yves Saint-Laurent Parfum, Boucheron Holding and PPR Interactive (PPR's permanent representative); Director of Schneider Electric, Rexel and PPR Asia; Tennessee's permanent representative on the Board of Directors of Bouygues; General Manager of Serole.

#### Expertise and experience

After graduating from France's Ecole Nationale d'Administration, Serge Weinberg held several positions in the civil service and ministerial offices. He then served as Chief Operating Officer of French television channel FR3, Chief Executive Officer and then Chairman of the Management Board of Havas Tourisme, and Managing Director of Banque Pallas Finance. In 1990, Serge Weinberg joined what would become Pinault-Printemps-Redoute (PPR) when he became Chief Executive of CFAO. Within PPR, he served as Chairman of Rexel (formerly CDME), an electrical equipment distributor. In 1995, he was appointed Chairman of the PPR Management Board, a position he held until early 2005.

### Members of the Supervisory Board

#### Alain Burq

Age: 53
Business address: Schneider Electric Industries SAS 89 bd Franklin Roosevelt – 92500 Rueil Malmaison, France
2,047 <sup>(1)</sup> Schneider Electric shares
First elected: 2000 / Current term ends: 2008

#### Other directorships and functions in French or foreign companies

■ Currently: Member of the Supervisory Boards of Schneider Electric and the "Schneider Actionnariat" corporate mutual fund; Responsible for special projects at Schneider Electric's Finance Department.

■ Previous directorships and functions held in the past five years: Director of Schneider Electric and Chairman of Ordosoftware.

#### Expertise and experience

A graduate of Ecole Supérieure de Commerce de Paris, Alain Burq also has an MBA from the Wharton School of the University of Pennsylvania. In 1982, he joined Schneider Electric subsidiary Spie Batignolles, where he held various positions until 1998, when he moved to Schneider Electric. He has been in charge of special projects for the Finance department since 2005.

## Gérard de La Martinière\*

Age: 63
Business address: Fédération Française des Sociétés d'Assurances 26 Boulevard Haussmann - 75008 Paris, France
1,606 Schneider Electric shares
First elected: 1998 / Current term ends: 2010

### Other directorships and functions in French or foreign companies

■ Currently: Member of the Supervisory Board of Schneider Electric, Chairman of Fédération Française des Sociétés d'Assurances (F.F.S.A), Chairman of the European Insurance Committee (CEA), Director of Air Liquide.

■ Previous directorships and functions held in the past five years: Member of the Management Board of AXA; Director of Schneider Electric; Director and Chief Executive Officer of Finaxa; Director of Crédit Lyonnais; Director or Chairman of various AXA subsidiaries; including Compagnie Financière de Paris and Ateliers de Construction du Nord de la France (ANF); Chairman of the Board of Directors of LCH Clearnet Group Ltd., London.

### Expertise and experience

A graduate of Ecole Polytechnique and Ecole Nationale d'Administration, Gérard de La Martinière held several positions in the French Finance Ministry before serving as Secretary General of Commission des Opérations de Bourse and General Manager of Société des Bourses Françaises. In 1989, he joined AXA, where he was appointed Executive Vice-President, Holding Companies and Corporate Functions in 1993, member of the Management Board in 1997 and Executive Vice-President, Finance, Budget Control and Strategy in 2000. He left AXA in 2003 to become Chairman of Fédération Française des Sociétés d'Assurances (F.F.S.A).

## René Barbier de La Serre\*

Age: 66
Business address: Compagnie Financière Edmond de Rothschild - 47 Rue Faubourg Saint-Honoré - 75008 Paris, France
2,000 Schneider Electric shares
First elected: 2002 / Current term ends: 2008

### Other directorships and functions in French or foreign companies

■ Currently: Member of the Supervisory Board of Schneider Electric; Director of Nord-Est, Sanofi-Aventis, Pinault-Printemps-Redoute and Harwanne Compagnie de Participations Industrielles et Financières SA (Geneva); Member of the Supervisory Boards of Compagnie Financière Saint-Honoré, La Compagnie Financière Edmond de Rothschild Banque and Euronext NV (Amsterdam); Non-voting director of Fimalac.

■ Previous directorships and functions held in the past five years: Chairman of the Supervisory Board of Edmond de Rothschild Private Equity Partners; Chair-

man of the Board of Directors of Tawa UK Ltd (London); Chairman and Chief Executive Officer of Continentale d'Entreprises; Member of the Supervisory Boards of Pinault Printemps Redoute; Director of Schneider Electric, Calyon, Crédit Lyonnais, Fimalac Investissements and AOBA Life (Japan); Non-voting director of Nord-Est; Compagnie Financière Saint-Honoré's permanent representative on the Supervisory Board of Compagnie Financière Edmond de Rothschild Banque; Advisor to the Chairman of Crédit Commercial de France.

### Expertise and experience

After graduating from Ecole Polytechnique and Institut d'Etudes Politiques de Paris, René Barbier de La Serre joined Banque de l'Union Européenne in 1963, later becoming Deputy Director. In 1973, he moved to Crédit Commercial de France (CCF), where he was appointed Managing Director in 1987 and Vice Chairman and Chief Executive Officer in 1993. He left CCF in 1999. From 1988 to 1998, René Barbier de La Serre was a member of Conseil des Marchés Financiers (formerly Conseil des Bourses de Valeurs), serving as Chairman from 1994 to 1998. In this capacity, he was a member of the Collège de la Commission des Opérations de Bourse.

## Noël Forgeard\*

Age: 60
Business address: -
250 Schneider Electric shares
First elected: 2005 / Current term ends: 2010

### Other directorships and functions in French or foreign companies

■ Currently: Member of the Supervisory Board of Schneider Electric ; Director of Dassault Aviation and Ecole Polytechnique; Member of the Committee of France Galop.

■ Previous directorships and functions held in the past five years: Chairman and Chief Executive Officer of Airbus Holding SA; Chairman of the Board of Directors of Airbus France; Chairman or Director of various Airbus subsidiaries; Director of EADS, Schneider Electric, Arcelor, IMS SA; Chief Executive Officer of EADS.

### Expertise and experience

A graduate of Ecole Polytechnique and Ecole des Mines, Noël Forgeard began his career in the French civil service before joining Usinor subsidiary Compagnie Française des Aciers Spéciaux. In 1986, he served as an advisor on industrial issues in Prime Minister Jacques Chirac's office. In 1987, he joined Lagardère, where he headed Matra's defense and space divisions. Five years later, he became Chairman and Chief Executive Officer of Matra Haute Technologie and joint Chief Executive Officer of the Lagardère Group. In 1998, he was appointed Director and General manager of GIE Airbus-Industrie, and in 2000, CEO of Airbus SAS. From July 1, 2005 to July 1, 2006 he was co-Executive Chairman of EADS.

\* Independent Supervisory Board member, as defined in the Bouton report on corporate governance.

(1) Directly or through the corporate mutual fund.

**M. Jérôme Gallot \***

Age: 47
Business address: CDC Entreprises 33 avenue du Maine BP 174 - 75755 Paris Cedex 15, France
250 Schneider Electric shares
First elected: 2005 / Current term ends: 2008

**Other directorships and functions in French or foreign companies**

■ Currently: Member of the Supervisory Boards of Schneider Electric and Caisse Nationale de Prévoyance (CNP Assurances); Chairman of CDC Entreprises; Director of Compagnie Nationale de Rhône (CNR); ICADE; Caixa Seguros and Plastic Omnium.

■ Previous directorships and functions held in the past five years: Senior Executive Vice President, Caisse des Dépôts et Consignations; Director of Schneider Electric; Director of Crédit Foncier de France, Galaxy Fund and Galaxy Management Services; Chairman of the Austral Sicav investment fund.

**Expertise and experience**

Jérôme Gallot is a graduate of Institut d'Etudes Politiques de Paris and Ecole Nationale d'Administration. After three years with the Cour des Comptes, he served as an advisor to the Secretary General of the interministerial committee for European economic cooperation, from 1989 to 1992, and then moved the Budget department. He was then Chief of Staff in a number of French ministries, from 1993 to 1997. In 1997, he was appointed Director of the Competition, Consumer Affairs and Anti-Fraud Division of the Ministry of the Economy and Finance. He left this position in 2003 to become Senior Executive Vice President at Caisse des Dépôts et Consignations. He was appointed Chairman of CDC Entreprises in September 2006.

**Willy R. Kissling \***

Age: 62
Business address: Poststrasse no. 4 - BP 8808 Pfaeffikon, Switzerland
1,250 Schneider Electric shares
First elected: 2001 / Current term ends: 2008

**Other directorships and functions in French or foreign companies**

■ Currently: Member of the Supervisory Board of Schneider Electric; Director of Holcim Ltd (cement), Kühne + Nagel International AG (logistics); Chairman of the Board of Directors of Grand Hotels Bad Ragaz AG; Member of the Booz Allen Hamilton European Advisory Board.

■ Previous directorships and functions held in the past five years: Director of Schneider Electric; Chairman of the Board of Directors and Chairman and CEO of Unaxis Corporation (renamed OC Oerlikon Corp.); Vice Chairman and later Chairman of Forbo Holding AG and SIG Holding Ltd.

**Expertise and experience**

Willy Kissling, a Swiss citizen, holds diplomas from the University of Bern and Harvard University. He began his career at Amiantus Corporation and then joined Rigips, a plasterboard manufacturer, in 1978. He was appointed to the Rigips Executive Committee in 1981 and subsequently became Chairman. From 1987 to 1996, he served as Chairman and Chief Executive Officer of Landis & Gyr Corporation, a provider of services, systems and equipment for building technology, electrical contracting and pay phones. From 1998 to 2005, he was Chairman of Unaxis Corporation, also serving as Chairman and Chief Executive Officer from 1998 to 2002.

**Cathy Kopp \***

Age: 58
Business address: Accor 33 Avenue du Maine – 75015 Paris, France
250 Schneider Electric shares
First elected: 2005 / Current term ends: 2010

**Other directorships and functions in French or foreign companies**

■ Currently: Member of the Supervisory Board of Schneider Electric, Executive Vice President, Human Resources and Sustainable Development, Accor.

■ Previous directorships and functions held in the past five years: Non-voting Director of Schneider Electric SA, Vice-President, Corporate Human Resources and member of the Executive Committee of LVMH.

**Expertise and experience**

After earning a degree in mathematics, Cathy Kopp joined IBM France in 1973. In 1992, she became Human Resources Director at IBM France. In 1996, she was appointed Vice-President Human Resources at IBM Corp.'s Storage Systems Division. In 2000, Cathy Kopp became Chairman and CEO of IBM France. She joined Accor in 2002 as Human Resources General Manager. She is a member of the board of Haute Autorité de Lutte contre les Discriminations (Halde), France's equal opportunities commission, and Chairman of the employee relations commission of the Service Industry Group of the French employers' federation (Medef). In 2006, she led the Medef's inter-industry negotiations on diversity.

**James Ross \***

Age: 68
Business address: Flat 4 55, Onslow Square – London SW7 3LR England
300 Schneider Electric shares
First elected: 1997 / Current term ends: 2010

**Other directorships and functions in French or foreign companies**

■ Currently: Member of the Supervisory Board of Schneider Electric; Director of McGraw-Hill Inc., Datacard Inc., Prudential plc; Chairman of the Leadership Foundation for Higher Education.

■ Previous directorships and functions held in the past five years: Chairman of Littlewoods plc, Chairman of the National Grid, Vice-Chairman of National Grid Transco.

#### **Expertise and experience**

James Ross, a British subject, is a graduate of Oxford University. In 1959 he joined BP, where he held several positions before becoming a Managing Director in 1991. He was Managing Director of Cable & Wireless plc from 1992 to 1995, when he was appointed Chairman of the National Grid. After National Grid merged with Transco in 1999, he served as Vice-Chairman of National Grid Transco from 2002 to 2004.

#### **Chris Richardson**

Age: 62
Business address: 2321 Tanglewood Brok Lane 35243 Birmingham, Alabama (USA)
250 Schneider Electric shares
First elected: 2004 / Current term ends: 2008

#### **Other directorships and functions in French or foreign companies**

■ Currently: Member of the Supervisory Board of Schneider Electric.

■ Previous directorships and functions held in the past five years: Former Executive Vice-President of Schneider Electric's North American Division; Director of Square D, Financière MGE, MGE Finances SAS, MGE-UPS Systems, Schneider (Thailand) Ltd.

#### **Expertise and experience**

A US citizen, Chris Richardson graduated from Iowa State University after serving in the US Air Force from 1964 to 1968 and joined Square D in 1971. He spent his entire career with the company, which was acquired by Schneider Electric in 1991. From 1998 to January 2004, he served as Executive Vice-President of Schneider Electric's North American Division.

#### **Piero Sierra \***

Age: 72
Business address: Pirelli SpA Viale Sarca 222 – 20126 Milan, Italy
1,000 Schneider Electric shares
First elected: 1997 / Current term ends: 2008

#### **Other directorships and functions in French or foreign companies**

■ Currently: Member of the Supervisory Board of Schneider Electric; Director of Pirelli Group companies: Pirelli SpA (Milan), Alexandria Tire Corp, Pirelli Deutschland AG, Pirelli Neumaticos Saic, Pirelli UK Tyres, Turk Pirelli Lastikleri AS, Pirelli North America Inc and Pirelli SA (Brazil).

■ Previous directorships and functions held in the past five years: Director of Schneider Electric SA, Pirelli Cables Et Systemes SA, Pirelli Armstrong Tire Corp, Pirelli Cable Corporation, Pirelli Cables Ltd, Pirelli

Cables Saic, Pirelli Cabos SA, Pirelli Canada Inc, Pirelli Tyre Holding Nv, Pirelli UK Tyres and Turk Pirelli Lastikleri AS.

#### **Expertise and experience**

Piero Sierra, an Italian citizen with a degree in humanities from the University of Lyon, joined the Pirelli Group in 1962. He held management positions in Italy and abroad before becoming Director and Chief Executive Officer of Pirelli SpA from 1991 to 1995.

Mr. Sierra is Chairman of A.I.R.C. (Italian Association for Cancer Research) and F.I.R.C. (Italian Foundation for Cancer Research).

#### **Non-voting member**

#### **Claude Bébéar**

Age: 71
Business Address: AXA 25 Avenue Matignon, 75008 Paris, France
250 Schneider Electric shares
First elected: 2004 / Current term ends: 2010

#### **Other directorships and functions in French or foreign companies**

■ Currently: Non-voting Director of Schneider Electric SA; Chairman of the Supervisory Board of AXA; Director of various subsidiaries of AXA and BNP Paribas; Member of the Supervisory Board of Vivendi.

■ Previous directorships and functions held in the past five years: Chairman and Director of various AXA subsidiaries, including AXA Financial; Chairman and Chief Executive Officer of Finaxa ; Director of Schneider Electric SA and Vivendi Universal.

#### **Expertise and experience**

A graduate of Ecole Polytechnique, Claude Bébéar joined in 1958 the mutual insurance company that would become AXA in 1985. He was appointed Chairman and Chief Executive Officer of the company in 1975.

From late 1996, when AXA merged with UAP, until 2000, when he was appointed Chairman of the Supervisory Board, Mr. Bébéar served as Chairman of AXA's Management Board and Chairman of its Executive Committee.

\* Independent Supervisory Board member, as defined in the Bouton report on corporate governance.

## 2. Organizational and operating procedures of the Supervisory Board\*\*

The Supervisory Board exercises ongoing control over the Management Board's management of the Company, in accordance with French law. To this end, it performs all the checks and controls that it considers appropriate and obtains copies of any and all documents that it considers necessary to allow it to fulfill its duties.

Specific powers are vested in the Supervisory Board under French law and the Company's bylaws. These include the power to:

- Appoint the Management Board, determine the number of members and their compensation and designate the Chairman.
- If necessary, remove Management Board members from office.
- Authorize debt and equity financing transactions that will have a substantial effect on the Company's balance sheet structure.
- Authorize material business acquisitions and disposals.
- Authorize the creation of stock option plans or stock grant plans.
- Authorize the signature of regulated related party agreements.
- Authorize the issuance of bonds and other guarantees, subject to compliance with French law.

The Supervisory Board may appoint one or two non-voting members to assist it and/or decide to create Committees of the Board. It draws up internal rules and procedures covering its activities, and decides the allocation of the total attendance fees awarded to the Supervisory Board by the shareholders in General Meeting.

The Supervisory Board's internal rules and procedures adopted on May 3, 2006 – which include the internal rules and procedures of the Board committees (the Remunerations and Appointments & Corporate Governance Committee and the Audit Committee) as well as the directors' charter recommended under AFEP- MEDEF corporate governance guidelines – comprises 13 articles:

**Article 1** defines the Board's role and powers (see above). It also specifies the Management Board decisions that require the prior approval or consultation of the Supervisory Board.

**Article 2** defines the principles applied by the Board concerning the renewal of its membership. These include assuring international representation by maintaining a significant number of non-French members, maintaining independence through a majority of independent members as defined in the AFEP-MEDEF corporate governance guidelines, ensuring continuity through the re-election of a certain proportion of the members each year and enabling representation of employee shareholders by a member who sits on the Supervisory Board of a mutual fund invested in the Company's shares.

**Article 3** defines the procedures for organizing and

conducting Board meetings (notice of meeting, methods of participation, minutes, etc.).

**Article 4** defines the role and powers of the Supervisory Board's Chairman. The Chairman leads the work of the Board and is regularly informed by the Management Board's Chairman of material events and developments in the life of the Group.

**Article 5** concerns the information received by the Supervisory Board. It stipulates that Supervisory Board members shall receive any and all information required to enable them to fulfill their duties and that they may request any and all necessary or relevant documents prior to any meeting of the Board. The article also describes the content of the Management Board's quarterly reports to the Supervisory Board, to be drawn up in accordance with article L.225-68 of the French Commercial Code.

**Article 6** defines the status of Supervisory Board members. Corresponding to the director's charter contained in the AFEP-MEDEF corporate governance guidelines, it states that Supervisory Board members must:

- Represent all shareholders and act in the corporate interest.
- Resign from the Board when they have not participated in more than half the Board meetings.
- Comply with an overall obligation of confidentiality.
- Report any and all conflicts of interest.
- Hold at least 250 shares of Company stock.
- Comply with strict rules governing transactions in Company stock (in particular, no transactions may be carried out during the month before the annual or half-yearly results are announced).
- Attend Shareholders' Meetings.

**Article 7** states that non-voting members, who attend Supervisory Board meetings in a consultative capacity, are subject to the same ethical rules as voting members.

**Articles 8 to 10** concern the Board Committees and are described in the corresponding section below.

**Articles 11 and 13** define the scope of the internal rules and procedures.

**Article 12** allows for the Management Board to allocate management tasks among its members, with the Supervisory Board's authorization.

To ensure that Board members are fully prepared, the Company sends them the meeting agenda ten days before upcoming Board meetings, along with draft minutes of the previous meeting. Four to five days beforehand, the members also receive a meeting file. The file for the meeting held to approve the annual or interim financial statements includes the financial statements approved by the Management Board (in the case of the interim financial statements, the file may not be available until closer to the meeting date). The file includes notes or the text of presentations scheduled on the agenda, as well as, when appropriate, any draft reports and the consolidated or parent company financial statements. A supplementary file may also be provided at the meeting.

Supervisory Board meetings are attended by the members of the Management Board and Executive Committee members may be invited to make presen-



tations on major issues within their area of responsibility. The external Auditors attend the Board meetings held to approve the annual and interim financial statements.

Between meetings, aside from conversations they may have with the Chairman of the Management Board, Supervisory Board members receive a monthly Letter to Supervisory Board Members, a weekly press review, all of the Company's press releases, financial analysts' reports and other documents.

Members also have the opportunity to meet informally with key members of senior management prior to Board meetings. New members attend training and information sessions dealing with the Company's strategy and businesses.

Schneider Electric has adopted a code of ethics for Supervisory Board members and employees designed to prevent insider trading. Under the terms of this code, both Supervisory Board members and employees are barred from trading Schneider Electric shares SA and shares in companies for which they have information that has not yet been made public. In addition, they may not trade Schneider Electric SA shares during the 30 days preceding publication of the annual and interim financial statements, nor may they engage in any type of speculative trading involving Schneider Electric SA shares. This includes margin trading, trading in options and warrants and purchasing and re-selling shares in a period of less than four months.

### **3. Board of Directors' meetings in the period from January 1 to May 3, 2006 and Supervisory Board meetings in the period from May 3, 2006 to early 2007\*\***

#### **Board of Directors**

Three meetings were held in early 2006. The meetings lasted an average of 2 hours and 40 minutes and the average participation rate was 93%. They were primarily devoted to the Company's corporate governance, reviewing the financial statements and preparing the Annual Shareholders' Meeting.

At its meeting of January 6, 2006, the Board of Directors discussed the issue of the Chairman's succession. On Mr. Lachmann's suggestion, seconded by the Remunerations and Appointments & Corporate Governance Committee, the Board decided to ask shareholders to approve a change in the corporate governance system at the Annual and Extraordinary Meeting of May 3, 2006. The system would comprise a Supervisory Board, chaired by Mr. Lachmann and made up of the current members of the Board of Directors, and a Management Board, made up of Jean-Pascal Tricoire and Pierre Bouchut. Mr. Tricoire would chair the Management Board.

The Board reviewed the Remunerations and Appointments & Corporate Governance Committee's report on the second self-assessment of its performance. The Board Secretary assisted with this assessment in the fall of 2005 by sending to Directors a questionnaire drawn up by the Remunerations and Appointments & Corporate Governance Committee. The questions concerned the Board of Directors' membership, missions and operating procedures; its relations with the Chairman and CEO; and the Committees' organization and operating procedures. The Board of Directors analyzed the conclusions provided in a report prepared by the Remunerations and Appointments & Corporate Governance Committee. The report revealed that the Directors were very satisfied with the way in which the Board operates ("the Chairman makes excellent use of the Board", "the quality of the discussions are a real strength for the Company"). The Board was rated very favorably in general, as well as in comparison to other Boards and to the first self-assessment carried out in 2002. The main areas for improvement involved deeper contacts with corporate management and the units.

After discussing the Remunerations and Appointments & Corporate Governance Committee's report, the Board approved the Chairman and Chief Executive Officer's compensation package, including the degree to which his personal targets were met in 2005 and the rules governing his fixed and variable compensation for 2006. During the meeting on May 3, 2006, the Board determined the degree to which the targets were met in the first four months of the year.

At its meeting on February 15, 2006, the Board of Directors closed the 2005 accounts, based on the Audit Committee's report and after seeking the opinion of the external Auditors who attended the meeting, and set the 2005 dividend to be submitted for shareholder approval at €2.25 per share.

The Board reviewed the Group's strategic targets for 2006 and, during its three meetings, authorized the acquisition of Invensys' Building Management Systems business in North America and the German-based Merten companies (Ultra Terminal).

The Board called the 2006 Annual Shareholders' Meeting and approved the reports and resolutions to be presented at the Meeting. It also discussed the Chairman's report on the Board's activities and on internal control, and examined and approved the replies to written questions submitted by shareholders under the procedure provided for in article L.225-108 of the French Commercial Code. Thirteen of the fourteen Directors were present at the Annual Shareholders' Meeting, which adopted all the resolutions tabled.

The Board of Directors also carried out the procedures required by law. These include reviewing budgets and business plans and placing on record capital increases. Lastly, in line with the statutory procedure governing related party agreements, the Board authorized the signature of a shareholder agreement with AXA, concerning the AXA and Schneider Electric groups' respective interests in each other's capital.

*\*\*Paragraphs 2 through 4 and paragraph 8 make up the Chairman's report prepared in accordance with article L225-68 of the French Commercial Code.*

### Supervisory Board

The Supervisory Board met six times between May 3, 2006, when it was set up, and the end of the year. The meetings lasted an average of 2 hours and 50 minutes and the average participation rate was 88%. They were primarily devoted to the Company's corporate governance and strategy, and reviewing the interim financial statements.

At the meeting held immediately after the Annual Shareholders' Meeting of May 3, the Supervisory Board set up the new corporate governance structures.

It appointed Henri Lachmann as Chairman, Serge Weinberg as Vice Chairman and Claude Bébéar as a non-voting member and also adopted its internal rules and procedures. The Board determined the membership of its two committees, appointing Henri Lachmann as chairman and Claude Bébéar, Willy Kissling and René de la Serre as members of the Remunerations and Nominations & Corporate Governance Committee, and Gérard de la Martinière as chairman and James Ross, Piero Sierra and Serge Weinberg as members of the Audit Committee. James Ross was also given specific responsibility for examining sustainable development issues. During the meeting, the Board set the compensation payable to the Chairman and determined the rules to be applied for the allocation of attendance fees, including variable fees based on each individual's attendance rate at Supervisory Board meetings.

The Board decided that the Management Board would have two members and appointed Jean-Pascal Tricoire as its Chairman and Pierre Bouchut as the second member. It determined the status of, and the compensation payable, to the Chairman of the Management Board. The pension and insurance arrangements for Jean-Pascal Tricoire and the terms and conditions governing the reinstatement and termination of his employment contract with Schneider Electric Industries SAS were adopted under the procedure applicable to related party agreements.

The Supervisory Board conducted an in-depth review of the Company's strategy in a one-day meeting devoted entirely to this topic, held at the Electropole R&D center in Grenoble. At the close of a specific meeting held on October 25, 2006 to review the proposed acquisition of American Power Conversion, the Supervisory Board authorized the Management Board to move forward with the transaction and to issue €4.5 billion in debt and more than €1 billion in equity to finance or refinance the acquisition. The project was first presented to the Supervisory Board at a meeting on October 4. At each of its meetings, the Supervisory Board was informed of the status of proposed acquisitions that had been presented to the Board of Directors.

At each meeting, the Board also devoted time to monitoring business performance. It reviewed the Company's financial information policy and ensured consistent compliance with market disclosure requirements, notably through an analysis of market consensus and the issuance of press releases.

After reviewing the Company's financial strategy, the Supervisory Board authorized a €1 billion bond issue, carried out in two tranches during July 2006.

At its meeting on July 27, 2006, the Board reviewed the interim financial statements for the six months

ended June 30, 2006 based on the Audit Committee's report and after seeking the opinion of the external Auditors who attended the meeting.

The Audit Committee reported to the Board on the work carried out by the internal auditors and the Board also kept up to date on major risks such as the Bridge information systems project and bird flu.

The Supervisory Board authorized the Management Board to set up stock option or stock grant plans – particularly the 2007 plan – and to carry out an employee share issue (the 2007 worldwide ESPP).

The Supervisory Board also carried out the procedures required by law, which include reviewing budgets and business plans.

## 4. Committees of the Supervisory Board (members, operating procedures and meetings)\*\*

The Supervisory Board has drafted internal rules governing the operating procedures and missions of the Audit Committee and the Remunerations and Appointments & Corporate Governance Committee. Their members are appointed by the Supervisory Board, based on recommendations from the Remunerations and Appointments & Corporate Governance Committee. After checking with the Chairman of the Supervisory Board, the Committees may commission research from outside consultants, and they may also invite any persons of their choice to attend their meetings, as required.

### Audit Committee

#### Members

The Supervisory Board's internal rules stipulate that the Audit Committee must have at least three members. Two thirds of the members must be independent and at least one must have in-depth knowledge of accounting standards combined with hands-on experience of applying these standards and producing financial statements.

No changes were made to the membership of the Audit Committee following the replacement of the Board of Directors by the Supervisory Board. The four members – Gérard de La Martinière (chairman), James Ross, Piero Sierra and Serge Weinberg, are all independent.

#### Meetings

The Audit Committee meets at least four times a year. Meetings are called by the Committee chairman, the Supervisory Board Chairman or the Management Board Chairman.

The external Auditors attend the meetings devoted to examining the annual and interim financial statements and the Committee may also invite any other persons of its choice to answer its questions.

The Audit Committee may ask the Management Board for copies of any and all documents that it considers relevant or useful.

### Responsibilities

A key component of the Company's internal control system, the Audit Committee is responsible for preparing the decisions of the Supervisory Board, making recommendations to the Board and issuing opinions on financial, accounting and risk management issues. In line with these terms of reference, it:

- Prepares the Supervisory Board's review of the annual and interim financial statements presented by the Management Board, in particular by:
  - Ensuring that accounting policies used to prepare the consolidated and parent company financial statements are appropriate and applied consistently, that all significant transactions are properly reflected in the consolidated financial statements and that the rules governing the scope of consolidation are correctly applied.
  - Analyzing risks, off-balance sheet commitments and the cash position.
- Reviews the annual and interim reports drawn up by the Management Board.
- Makes recommendations, based on a review of service proposals, concerning the appointment or re-appointment of the external Auditors.
- Examines the scope of audit engagements and the results of audits, as well as verifying the Auditors' independence, in particular by reviewing fees paid by the Group to their firm and network.
- Reviews the internal audit organization and resources, as well as the internal audit program and the executive summary of the internal auditors' reports and the action taken to implement the internal auditors' recommendations.
- Examines proposed dividend distributions and the amount of financial authorizations submitted for shareholder approval at the Annual Meeting.

The Audit Committee examines all financial, accounting and risk management issues referred to it by the Management Board, or by the Supervisory Board or its Chairman.

In addition, prior to the Committee's review of the annual and interim financial statements, the Audit Committee Chairman meets with the external Auditors alone, without any Company representatives present.

The Audit Committee Chairman also meets with the head of Internal Audit four times a year without any other Company representative present.

The Audit Committee presents its findings and recommendations to the Supervisory Board and distributes the minutes of its meetings to the Supervisory Board members.

### Meetings in 2006

In 2006, the Audit Committee of the Board of Directors or the Supervisory Board met four times. The average duration of the meetings was 2 hours and 15 minutes and the average attendance rate was 94%.

Each meeting was attended by members of the Finance Department and the head of Internal Audit. The external Auditors were also present for most of the

meetings. In addition, the Committee interviewed the heads of the Operating Divisions. Neither the Chairman of the Board of Directors nor the Chairman of the Management Board attended Audit Committee meetings in 2006.

The Audit Committee reviewed the annual and interim financial statements and the management reports.

It also reviewed the work of the internal and external auditors. During its review of risks, the Committee examined the measures put in place to prevent the spread of bird flu, as well as the action taken to implement the RoHS (Restriction of Hazardous Substances) and WEEE (Waste from Electrical and Electronic Equipment) directives. It also reviewed the goodwill recognized on recent business combinations.

The Committee made recommendations to the Board of Directors concerning the 2005 dividend.

It verified the external Auditors' independence, in particular by reviewing fees paid by the Group to their firm and network.

The Committee reported on its activities in 2006 at the Board of Directors' meeting held on February 15, and at the Supervisory Board meetings held on July 27 and December 21, 2006.

## Remunerations and Appointments & Corporate Governance Committee

### Members

The Supervisory Board's internal rules stipulate that the Remunerations and Appointments & Corporate Governance Committee must have at least three members. It is chaired by the Chairman of the Supervisory Board.

No changes were made to the membership of the Remunerations and Appointments & Corporate Governance Committee following the replacement of the Board of Directors by the Supervisory Board, except for the replacement of René Barbier de la Serre as Committee chairman by Henri Lachmann.

### Meetings

The Remunerations and Appointments & Corporate Governance Committee meets at least three times a year. Meetings are called by the Committee chairman, after consulting the Management Board Chairman.

The Committee may make enquiries of any persons of its choice.

### Responsibilities

The Committee makes recommendations to the Supervisory Board concerning candidates for appointment to the Management Board, the Supervisory Board and the Committees of the Supervisory Board. It also makes recommendations concerning the compensation to be paid to the members of the Management Board and to the Supervisory Board Chairman, as well as on stock options and stock grants for Management Board members.

*\*\*Paragraphs 2 through 4 and paragraph 8 make up the Chairman's report prepared in accordance with article L225-68 of the French Commercial Code.*

Based on the proposals made by the Management Board, the Committee makes recommendations concerning the compensation to be paid to the Executive Committee members, the principles and methods for determining senior management compensation, as well as the creation of stock option, stock grant and employee stock ownership plans.

It is also responsible for examining succession planning solutions for members of the Management Board and Executive Committee.

It recommends the amount of attendance fees for approval at the Annual Meeting and their allocation among Supervisory Board members.

The Committee makes recommendations to the Supervisory Board concerning measures to provide assurance to shareholders and the market that the Board members exercise their judgment independently and objectively. The recommendations relate to:

- The terms of reference of the Committees of the Supervisory Board.
- The determination and review of independence criteria applicable to Supervisory Board members.
- Assessments of the Supervisory Board's organization and procedures.
- Application by the Company of national or international corporate governance practices.

The Remunerations and Appointments & Corporate Governance Committee presents its findings and recommendations to the Supervisory Board and distributes the minutes of its meetings to the Supervisory Board members.

#### Meetings in 2006

The Remunerations and Appointments & Corporate Governance Committee of the Board of Directors or the Supervisory Board met three times in 2006, with an attendance rate of 100%. It reported on its work to the Board of Directors on February 15 and May 3, and to the Supervisory Board on May 3 and December 21.

The Remunerations and Appointments & Corporate Governance Committee reviewed the results of the Board of Directors' self-assessment of its performance, as well as the proposed new bylaws and internal rules and procedures of the Supervisory Board and Management Board. The Committee made recommendations to the Board of Directors concerning the Chairman's compensation.

It made recommendations to the Supervisory Board concerning the Board's officers and Committees, as well as on the Chairman's compensation and the allocation of attendance fees among Supervisory Board members. It also made recommendations to the Supervisory Board concerning the composition of the Management Board and its members' status and compensation. Lastly, it recommended that the Supervisory Board authorize the Management Board to set up stock option or stock grant plans – particularly the 2007 plan – and to carry out an employee share issue (the 2007 worldwide ESPP).

## 5. Management Board Members

The bylaws stipulate that the Management Board may have between two and seven members.

Members are appointed by the Supervisory Board – which also designates the Chairman – for a renewable three-year term.

The age limit for holding office as a member of the Management Board is 65. When a member reaches the age of 65, the Supervisory Board may extend his or her term several times, provided that the total extension does not exceed three years.

The Management Board currently has two members – Jean-Pascal Tricoire (Chairman) and Pierre Bouchut – who were appointed by the Supervisory Board on May 3, 2006 for a three-year term expiring on May 2, 2009.

### Chairman of the Management Board

#### Jean-Pascal Tricoire

Age: 43
Business address: Schneider Electric 43-45 bd Franklin Roosevelt – 92500 Rueil Malmaison, France
2,580 <sup>(1)</sup> Schneider Electric shares
First elected: 2006 / Current term ends: 2009

#### Other directorships and functions in French or foreign companies

■ Currently: Chairman of the Management Board of Schneider Electric SA, Chairman and Chief Executive Officer of Schneider Electric Industries SAS, Director of Square D.

■ Previous directorships and functions held in the past five years: Director of Clipsal Asia Holding Limited, Digital Electronics Corporation, Schneider Electric (Australia) Pty Limited, Schneider Electric New Zealand Holding Limited, PT Schneider Indonesia, Schneider Electric Japan Ltd, Schneider Electric Japan Holding Ltd, Schneider Electric Venezuela SA, Schneider Toshiba Inverter SAS and PDL Holding Ltd.

#### Expertise and experience

After graduating from ESEO Angers and obtaining an MBA from EM Lyon, Jean-Pascal Tricoire spent his early career with Alcatel, Schlumberger and Saint Gobain. He joined the Schneider Electric Group (Merlin Gerin) in 1986. Between 1988 and 1999, he held a variety of line positions with international subsidiaries in Italy (five years), China (five years) and South Africa (one year). On his return to France, he joined the headquarters team, serving from 1999 to 2001 as Vice President, Strategic Global Accounts with specific responsibility for the Schneider 2000+ program. From

(1) Directly or through the corporate mutual fund.

January 2002 to the end of 2003, he was Executive Vice-President of Schneider Electric's International Division. In October 2003, he was named Chief Operating Officer, before becoming Chairman of the Schneider Electric Management Board on May 3, 2006.

## Member of the Management Board

### Pierre Bouchut

Age: 52

Business address: Schneider Electric  
43-45 bd Franklin Roosevelt –  
92500 Rueil Malmaison, France

42,000 Schneider Electric shares

First elected: 2006 / Current term ends: 2009

### Other directorships and functions in French or foreign companies

- Currently: Member of the Management Board of Schneider Electric SA; Chairman of the Board of Directors of Schneider Electric Services International; Director of Schneider Electric Industries SAS, Schneider Electric France, Square D and France Transfo.

- Previous directorships and functions held in the past five years: Director of Havas, Casino (and various other functions within the Group), Laurus (Netherlands), Smart & Final (USA), CBD (Brazil) and Big C (Thailand).

### Expertise and experience

A graduate of Hautes Etudes Commerciales and holder of a masters degree in applied economics from Paris Dauphine University, Pierre Bouchut began his career in 1979 with Citibank Paris, before moving to Bankers Trust France SA in 1987 as Vice President, Finance. In 1988, he joined McKinsey & Company as a consultant. In 1990, he accepted the position of Chief Financial Officer of the Casino Group, subsequently becoming the Group's Chief Executive Officer. In May 2005, he joined Schneider Electric as Executive Vice-President Finance & Control – Legal Affairs. He has been a member of the Management Board since May 3, 2006.

## 6. Organizational and operating procedures of the Management Board

The Management Board has the broadest powers in relation to third parties to act in all circumstances in the Company's name within the limits of the corporate purpose, except for those powers that are specifically vested in the Supervisory Board and the Shareholders' Meeting under French law, and except for those matters that require the prior authorization of the Supervisory Board.

Under French law, the Management Board:

- Approves the annual and interim financial statements and related management reports, for submission to the Supervisory Board and the Shareholders' Meeting.
- Calls Shareholders' Meetings.
- Decides share issues and capital reductions, pursuant to an authorization given by shareholders in Extraordinary Meeting.
- Grants stock options and makes stock grants, pursuant to an authorization given by shareholders in Extraordinary Meeting.
- Decides to carry out bond issues.

The Management Board has adopted internal rules and procedures that organize its activities and its relations with the Supervisory Board. These internal rules and procedures are invalid against claims from third parties.

The Management Board has met eleven times since May 3, 2006.

## 7. Declarations concerning the situation of the members of the Supervisory Board and Management Board

The members of the Supervisory Board and Management Board together hold 0.033% of the Company's capital and 0.024% of the voting rights.

Pierre Bouchut has service contracts with Schneider Electric Industries SAS and Schneider Electric Services International.

Alain Burq has a service contract with Schneider Electric Industries SAS.

None of the members of the Supervisory Board or Management Board has a service contract with the Company or any of its subsidiaries providing for benefits upon termination of employment.

No related-party agreements have been entered into between the Company and the members of the Supervisory Board or Management Board.

In the last five years, none of the members of the Supervisory Board or Management Board have been:

- The subject of any convictions in relation to fraudulent offences or of any official public incrimination and/or sanctions by statutory regulatory authorities.

- Disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of an issuer.

- Involved, as a member of an administrative, management or supervisory body or a partner, in a bankruptcy, receivership or liquidation.

None of the members of the Supervisory Board or Management Board are related to each other.

There are no arrangements or understandings with major shareholders, customers, suppliers or others pursuant to which a member of the Supervisory Board or Management Board has been selected as a member of an administrative, management or supervisory body or a member of senior management.

There are no conflicts of interests between any duties to Schneider Electric SA of the members of the Supervisory Board or Management Board and their private interests.

## 8. Internal Control\*\*

To anticipate and control the risks associated with its operations, as well as the risk of accounting and other errors and fraud, procedures have been established at Group level that ensure effective risk management.

The purpose of these procedures is to:

- Ensure that management actions, transactions and employee behavior are consistent with the overall business strategy decided by the Supervisory Board and Management Board of Schneider Electric SA, the Group's parent company, that they comply with the applicable laws and regulations and that they reflect the Group's values and internal standards and rules.

- Obtain assurance that statutory and management accounting data presented to the Supervisory Board and Management Board of Schneider Electric SA and Group senior management present fairly the sales, results of operations and financial position of the Group.

No system of internal control designed to fulfill the above objectives is capable of providing absolute assurance that the objectives will be met due to the inherent limitations of procedures, however well conceived. The internal control process is a work in progress; procedures are adapted to reflect changes in the business and regulatory environment, as well as in the Group's organization. The different participants in the process ensure that procedures are regularly updated and circulated throughout the Group.

This report was prepared on the basis of discussions among these participants, in particular senior management, Finance & Control - Legal Affairs, and the internal auditors. It is supported by a review of the internal control resources and procedures deployed by the Group.

*\*\*Paragraphs 2 through 4 and paragraph 8 make up the Chairman's report prepared in accordance with article L225-68 of the French Commercial Code.*

## Internal Control Organization

### Control environment: key participants and responsibilities

#### a) Supervisory Board, Audit Committee and Remunerations and Appointments & Corporate Governance Committee

In accordance with article L.225-68 of the French Commercial Code, the Supervisory Board exercises permanent oversight over the Company's management by the Management Board, which has the broadest powers in relation to third parties to act in all circumstances in the Company's name.

In addition to performing ex-post controls as part of its oversight activities, the Supervisory Board also performs ex-ante controls, particularly in the areas of financing and the implementation of Group strategy. The Company's bylaws and the Supervisory Board's internal rules state that the Management Board must obtain the Supervisory Board's prior authorization before carrying out any debt or equity financing transactions that would significantly alter the Company's balance sheet structure, or before deciding any material business acquisitions or disposals.

The Supervisory Board's ex-post controls include reviewing the financial statements approved by the Management Board. As part of its review, the Supervisory Board obtains assurance as to whether the accounting policies used are appropriate and have been applied consistently from one period to the next, whether transactions that are material at Group level have been properly accounted for and whether the rules governing the inclusion of companies in the scope of consolidation have been properly applied.

The Supervisory Board also obtains assurance concerning the reliability of the system of internal control. The Audit Committee reports to the Supervisory Board on its review of the internal audit organization, programs and findings, as well as on any examination of financial or accounting risk management issues performed at the Committee's own initiative or at the request of the Supervisory Board, the Supervisory Board Chairman or the Management Board Chairman.

The Supervisory Board ensures that the Management Board functions efficiently and effectively. It sets the compensation of Management Board members, based on a report drawn up by the Remunerations and Appointments & Corporate Governance Committee. Through the Remunerations and Appointments & Corporate Governance Committee, it obtains information about the senior management compensation policy decided by the Management Board and authorizes the creation of stock option and stock grant plans.

#### b) Senior Management

Until May 3, 2006, Group senior management was organized around the Direction and Strategy Committee, chaired by Henri Lachmann, Chairman and Chief Executive Officer, and the Operations Committee, chaired by Jean-Pascal Tricoire, Chief Operating Officer.

Following adoption of the new bylaws and the new

management organization, the senior management team now consists of the Management Board, assisted by the Executive Committee. The thirteen-member Executive Committee is chaired by the Chairman of the Management Board. It comprises:

- The members of the Management Board.
- The Executive Vice Presidents of the four Operating Divisions (Europe, North America, Asia-Pacific and Rest of the World).
- The Executive Vice President, Globalization & Industry and Executive Vice President, Strategy, Customers & Technology, Services & Projects Business Unit
- The Executive Vice Presidents of the Power, Automation, Secured Power and Building Automation Business Units.
- The Executive Vice President, Human Resources & Managerial Communication.

The Executive Committee regularly reviews the development outlook of the Group's core businesses, opportunities for bolt-on acquisitions and the business case for divestments. It reviews the Group's overall strategies, its innovation, geographic expansion and human resources policies and policies governing relations with research and training establishments.

The Executive Committee reviews the profit centers' business and financial performance at each of its meetings. It tracks progress on major projects to improve IT management processes and deals with all issues related to production management, supply chain optimization and relations with partners and distributors. It performs ex-post reviews of product launches and monitors technological advances that are likely to be of interest to the Group.

### c) Internal Audit

The Vice-President in charge of the 25-member Internal Audit Department reports to the Management Board and the Audit Committee.

The internal auditors are responsible for ensuring at the level of each unit that:

- Risks are appropriately identified and managed.
- Significant financial, management and operating information is accurate, reliable and timely.
- Employees' actions are in compliance with the Group's policies, standards, procedures and the applicable laws and regulations.
- Resources are acquired economically, used efficiently and adequately protected.

The internal auditors carry out their work according to an adjustable annual plan.

Internal audit plans are drawn up based on risk and control concerns identified by management, taking into account the results of past audits, the work performed by the external Auditors and control self-assessments by the units. When necessary, the audit plan is adjusted during the year to include special requests from senior management. In light of Schneider Electric's core businesses, internal audits focus mainly on revenue recognition and contracts, cash and asset management processes, wages and benefits, financial reporting, information systems, manufacturing operations, purchasing and operating expenses. The internal auditors also review newly-acquired units to assess

their level of integration and ensure that Group rules and guidelines are properly applied.

The internal audit process complies with international audit guidelines established by the Institute of Internal Auditors.

After each internal audit, a report is issued setting out the auditors' findings and recommendations. Copies of the report are given to the head of the audited entity, the Management Board and the Audit Committee. The external Auditors also have access to the reports.

In 2006, the internal auditors performed 25 audits, including:

- Full audits of medium-sized units.
- Audits of a number of operating processes (purchasing, supply chain, IT, etc.).
- Post-acquisition audits of newly-acquired companies.
- Analyses of control self-assessments by the units.

### d) Finance & Control – Legal Affairs Department

The Finance & Control - Legal Affairs Department is actively involved in organizing the control environment and ensuring compliance with procedures.

It is responsible for consolidating and analyzing monthly, quarterly and annual financial data.

As part of this mission, the department drafts and updates statutory and management accounting procedures (see "Control Procedures" below) designed to ensure that statutory and management accounting practices are consistent throughout the Group and in compliance with applicable regulations.

The department has regular conversations with the external Auditors. All consolidated entities are audited by one or other of the Group's two external audit firms or by a member of their network.

### e) Operating Divisions and Business Units

The Operating Division and Business Unit management teams play a critical role in effective internal control. All Group units report to one of the four Operating Divisions or one of the Business Units, which are managed by an Executive Vice-President, supported by a financial controller. Within each Division and Business Unit, the management team organizes control of operations, ensures that appropriate strategies are deployed to achieve objectives and tracks the performance of the Division's or Business Unit's entities.

The Division and Business Unit Executive Vice Presidents sit on the Executive Committee and report to the Management Board Chairman. The financial controllers report to the Finance & Control - Legal Affairs department. A Management Committee reviews the transactions of the Divisions and Business Units on a monthly basis.

Thanks to frequent contacts with the corporate functions, this matrix organization guarantees a high level of responsiveness as concerns operations-related risks, through the presence of local managers, understanding of local environments and business models, and effective application of Group guidelines.

### f) Human Resources Department

The Human Resources department is responsible for deploying and overseeing the application of procedures concerning employee development, occupational health and safety and professional ethics. These procedures are presented to all employees in a document entitled "Our Principles of Responsibility". Compliance is verified through the annual evaluation process and tracking of new<sup>2</sup> indicators (see below).

## Internal benchmarks

### a) Principles of Responsibility

The Principles of Responsibility are a set of guidelines for decisions and actions that have an impact on stakeholders – employees, customers, vendors, shareholders, the community – or the environment. A copy of the Principles is given to all new employees along with their employment contract.

### b) Insider Code

This code sets out the rules to be followed by management and employees to prevent insider trading. It imposes an obligation of confidentiality on all employees who have access to price-sensitive information and sets permanent restrictions on purchases and sales of Schneider Electric shares by persons who have access to price-sensitive information in the course of their work.

### c) International Internal Auditing Standards

The Schneider Electric internal auditors are committed to complying with the international standards published by the Institute of Internal Auditors (I.I.A.) and other bodies.

### d) Statutory and Management Reporting Principles (see "C" below)

## Procedures

### a) Operating procedures

#### *Management of operational risks*

As explained above, operational risks are managed first and foremost by the units in liaison with the Operating Divisions and Business Units, based on Group guidelines. General risks are covered by specific procedures described below.

#### *Commitment limits*

Commitment limits have been set for executives from Group level down to the individual units, whereby contracts for the purchase or sale of products or services may be signed or authorized only by line management when they exceed a certain amount which varies according to the type of contract, up to a maximum of €10 million. In addition, all transactions that may affect the Group's fundamental interests, due to their size or nature, must be authorized in advance by the Management Board or, in some cases, the Supervisory Board. This rule applies in particular to all purchases and sales of shares in subsidiaries and affiliates whatever

the amounts involved, as well as to subscriptions to share issues by these entities, purchases and sales of strategic assets, product development, trademarks and patents, and off-balance sheet commitments.

### *Acquisitions Committee, New Products Committee*

Proposed business acquisitions and development programs must be submitted to the Acquisitions Committee or the New Products Committee for review, prior to being presented for approval at the appropriate management level as described above. The two committees are made up of representatives of the main departments involved in the projects.

### *Quarterly management reviews*

Group senior management (comprising the Chairman of the Management Board, the Executive Vice-President, Finance & Control - Legal Affairs and the Executive Vice-President, Human Resources & Managerial Communication) performs a comprehensive review of the activities and results of the Operating Divisions and Business Units four times a year. The review covers the status of the main action plans in the areas of business growth, operational efficiency and human capital management, as well as year-to-date results and forecasts for the remaining quarters.

### *Monthly management reporting*

Group senior management holds monthly meetings to review the monthly management accounts of the Group and the individual units.

In addition, financial controllers from the Operating Divisions, Business Units and the Finance & Control - Legal Affairs department review the units' performance and principal transactions monthly.

### *Tracking of priorities set by the new<sup>2</sup> Company Program*

new<sup>2</sup> focuses on three priorities for which we have identified significant potential for improvement: growth, efficiency and people.

The program's indicators, measured monthly, concern:

- Growth achieved by new activities and new products.
- The efficiency of such critical processes as customer satisfaction, supply chain, IT and purchasing and production localization.
- Employee development (training, occupational health and safety, etc.).

new<sup>2</sup>'s priorities correspond to major processes for which the Group has committed to a maximum level of efficiency and quality.

Senior management tracks these indicators monthly. Action plans are deployed immediately when areas of risk or improvement are identified.

### *Financial review meetings*

The financial position of all Group companies is reviewed once a year by Group Finance & Control - Legal Affairs.

The process includes, for each unit:

- Analytical review of the balance sheet and of capital employed.
- Analytical review of working capital and customer credit.



- An analysis of financial risks (liquidity, currency, counterparty and credit risks).
- A review of compliance with internal rules governing intercompany payments and transfer pricing.
- A review of the membership of the unit's Board of Directors or equivalent.

#### **Monthly Treasury Committee meetings**

This Committee, chaired by the Executive Vice-President, Finance & Control - Legal Affairs, reviews the Group's monthly cash position, foreign currency position and financing capacity.

Foreign currency transactions for all entities are managed at Group level, except for those involving soft currencies. Schneider Electric has established internal control rules governing foreign exchange exposure – only the operating receivables and payables of each entity and intercompany financial receivables and payables (dividends, loans and borrowings) are hedged – and the accounting treatment of foreign currency transactions.

#### **b) Specific procedures applicable to certain types of risks or transactions**

##### **Integration of newly-acquired businesses**

The integration of newly-acquired businesses is a process that extends over a period of 6 to 24 months depending on the type and size of the new entity.

The integration scenario for each acquisition varies depending on whether the business was acquired to strengthen the Group's existing lineup, extend the lineup or penetrate a new segment.

All told, there are five scenarios ranging from total integration to separate organization reporting to senior management. Depending on the strategic objective, a matrix is drawn up showing the required level of integration for each of the newly-acquired business's core functions, i.e. front office (sales force and brand), back office, R&D, corporate functions and management reporting.

An integration plan is drawn up for each acquisition and submitted to the Acquisitions Committee for approval. The plan is implemented by an integration manager who reports to a Steering Committee that initially meets at monthly intervals and then on a quarterly basis.

##### **New product development**

The New Products Committee allocates resources among new product development, range management and technological research.

Management processes for technological projects have been harmonized throughout the Group to allow more effective tracking of resource allocation and return on investment.

##### **Industrial property**

The patents developed or purchased by the Group are tracked by the Industrial Property team within the Finance & Control - Legal Affairs Department. All industrial property information for the main Group subsidiaries is transmitted to this team, which is responsible for managing and protecting these intangible

assets around the world. The same procedure is followed for trademarks.

##### **Purchases**

A key process in Group operations, purchases represent 40% of consolidated revenue.

Rules governing purchases mainly concern purchasing department organization and procedures, relationships between buyers and vendors, levels of signature authority, and compliance with environmental standards. Internal audit plans for individual subsidiaries or units systematically cover the purchasing function and include productivity and cost of non-quality analyses, compliance reviews and analyses of the vendor portfolio.

### **Internal control procedures governing the production and processing of accounting and financial information**

The consolidated financial statements for all fiscal years commencing on and after January 1, 2005 have been prepared in accordance with International Financial Reporting Standards (IFRS), to comply with European Union regulation 1606/2002.

A special note to the financial statements presenting a reconciliation of the 2004 French GAAP accounts to the 2004 IFRS accounts appears in the notes to the annual financial statements.

#### **Internal control procedures to confirm the existence and value of assets and liabilities**

Internal control procedures generally consist of defining levels of responsibility for authorizing and checking transactions, and segregating tasks to help ensure that all transactions are justified. In addition, integrated statutory and management reporting systems have been developed to guarantee the completeness of transaction data recorded in the accounts.

Each subsidiary is responsible for implementing procedures providing an adequate level of internal control.

Operating Division management teams assist the units in this process and represent a first level of control in the application of procedures.

##### **Intangible assets**

The process for valuing software and product development costs is designed to monitor and analyze expenses, identify the portion of those expenses that meet the definition of an asset and may be capitalized, and track the asset's use over time. IT systems have been deployed to track project development costs and measure the profitability of new products more accurately.

The carrying value of trademarks is determined based on an assessment of the economic value of the underlying business at the time of acquisition and on an independent valuation of the trademark.

Contractual customer relationships are recognized in certain business combinations, based on independent valuations.

In accordance with IFRS, goodwill and non-amortizable intangible assets recognized in business combinations are tested half-yearly and yearly to ensure that the recoverable amount is higher than the carrying amount.

### **Property, plant and equipment**

Land and buildings are tracked by the Property department and stated at historical cost net of accumulated depreciation and any accumulated impairment losses. Manufacturing assets are tracked by the Globalization & Industry department.

Property, plant and equipment are recognized in the accounts on the basis of title deeds, an invoice or a finance lease accompanied by documentary evidence that the asset has been put into service.

### **Equity investments**

Investments in consolidated companies and available-for-sale financial assets are tracked and verified by the Finance & Control – Legal Affairs Department.

### **Inventories**

Inventories are verified at least once a year in each subsidiary through physical inventories or cycle counts. Inventories are written down to net realizable value where appropriate.

### **Customers**

When sales are recorded in the accounts by the subsidiaries, this automatically generates an entry in a trade receivables account. Receivables are valued and – where appropriate – written down by the subsidiaries in accordance with Group policies.

A credit management charter prepared by the Customer Credit Department provides guidelines for new customer acceptance, credit limits, credit insurance, dunning and recovery procedures.

### **Tax assets and liabilities**

The subsidiaries are responsible for calculating, accruing and managing their taxes, except in those cases where the subsidiary concerned is a member of a tax group.

The Tax unit within the Finance & Control - Legal Affairs Department reviews the current tax charge in countries that represent a significant portion of the Group's total tax charge. The Tax unit is also responsible for overseeing the resolution of tax claims.

The Operating Divisions generally have their own tax departments, which ensure compliance with local regulations.

The Statutory and Management Accounting unit within the Finance & Control – Legal Affairs Department reviews the Group's current and deferred tax position during each quarterly consolidation process. The procedure includes performing analytical reviews of the main subsidiaries' tax position, preparing the tax proof validating the Group's effective tax rate, and analyzing changes in deferred tax assets and liabilities by category of tax basis.

### **Provisions for contingencies**

Group policy consists of recording provisions for contingencies and charges in the accounts of the individual subsidiaries. Claims and litigation are generally managed jointly by the subsidiary and the Finance & Control - Legal Affairs Department. Provisions for contingencies are adjusted to reflect any changes in the estimated risk. Movements recorded by subsidiaries are required to be evidenced and are checked for compliance with the applicable accounting standards. When necessary, the Group uses independent experts to assess risks.

### **Employee benefits**

The subsidiaries are responsible for managing their employee benefit obligations under compulsory and company-sponsored plans. Group policy consists of systematically recording provisions for statutory length-of-service awards due to employees on retirement, pensions and healthcare costs paid on behalf of retired employees in all countries where the Group has an obligation under the related plans.

### **Long- and short-term debt**

Net debt is managed at Group level by the Finance & Control - Legal Affairs Department. Where appropriate, cash pooling agreements and currency position management agreements are set up to profit from economies of scale and minimize financing costs.

Decisions concerning the financing of subsidiaries are made by the Finance & Control - Legal Affairs Department. The bulk of their financing needs are met by short-term intercompany loans in their functional currency, but in some cases the Corporate Treasury Center may decide to obtain external financing. Long-term debt is managed at Group level.

Bond issues are submitted to the Supervisory Board for approval.

### **Off-balance sheet commitments**

The off-balance sheet commitments of newly-acquired subsidiaries are reviewed and analyzed when the company joins the Group. Financial guarantees are issued by the Finance & Control – Legal Affairs Department. A consolidated statement of off-balance sheet commitments is produced at six-month intervals by the Corporate Management Control and Accounting unit, which performs analytical reviews to check the data. Other legal commitments are tracked by the Legal Affairs unit.

## **Procedures for the production of accounting and financial information**

### **Framework and accounting standards**

The Group has prepared its financial statements in accordance with International Financial Reporting Standards (IFRS) since January 1, 2005.

The Group applies the IFRSs adopted by the European Union as of December 31, 2006.

The Group's accounting principles reflect the underlying assumptions and qualitative characteristics identi-

fied in the IFRS accounting framework. This involves preparing the financial statements on the accrual basis of accounting and assuming that the business is a going concern. Qualitative characteristics include understandability, relevance, reliability and comparability. These characteristics rely on information that is neutral, prudent and complete and that represents transactions and events in accordance with their substance and economic reality and not merely their legal form.

The management reporting and consolidation packages of all Group entities are prepared strictly in accordance with Group accounting principles and policies.

### **The accounting and reporting system**

The Corporate Management Control and Accounting unit of the Finance & Control - Legal Affairs Department has launched a project to standardize management reporting processes among the various subsidiaries by rolling out an integrated SAP system across the entire Group. Subsidiaries in France, Spain, certain other European countries and China have already migrated their statutory and management accounting systems to SAP. An SAP core model for use by all Group entities is currently being developed and will be implemented in phases between 2006 and 2009.

The accounts of the subsidiaries are prepared in accordance with Group accounting policies. The data are then adjusted, where necessary, to produce the local statutory and tax accounts.

Consolidation and reporting software is used to report monthly actual and forecast data and also to produce the Group financial statements.

A new reporting and consolidation system was deployed on January 1, 2006. In connection with the migration to the new system, reporting systems were reorganized (reporting entities, indicators and deadlines), completing the process of aligning statutory and management reporting processes.

## **Account closing and verification process**

### **a) Consolidating data from operating units**

The reporting entities produce monthly income statements, which are used to determine the Group's monthly operating profit.

The consolidated financial statements are produced 16 working days after the annual or half-yearly period-end. To meet this deadline, all of the subsidiaries perform a hard close at May 31 and November 30 of each year and the majority of consolidation adjustments for the period are also calculated at these dates.

The majority of subsidiaries are consolidated at Group level; however, the Square D subgroup submits a consolidated reporting package.

### **b) Role of the Corporate Management Control and Accounting unit**

The Corporate Management Control and Accounting unit includes a reporting team that is responsible for

producing and distributing reporting packages throughout the Group and a performance analysis team that tracks the operating units' performance in relation to their targets.

The list of entities to be consolidated or accounted for by the equity method is drawn up by the Corporate Management Control and Accounting unit, which then uses this list to determine with the Legal Affairs unit the consolidation method to be applied to each entity, as well as the percentage of the entity's capital and voting rights held by the Group.

The unit issues instructions for the closing process, including reporting deadlines, required data and any necessary adjustments.

It checks the quality of the reporting packages submitted by the subsidiaries, focusing primarily on intercompany eliminations, the accounting treatment of non-recurring transactions for the period, and movements between the opening and closing balance sheets used to prepare the statement of cash flows.

The unit also checks the results of programmed procedures, including conversions, intercompany eliminations, transfers to minority interests and recognition of the effects of changes in scope of consolidation.

At the same time, the Group's consolidated financial statements are analyzed in detail, to understand and check the main contributions by subsidiaries, as well as the substance of transactions reflected in the accounts. Account classifications are checked. The key control points concern the preparation and validation of the statement of changes in equity and the statement of cash flows.

Lastly, the Corporate Management Control and Accounting unit analyzes consolidated data and the contribution of each Group unit.

The Corporate Management Control and Accounting unit is responsible for providing assurance concerning:

- The proper application of Group accounting principles and policies.
- The integrity of the consolidation system database, which the unit is responsible for administering and maintaining.
- The quality of accounting processes and data.
- Training for finance staff in the form of specific seminars.

The unit drafts and updates the financial reporting procedures and guidelines required to produce high quality information. These procedures and guidelines are available for consultation by all employees concerned on the Group intranet. They include:

- A glossary of accounting terms used in the reporting package, including a definition of each term.
- A Group statutory and management accounting standards manual, which includes details of debit/credit pairings in the consolidation system.
- A Group reporting procedures manual.
- A manual describing the procedures to be followed to integrate newly-acquired businesses in the Group reporting process.
- An intercompany reconciliation procedure manual.
- Account closing instructions.

## Report of the statutory auditors on the internal control procedure

This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers.

This statutory auditors' report addressing financial and accounting information in the Chairman's report on internal control should be read in conjunction with, and is construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as statutory auditors of Schneider Electric SA Company, and in accordance with article L.225-235 of the French Commercial Code (Code de Commerce), we report to you on the report prepared by the Chairman of your company in accordance with article or L.225-68 of the French Commercial Code (Code de Commerce) for the year ended December 31, 2006.

The Chairman is responsible for giving an account, in his report, of the conditions in which the duties of the supervisory board are prepared and organized and of the internal control procedures in place within the company.

It is our responsibility to report to you our observations on the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information. In particular, this entailed:

- Obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the Chairman's report.
- Obtaining an understanding of the work performed to support the information given in the report.

On the basis of these procedures, we have no matters to report in connection with the information given on the internal control procedures relating to the preparation and processing of financial and accounting information, contained in the Chairman of the supervisory board's report, prepared in accordance with article L.225-68 of the French Commercial Code (Code de Commerce).

Courbevoie and Neuilly-sur-Seine, February 20, 2007

The Statutory Auditors

Mazars & Guérard	Ernst & Young et Autres
Pierre Sardet	Christian Chochon
Jean-Louis Simon	Pierre Jouanne

## 9. Management interests and compensation

### Management Board and Executive Committee compensation policy

The general principles underlying the senior management compensation policy and the situation of each executive are reviewed by the Remunerations and Appointments & Corporate Governance Committee and presented to the Supervisory Board.

The policy's aims are to:

- Retain and motivate the best talents.
- Reward individual and collective performance.
- Align overall compensation with the Group's results.

The basic principle consists of competitively positioning Schneider Electric in relation to market compensation rates for senior executives of comparable industrial groups in each country concerned, as follows:

- Cash compensation, comprising a fixed salary and a variable bonus, is set at level close to the market median with the salary portion below the market median.
- Total compensation (cash compensation, stock options or stock grants) is set above the market median.

The variable bonus depends on the degree to which objectives set at the beginning of the year are met and can range from 0 to 200% of salary, establishing a close link between performance and compensation.

Depending on their responsibilities, Executive Committee members' variable bonuses are determined as follows:

- 30 to 40% of the bonus is determined by reference to the Group's overall performance, as measured in terms of operating margin, organic growth and return on capital employed.
- 20 to 40% is based on the performance of the executive's unit, as measured on the basis of business targets and customer satisfaction rates.
- 30 to 40% depends on the attainment of measurable personal performance targets.

The compensation of the Chairman and Chief Executive Officer was set by the Board of Directors and that of the Management Board members by the Supervisory Board based on the recommendations of the Remunerations and Appointments & Corporate Governance Committee.

The variable bonuses of the Management Board members (and the Chairman and Chief Executive Officer before the change in the Company's management system) are determined as follows:

- 60% of the bonus is determined by reference to the Group's overall performance, as measured in terms of operating margin, organic growth and return on capital employed.
- 40% depends on the attainment of measurable personal performance targets set by the Supervisory Board (previously the Board of Directors).

Senior management may also be granted stock options. The main characteristics of the plans are as follows:

- The options have a ten-year life (since 2006).
- The options are granted at an exercise price that does not include any discount to the Schneider Electric SA share price at the time of grant.
- Half of the options (performance options) vest only if certain targets are met (value creation, sales or operating margin).

The Supervisory Board determines the degree to which the targets are met, based on advice from the Remunerations and Appointments & Corporate Governance Committee. For the annual plan set up in December 2006, 20% of the stock options were replaced by stock grants for members of the Management Board and Executive Board who are resident in France for tax purposes, on the basis of one stock grant for four stock options.

## Pension benefits

French members of the management board and supervisory board are covered by the Group's top hat pension plan for senior executives, which provides for the payment of pension benefits corresponding to up to 60% (50% plus 1% per year from the sixth to the fifteenth year of service) of their average compensation for the three calendar years preceding their retirement (corresponding to the sum of (i) their gross basic salary and (ii) their variable bonus for the reference years) less the total benefits received under external plans, with a cap of 25% of the reference average compensation. On the death of the executive, the plan provides for the payment of a 60% reversionary pension to his or her spouse. The capitalized amount of

pension plans in connection with all the management is approximately €15.4 million.

Non-French members are covered by funded pension plans in line with local practice in their respective countries.

## Compensation, benefits and stock options of the Chief Executive Officer – period from January 1 to May 3, 2006

### Compensation

Based on the recommendation of the Remunerations and Appointments & Corporate Governance Committee, at its meeting on February 15, 2006, the Board of Directors decided to set the 2006 compensation of Henri Lachmann, Chairman and Chief Executive Officer, on the same basis as for 2004 and 2005. His annual salary was set at €800,000 and his target bonus at 125% of this amount, with a maximum of 250% based solely on personal targets concerning, in particular, the adoption of new bylaws, the organization of the Group, ongoing implementation of the acquisitions strategy and optimization of the Group's financial resources. At its meeting on May 3, 2006, the Board of Directors assessed the degree to which the Chairman and Chief Executive Officer had met his targets, based on advice from the Remunerations and Appointments & Corporate Governance Committee.

On this basis, Henri Lachmann was paid a salary of €273,333 for the period from January 1 to May 3, 2006 and a bonus of €675,500.

His compensation as Chairman and Chief Executive Officer for the last two years was as follows:

	2006 (January 1 to May 3)	2005
Salary	273,333	800,000
2005 bonus (paid in 2006)	-	1,507,668
2006 bonus (paid in 2006)	675,500	-
Attendance fees	20,220	60,000
Benefit in kind	1,787	5,231
<b>Total</b>	<b>970,840</b>	<b>2,372,899</b>

### Benefits

Mr. Lachmann's benefits include a chauffeur-driven Company car. This benefit in kind can be estimated for the 2006 fiscal year at €5,837.

He is also covered by the Company's top hat pension plan for senior executives, under the plan's general terms and conditions. During the year, he claimed his pension representing annual benefits equal to 25% of his average compensation for the three calendar years prior to his retirement. On his death, his spouse will receive a reversionary pension equal to 60% of this amount. Mr. Lachmann was not paid any compensation for loss of office.

### Stock options

Henri Lachmann, who was granted options under plans 16 through 21, 24, 26 and 27, exercised 46,700 plan 16 options at a price of €50.73 and 71,600 plan

17 options at a price of €50.73 during the year. As of January 1, 2007, he held 941,000 options, including 500,000 performance options.

## Compensation of the Supervisory Board members and the former members of the Board of Directors

### Compensation of the Chairman of the Supervisory Board – period from May 4 to December 31, 2006

Based on the recommendation of the Remunerations and Appointments & Corporate Governance Committee, at its meeting on May 3, 2006, the Supervisory Board decided to set the annual compensation of its Chairman at €500,000, not including the attendance fees paid to Supervisory Board members.

The Chairman of the Supervisory Board does not receive any stock options or stock grants and will not be entitled to any payment on leaving the Board.

In his capacity as Chairman of the Supervisory Board, Henri Lachmann was paid gross compensation of €330,558 for the period from May 4 to December 31, 2006. He was also awarded attendance fees of €39,780, paid in 2007. He has a Company car and may also use the chauffeur-driven Company cars made available to Group senior management. This benefit in kind can be estimated for the 2006 fiscal year at €5,837.

In 2006, Mr. Lachmann received total benefits of €308,030 under the pension plan described above.

### Compensation of the Supervisory Board members and the former members of the Board of Directors

The Annual Shareholders' Meeting set total attendance fees at €800,000. The Board of Directors then the Supervisory Board decided to allocate these fees as follows:

- Board members and non-voting members resident in France receive a basic fee of €15,000 and members resident outside France receive double this amount.
- All Board members also receive a variable fee of up to €30,000 based on their attendance rate at Supervisory Board meetings.
- Members who sit on the Committees of the Board receive a fixed fee of €15,000 with the Committee chairman receiving double this amount.

On this basis, attendance fees paid in respect of 2005 and 2006 were as follows:

	Board of Directors January 1 – May 3, 2006	Supervisory Board May 3 – December 31, 2006	Total Board of Directors and Supervisory Board 2006 <sup>(1)</sup>	Board of Directors 2005 <sup>(2)</sup>
Henri Lachmann	20,220	39,780	60,000	60,000
Claude Bébéar	5,055	9,945	15,000	15,000
Alain Burq <sup>(3)</sup>	7,582.50	14,917.50	22,500	22,500
Noël Forgeard	15,165	26,520	41,685	19,616
Jérôme Gallot	15,165	29,835	45,000	29,600
Willy Kissling	25,275	49,725	75,000	75,000
Cathy Kopp	5,055	26,520	31,575	6,411
Gérard de La Martinière	25,275	49,725	75,000	75,000
René Barbier de La Serre	20,220	39,780	60,000	60,000
James Ross	25,275	49,725	75,000	70,000
Chris Richardson	13,480	26,520	40,000	50,000
Piero Sierra	25,275	49,725	75,000	70,000
Serge Weinberg	20,220	39,780	60,000	38,225

*(1) Paid in early 2007.*                      *(3) Alain Burq, who has a service contract with Schneider Electric Industries SAS, waived payment of half of his attendance fees.*  
*(2) Paid in early 2006.*

### Compensation, benefits and stock options of Management Board members – period from May 4 to December 31, 2006

#### Chairman of the Management Board – Jean-Pascal Tricoire

##### Compensation

Based on the recommendation of the Remunerations and Appointments & Corporate Governance Committee, at its meeting on May 3, 2006, the Supervisory Board decided to set the annual salary of the Chairman of the Management Board at €600,000 and his target variable bonus at 100% of this amount, with a maximum of 200%.

Sixty percent of his bonus is based on Group performance targets in terms of operating profit, organic growth and return on capital employed, and 40% on personal targets. The degree to which these targets had been met was determined by the Supervisory Board on February 20, 2007.

On this basis, Jean-Pascal Tricoire was paid a salary

of €396,667 for the period from May 4 to December 31, 2006. His variable bonus for 2006, paid in 2007, amounted to €760,000.

Mr. Tricoire's service contract with Schneider Electric Industries SAS was suspended on his appointment as Chairman of the Schneider Electric Management Board. Under this contract, he was entitled to a basic annual salary of €500,000 and a target variable bonus equal to 100% of this amount with a maximum of 200%. During the period from January 1 to May 3, 2006, he received €170,833 in salary under this contract and a €644,221 bonus in respect of 2005 and €313,403 in respect of 2006.

##### Benefits

At its meeting on May 3, 2006, the Supervisory Board decided that Mr. Tricoire should continue to be entitled to all the employee benefits provided for in his service contract with Schneider Electric Industries SAS. He is therefore covered by the Schneider Electric Industries employee benefit plan. In addition, under the procedure applicable to related party agreements, the Supervisory Board authorized the signature of an addendum to his service contract stipulating that:

■ His period as an officer (mandataire social) of Schneider Electric SA will be taken into account for the calculation of his rights – pursuant to his service contract – under the Schneider Electric top hat pension plan for senior executives (see above) as well as for the calculation of the termination benefit payable under his service contract. This termination benefit, which will include the benefit provided for in the industry collective bargaining agreement (Convention Nationale des Ingénieurs et Cadres de la Métallurgie), will not be less than double his target annual compensation (salary plus target variable bonus).

■ His service contract will resume when he ceases to be an officer (mandataire social) of Schneider Electric and Schneider Electric Industries SAS.

Mr. Tricoire's travel and entertainment expenses are reimbursed by the Company. He has a Company car and may also use the chauffeur-driven Company cars made available to Group senior management. This benefit in kind can be estimated €4,233.36.

#### **Stock options and stock grants**

Jean-Pascal Tricoire received stock options under plans 18 through 21, 24 and 26 through 28, and stock grants under plan 1. He did not exercise any options during the year.

In 2006, Mr. Tricoire received 80,000 performance options with an exercise price of €82.14 and expiring in 2016 under plan 28 (the 2007 plan) and 5,000 stock grants under plan 1.

As of January 1, 2007, he held 469,000 options, including 380,000 performance options based on Group performance, and 5,000 performance stock grants.

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

##### **Compensation**

The Supervisory Board noted that Pierre Bouchut's technical functions as the Group's Chief Financial Officer justified continuing his service contract with Schneider Electric Industries SAS, which provides for the payment of an annual salary of €360,400 and a target bonus of 50% of this amount with a maximum of 100%.

Based on the recommendation of the Remunerations and Appointments & Corporate Governance Committee, at its meeting on May 3, 2006, the Supervisory Board set limits on Mr. Bouchut's compensation for the period from May 3 to December 31, 2006. The Board recommended raising his target bonus to 60% of his salary, with a maximum of 120%. Sixty percent of the bonus is based on Group performance targets in terms of operating profit, organic growth and return on capital employed, and 40% on measurable personal targets.

In 2006, Pierre Bouchut received €360,400 in salary and a 2005 bonus of €174,978. His variable bonus for 2006, paid in 2007, amounted to €377,188.

##### **Benefits**

Under his service contract, Pierre Bouchut is covered by the top hat pension plan for senior executives (see above) and is also entitled to a termination benefit.

This termination benefit, which will include the benefit provided for in the industry collective bargaining agreement (Convention Nationale des Ingénieurs et Cadres de la Métallurgie), will not be less than double his target annual compensation (salary plus target variable bonus).

Mr. Bouchut's travel and entertainment expenses are reimbursed by the Company. He has a Company car and may also use the chauffeur-driven Company cars made available to Group senior management. This benefit in kind can be estimated €4,779.72.

#### **Stock options and stock grants**

Pierre Bouchut received stock options under plans 26 through 28, and stock grants under plan 1. In 2006, he received 32,000 performance options with an exercise price of €82.14 and expiring in 2016 under plan 28 (the 2007 plan), and 2,000 stock grants under plan 1. As of January 1, 2007, he held 102,000 performance options and 2,000 performance stock grants.

## **Compensation paid to members of senior management other than Management Board members**

#### **Changes in senior management**

At the beginning of 2006, the Group had a 12-member senior management team comprising the Chairman and Chief Executive Officer, the Chief Operating Officer and the Executive Vice Presidents of the four Operating Divisions (North America, Europe, Asia-Pacific, International & Iberia), the four Central Functions (Customers & Markets, Products & Technology, Globalization & Industry and Strategic Deployment & Services) and the two Corporate Functions (Finance & Control – Legal Affairs and Human Resources).

Following adoption of the new bylaws and the new management organization, the senior management team now consists of the Management Board, assisted by the Executive Committee. The thirteen-member Executive Committee is chaired by the Chairman of the Management Board. It comprises:

- The members of the Management Board
- The Executive Vice Presidents of the four Operating Divisions (unchanged)
- The Executive Vice President, Globalization & Industry and Executive Vice President, Strategy, Customers & Technology, Services & Projects Business Unit
- The Executive Vice Presidents of the Power, Automation, Secured Power and Building Automation Business Units.
- The Executive Vice President, Human Resources.

#### **Compensation**

In 2006, total gross compensation, including benefits in kind, paid to the members of senior management other than the Management Board members (and the Chairman and Chief Executive Officer before the change in management system) amounted to €7,558,450 million, including €4,153,051 in variable bonuses for 2005.

Variable bonuses are based on the attainment of business targets set at the level of the Group and the managed entity and of personal targets. For 2005, the Group targets were as follows:

- Organic growth, with no bonus being paid if the Group's 2005 sales represented 104.5% or less of 2004 sales.
- Operating margin, with no bonus being paid if the 2005 margin rate was 12.5% or less.

### Stock options and stock grants

The members of senior management other than the Management Board members (and the Chairman and Chief Executive Officer before the change in management system) received a total of 129,800 performance stock options under plan 28 (the 2007 annual plan), with an exercise price of €82.14 expiring in 2016, and 4,800 stock grants under plan 1.

As of January 1, 2007, the members of senior management held a total of 971,600 stock options, including 661,800 performance options, and 4,800 performance stock grants.

During 2006, the members of senior management exercised a total of 99,200 stock options granted under plans 16 to 21 at a weighted average price of €55.80.

### Transactions in Schneider Electric shares in 2006 by senior management, members of the former Board of Directors and members of the Supervisory Board and Management Board

#### Transactions disclosed in application of article 621-18-2 of the French Monetary and Financial Code:

Date	Name	Type of transaction	Number of shares	Price per share
Feb. 16	Catherine Kopp	Share purchase	250	€84.65
Feb. 24	Henri Lachmann	Exercise of options	20,700	€50.73
Feb. 24	Henri Lachmann	Share sale	2,000	€85.80
Feb. 24	Henri Lachmann	Share sale	2,000	€85.85
Feb. 24	Henri Lachmann	Share sale	16,700	€85.786
Feb. 27	Henri Lachmann	Exercise of options	22,000	€50.73
Feb. 27	Henri Lachmann	Share sale	13,000	€86.052
Feb. 27	Henri Lachmann	Share sale	4,000	€85.75
Feb. 27	Henri Lachmann	Share sale	2,000	€85.90
Feb. 27	Henri Lachmann	Share sale	3,000	€86.00
Feb. 28	Henri Lachmann	Exercise of options	4,000	€50.73
Feb. 28	Henri Lachmann	Share sale	2,000	€86.00
Feb. 28	Henri Lachmann	Share sale	2,000	€86.40
March 29	Henri Lachmann	Exercise of options	57,000	€50.73
June 16	Willy Kissling	Share sale	400	€72.50
March 1	Alain Burq	Exercise of options	2,000	€50.73
March 1	Alain Burq	Share sale	2,000	€87.00
March 2	Alain Burq	Exercise of options	1,100	€50.73
March 2	Alain Burq	Share sale	1,100	€88.50
Aug. 11	Pierre Bouchut	Share purchase	25,000	€81.51
Aug. 31	Willy Kissling	Share purchase	600	€83.30
Sept. 4	Pierre Bouchut	Sale of financial instruments	42,000	€14.45
Sept. 4	Pierre Bouchut	Share purchase	17,000	€84.75
Sept. 15	Alain Burq	Exercise of options	1,100	€53.73
		Exercise of options	100	€65.88
Sept. 15	Alain Burq	Share sale	1,200	€87.00
Nov. 23	René de La Serre	Share purchase	1,000	€83.05

## 10. Regulated agreements

At its meeting of January 6, 2006, the Board of Directors authorized the signature of a shareholders' agreement between AXA and Schneider Electric SA. The agreement calls for the continuation of stable cross-shareholdings between the two groups. In particular, Schneider Electric SA undertakes to hold no less than 8.8 million AXA shares. Each group also holds a call option that may be exercised in the event of a hostile takeover. The one-year agreement is automatically renewed each year unless it is expressly terminated.

At its meeting on May 3, 2006, the Supervisory Board decided that Jean-Pascal Tricoire should continue to be entitled to all the pension and other benefits provided for in his service contract with Schneider Electric Industries SAS, which was suspended on his appointment to the Management Board as Chairman. The Supervisory Board also authorized the signature of an addendum to his service contract defining the terms under which it will resume or be terminated.



# 11. Auditors

	Appointed	Appointment expires
<b>Statutory auditors</b>		
Ernst & Young et Autres 41, rue Ybry - 92576 Neuilly-sur-Seine Cedex Represented by Pierre Jouanne and Christian Chochon	1992	2010
Mazars & Guérard Tour Exaltis - 61, rue Henri Regnault - 92576 Neuilly-sur-Seine Cedex Represented by Jean-Louis Simon and Pierre Sardet	2004	2010
<b>Substitute auditors</b>		
Charles Vincensini	2004	2010
Philippe Diu	2004	2010

## Fees paid to the Auditors and members of their networks in 2005 and 2006

( <i>€ thousands</i> )	Barbier Frinault et Autres Ernst & Young				Mazars & Guérard				Total			
	2006	%	2005	%	2006	%	2005	%	2006	%	2005	%
<b>Audit</b>												
- Statutory auditing, certification, review of individual and consolidated financial statements	7,601	80%	6,739	90%	4,800	90%	3,738	93%	12,401	84%	10,477	91%
- Related engagements	1,597	17%	541	7%	360	7%	140	3%	1,957	13%	681	6%
<b>Sub-total</b>	<b>9,198</b>	<b>97%</b>	<b>7,280</b>	<b>97%</b>	<b>5,160</b>	<b>97%</b>	<b>3,878</b>	<b>97%</b>	<b>14,358</b>	<b>97%</b>	<b>11,158</b>	<b>97%</b>
<b>Other services</b>												
- Legal, fiscal and labor issues	245	3%	249	3%	140	3%	136	3%	385	3%	385	3%
<b>Total</b>	<b>9,443</b>	<b>100%</b>	<b>7,529</b>	<b>100%</b>	<b>5,300</b>	<b>100%</b>	<b>4,014</b>	<b>100%</b>	<b>14,743</b>	<b>100%</b>	<b>11,543</b>	<b>100%</b>

On the Audit Committee's recommendation, the Board of Directors decided on December 11, 2003 and December 1, 2005 to limit services provided by the Auditors or units belonging to their networks to audit and audit-related engagements. Total audit fees billed

from each audit firm for these engagements must not exceed 1/3 of total fees billed for statutory accounting. Audit-related engagements must be authorized by the Audit Committee Chairman if they exceed €500,000 or by the Chief Financial Officer.

# 12. Shareholders' rights and obligations

## Annual Shareholders' Meetings (article 18 of the bylaws)

All shareholders are entitled to attend Annual Meetings, regardless of the number of shares held.

The notice of meeting is sent directly by the Company to holders of registered shares. Holders of bearer shares are sent the notice of meeting by the bank or broker that holds their share account. Holders of both registered and bearer shares are required to provide evidence of their ownership of the shares at the time of the Meeting.

The following represent proof of ownership:

- Registered shares: an entry in the Company's share register, made at least five days prior to the date of the Meeting.
- Bearer shares: a certificate issued by the custodian stating that the shares have been placed in a blocked account, to be deposited at the address indicated in the notice of meeting at least five days prior to the date of the Meeting. The Board of Directors may shorten these deadlines up until the date of the Meeting, which may be held at the Company's head office or at any other location indicated in the notice of meeting.

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### Voting rights

#### 1 - Double voting rights (article 19 of the bylaws)

Voting rights attached to shares are proportionate to the equity in the capital represented by each share, assuming that they all have the same par value. Each share carries one voting right, unless there are any unavoidable legal restrictions on the number of voting rights that may be held by any single shareholder. Notwithstanding the foregoing, double voting rights are attributed to fully paid-up shares registered in the name of the same holder for at least two years prior to the end of the calendar year preceding the one in which the Annual Meeting takes place, subject to compliance with the provisions of the law. In the case of a bonus share issue paid up by capitalizing reserves, earnings or additional paid-in capital, each bonus share allotted in respect of shares carrying double voting rights will also have double voting rights.

The shares are stripped of their double voting rights if they are converted into bearer shares or transferred to another person, except in the case of an inheritance or family gift, with the transfer from one registered holder to another.

Double voting rights may also be stripped by a decision of the Extraordinary Shareholders' Meeting, ratified by a special meeting of shareholders benefiting from double voting rights.

The minimum holding period to qualify for double voting rights was reduced from four to two years by decision of the combined Annual and Extraordinary Shareholders' Meeting of June 27, 1995.

#### 2 - Ceiling on voting rights (article 19 of the bylaws)

At the Annual Meeting, no shareholder may exercise more than 10% of the total voting rights attached to the Company's shares. The 10% ceiling is calculated on the basis of the single voting rights and proxies held by the shareholder concerned. If the shareholder holds or represents shares carrying double voting rights, the limit may be raised to 15%, provided that the 10% ceiling is exceeded solely by virtue of the double voting rights.

The above ceilings will no longer apply, without it being necessary to put the matter to the vote at a further Annual Meeting, if any individual or legal entity, acting alone or jointly with one or other individuals or legal entities, acquires or increases its stake to at least two-thirds of the Company's capital through a public tender offer for all the Company's shares. In this case, the Board of Directors will place on record the lifting of the above ceilings and will amend the bylaws accordingly. The ceiling on voting rights was approved by the combined the Annual and Extraordinary Shareholders' meeting of June 27, 1995.

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### Income appropriation (article 21 of the bylaws)

Net income for the year less any losses brought forward from prior years is appropriated in the following order:

- 5% to the legal reserve (this appropriation is no longer required once the legal reserve represents one tenth of the capital, provided that further appropriations are made in the case of a capital increase).
- To discretionary reserves, if appropriate, and to retained earnings.
- To the payment of a dividend.

The Annual Meeting may decide to offer shareholders the opportunity to receive the dividend in cash or in the form of new shares of common stock.

Dividends not claimed within five years from the date of payment become time-barred and are paid over to the State in accordance with the law.

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### Disclosure thresholds (article 7 of the bylaws)

In addition to the legal disclosure thresholds, the bylaws stipulate that any individual or legal entity that owns or controls (as these terms are defined in article L.233-9 of the Commercial Code) directly or indirectly, shares or voting rights representing at least 0.5% of the total number of shares or voting rights outstanding, or a multiple thereof, is required to disclose said interest to the Company by registered letter with return receipt requested, within five trading days of the disclosure threshold being crossed.

In the case of failure to comply with these disclosure obligations, the shares in excess of the disclosure threshold will be stripped of voting rights at the request of one or several shareholders owning at least 2.5% of the Company's capital, subject to compliance with the relevant provisions of the law.

These disclosure thresholds were approved by the combined Annual and Extraordinary Shareholders' Meetings of June 27, 1995 and May 5, 2000.

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### Identifiable holders of bearer shares (article 7.3 of the bylaws)

As approved by the combined Annual and Extraordinary Shareholders' Meetings of June 30, 1988 and May 5, 2000, the Company may at any time request that Euroclear identify holders of bearer shares carrying voting rights either immediately or in the future.

# 3 →

# General presentation of Schneider Electric SA

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## 1. General information

Schneider Electric SA is a Société Anonyme (joint-stock corporation) governed by the French Commercial Code, with issued capital of €1,821,586,784. Since May 3, 2006, it has had a two-tier management structure, with a Supervisory Board and a Management Board. Its head office is located at 43/45, boulevard Franklin Roosevelt - 92500 Rueil-Malmaison, France (phone: +33 (0)1 41 29 70 00).

The Company is registered in Nanterre under no. 542 048 574, business identifier code (APE) 741J.

Schneider Electric SA was founded in 1871. Its term is up to July 1, 2031. The Company, which was called Spie Batignolles, changed its name to Schneider SA when it merged with Schneider SA in 1995, and then to Schneider Electric SA in May 1999.

Its summarized corporate purpose is to operate, directly or indirectly, in France and abroad, any and all businesses related to electricity, industrial control and general contracting, as well as to carry out any and all commercial, securities, real estate and financial transactions (Article 2 of the bylaws). Schneider Electric's fiscal year runs from January 1 to December 31.

The bylaws, minutes of Shareholders' Meetings, Auditors' Reports and other legal documents concerning the Company are available for consultation at the Company's head office (Management Board Secretariat) located at 43/45 boulevard Franklin Roosevelt - 92500 Rueil-Malmaison, France. The bylaws, auditors' reports and other documents are also available on the corporate website ([www.schneider-electric.com](http://www.schneider-electric.com)).

## 2. Capital

### Share capital and voting rights

The Company's share capital at December 31, 2006 amounted to €1,821,586,784, represented by 227,698,348 shares with a par value of €8.00, all fully paid up. At December 31, 2006, 247,190,648 voting rights were attached to the 227,698,348 outstanding shares.

### Potential capital

No share equivalents were outstanding at December 31, 2006. Stock options granted under the stock option plans in force at December 31, 2006 represent 3,262,404 shares, of which 6,859,920 correspond to options to either subscribe new shares or purchase existing shares, the precise type of such options has not been determined so far. Stock grants made or to be made under the plan in force at December 31, 2006 concerned 52,006 shares. The type of options (options to subscribe new shares or purchase existing shares) and stock grants (exercisable for existing or new shares) will be determined at a later date by the Management Board. Details of the plans are provided on pages 61 and 62.

On the basis of the share capital of the Company as of December 31, 2006, the potential maximum dilution in case of issue of all the shares as a result of the exercise of the option to subscribe and stock grants would be 4.44%.

### Authorizations to issue shares

At the Annual Shareholders' Meeting of May 3, 2006, shareholders transferred to the Management Board the authorizations given to the Board of Directors on May 12, 2005 to:

- Increase the share capital by a maximum of €500 million (62.5 million shares) by issuing shares or share equivalents. In the case of an issue without pre-emptive subscription rights, the ceiling stands at €300 million (37.5 million shares).
- Increase the capital by a maximum of €300 million by issuing shares in payment for shares of another company tendered to a public exchange offer, or, within a limit of 10% of the Company's issued capital, in payment for shares or share equivalents of an unlisted company.

The following authorizations were also given to the Management Board at the Annual Shareholders' Meeting of May 3, 2006:

- Authorization to issue new shares to members of the Employee Stock Purchase Plan, within a limit of 5% of the Company's share capital over 5 years.
- Authorization to issue new shares to entities set up to purchase shares of the Company under programs to promote employee stock ownership, within a limit of

0.5% of the Company's share capital over 18 months.

- Authorization to grant existing or new Schneider Electric SA shares to employees and corporate officers of the Company and its affiliates under the provisions of article L.225-197.1 et seq. of the French Commercial Code.
- Authorization to grant options to purchase new or existing shares to employees and corporate officers of the Company and its affiliates under the provisions of articles 225-177 and L.225-180 of the French Commercial Code.

On December 21, 2006, the Supervisory Board authorized the Management Board to issue new shares to members of the Employee Stock Purchase Plan during 2007, within a limit of 1% of the Company's share capital. The Management Board will use this authorization on May 31, 2007 to issue new shares to employees under a leveraged stock ownership plan.

At the 2007 Annual Shareholders' Meeting, the Management Board will ask shareholders to renew the authorizations to (i) issue shares and share equivalents with or without pre-emptive subscription rights, (ii) make stock grants to employees and (iii) issue new shares to members of the Employee Stock Purchase Plan and entities set up to purchase shares of the Company under programs to promote employee stock ownership.

The authorizations currently in force are as follows:

	Maximum aggregate par value of authorized share issues	Number of shares (in millions)	Authorization date/ Authorization expires	Used at December 31, 2006
<b>I - Issues with pre-emptive subscription rights:</b> shares, warrants and other securities convertible, exchangeable, redeemable or otherwise exercisable for shares	€500 million <sup>(1)</sup>	62.5	May 12, 2005 July 11, 2007	–
<b>II - Issues without pre-emptive subscription rights:</b> a) Shares, warrants and other securities convertible, exchangeable, redeemable or otherwise exercisable for shares, for cash or in payment of listed shares	€300 million <sup>(1)</sup>	37.5	May 12, 2005 July 11, 2007	–
b) In payment of unlisted shares	10% of the capital <sup>(1)</sup>	22.8	May 12, 2005 July 11, 2007	–
<b>III - Employee share issues (ESPP)</b> Share issues to entities set up to promote employee stock ownership	5% of the capital	11.4	May 3, 2006 May 2, 2011	- <sup>(6)</sup>
Stock options	0.5% of the capital <sup>(2)</sup>	1.1	May 3, 2006 November 2, 2007	- <sup>(6)</sup>
Stock grants	3% of the capital <sup>(3) (5)</sup>	6.8	May 3, 2006 July 2, 2009	0.57% <sup>(4)</sup>
	0.5% of the capital <sup>(5)</sup>	1.1	May 3, 2006 July 2, 2009	0.02%

<sup>(1)</sup> The ceilings for issues with and without pre-emptive subscription rights are not cumulative and are capped at €500 million in the aggregate.

<sup>(2)</sup> Issues of shares to entities set up to hold shares on behalf of employees will be deducted from the ceiling for employee share issues (ESPP) without pre-emptive subscription rights.

<sup>(3)</sup> The number of options to subscribe new shares or purchase existing shares that have been granted and not yet exercised or cancelled may not exceed 3% of the issued capital.

<sup>(4)</sup> Options granted under plan 28 are exercisable for either existing or new shares. The origin of the shares will be decided by the Management Board at the latest at the start of the option exercise period.

<sup>(5)</sup> Stock grants and options to subscribe existing shares or purchase new shares may not exceed 3% of the issued capital.

<sup>(6)</sup> At its meeting on December 21, 2006, the Supervisory Board authorized the Management Board to issue new shares to members of the Employee Stock Purchase Plan during 2007, within a limit of 1% of the Company's issued capital. The Management Board will use this authorization on May 31, 2007 to issue new shares to employees under a leveraged stock ownership plan.

### Three-year summary of changes in capital

Changes in share capital and additional paid-in capital since December 31, 2003 as a result of the exercise of stock options, shares issued to the Employee Stock Purchase Plan and the December 9, 2004 share cancellations were as follows:

	Number of shares issued or cancelled	New number of shares	New share capital
<b>Capital at December 31, 2003</b>		<b>231,842,170</b>	<b>€1,854,737,360</b>
Share cancellation	(7,000,000)		
Exercise of stock options	646,160		
Shares issued to the ESPP (2004 worldwide plan)	705,847		
<b>Capital at December 31, 2004 <sup>(1)</sup></b>		<b>226,194,177</b>	<b>€1,809,553,416</b>
Exercise of stock options	425,050		
<b>Capital at December 31, 2005 <sup>(2)</sup></b>		<b>226,619,227</b>	<b>€1,812,953,816</b>
Exercise of stock options	1,079,121		
<b>Capital at December 31, 2006 <sup>(3)</sup></b>		<b>227,698,348</b>	<b>€1,821,586,784</b>

(1) €45.18 million reduction in share capital, €240.90 million reduction in additional paid-in-capital.  
(2) €3.40 million increase in share capital, €19.04 million increase in additional paid-in-capital.  
(3) €8.63 million increase in share capital, €52.06 million increase in additional paid-in-capital.

### Share buybacks

The Annual Shareholders' Meeting of May 12, 2005 authorized the Board of Directors to buy back shares on the open market. No shares were bought back under this authorization in 2006.

The Annual Shareholders' Meeting of May 3, 2006 authorized the Management Board to buy back shares on the open market. Pursuant to this authorization, the Company set up a liquidity contract with a broker, under which the broker purchased 2,292,219 shares at an average unit price of €85.29 and sold 2,172,219 shares at an average unit price of €85.32.

## 3. Ownership structure

### Three-year summary of changes in ownership structure

	Capital %	December 31, 2006			December 31, 2005		Dec. 31, 2004	
		Number of shares	Voting rights %	Number of voting rights	Capital %	Voting rights %	Capital %	Voting rights %
CDC	4.42	10,062,852	5.36	13,237,852	4.44	5.30	4.45	5.24
Employees	3.09	7,028,765	5.22	12,911,628	3.35	5.67	3.76	6.04
Own shares <sup>(1)</sup>	0.94	2,150,352	-	-	0.95	-	0.95	-
Treasury stock	2.08	4,725,771	-	-	2.61	-	2.25	-
Public	89.47	203,730,608	86.65	214,165,045	88.65	85.79	88.59	85.86
<b>Total</b>	<b>100.00</b>	<b>227,698,348</b>	<b>100.00<sup>(2)</sup></b>	<b>247,190,648<sup>(2)</sup></b>	<b>100.00</b>	<b>100.00<sup>(2)</sup></b>	<b>100.00</b>	<b>100.00<sup>(2)</sup></b>

(1) Via Cofibel / Cofimines.  
(2) Number of voting rights resulting from section 222 12-5 of the Regulation of the French Autorité des Marchés Financiers, which includes shares stripped of voting rights.

As of December 31, 2006, 25,401,339 shares benefited from double voting rights.

#### Disclosure thresholds

To the best of the Company's knowledge, no shareholders other than Caisse des Dépôts et Consignations, listed above, hold, either directly or indirectly, more than 5% of Schneider Electric's capital or voting rights.

#### Pledges on Schneider Electric shares

To the best of the Company's knowledge, shares pledged by shareholders represent 0.0044% of the issued capital.

#### Pledges on subsidiaries' shares

Schneider Electric has not pledged any shares in significant subsidiaries.

## 4. Employee profit sharing, stock ownership, stock option and stock grant plans

### Profit-sharing plans

Profit-sharing and other profit-based incentive plans have been in effect at Schneider Electric Industries SAS since 1994. The amounts allocated over the past five years were as follows:

- €2.2 million in 2002 (profit-based incentive plan and profit sharing).
- €13 million in 2003 (profit-based incentive plan).
- €35.2 million in 2004 (profit-based incentive plan).
- €19.5 million in 2005 (profit-based incentive plan).
- €18.9 million in 2006 (profit-based incentive plan and profit sharing).

### The "Schneider Electric" corporate mutual fund

Schneider Electric has long been committed to developing worldwide employee stock ownership. Employees who are members of the Employee Stock Purchase Plan have an opportunity to purchase new or existing Schneider Electric SA shares through corporate mutual funds.

The last employee share issue was carried out in 2004. At its meeting on December 21, 2006, the Supervisory Board authorized the Management Board to carry out a new worldwide employee share issue during 2007, within a limit of 1% of the Company's issued capital at December 31, 2006.

As of December 31, 2006, employees held a total of 7,029,981 Schneider Electric SA shares through the corporate mutual funds or directly, representing 3.09% of the capital and 5.22% of the voting rights, taking into account double voting rights.

### Stock option and stock grant plans

#### Grant policy

Stock option and stock grant plans are decided by the Management Board with the authorization of the Supervisory Board, following a review of the plans by the Remunerations and Appointments & Corporate Governance Committee.

Grantees include members of Senior Management, top managers in all countries, high-potential managers and employees who performed exceptionally during the year.

Grants to members of Senior Management, including the Chairman and CEO and members of the Management Board, represent between 20% and 25% of the total, depending on the plan.

In 2005, the decision was made to set up annual plans at the end of the fiscal year so that grantees will be informed of stock option grants and stock grants at the same time that their bonus targets are determined.

For the annual plan set up in December 2006, a certain proportion of stock options were replaced by stock

grants for grantees who are resident in France for tax purposes, on the basis of one stock grant for four stock options according to the following rule:

- Members of the Management Board and Executive Committee: 20% of the number of options
- Other grantees: 30% of the number of options.

The following plans were set up:

- Stock option plan 28, covering 489 grantees
- Stock grant plan 1, covering 221 grantees.

#### Description of the stock option plan

The option exercise price is equal to the average share price of the twenty trading days prior to the date of grant by the Management Board. No discount is applied.

Since 2006, options have a ten year life. Options granted under plans 16 through 19 are exercisable as from the fourth year following the grant date, except for options granted under plans 16 and 19 which are exercisable as from the fifth and third year respectively. Under all four plans, the shares (to be held in registered form) are subject to a five-year lock-up. Options granted under plans 20, 21, 24 and 26 through 28 vest automatically and are exercisable as from the fourth year or, in certain cases, as from the third year. Options granted under plans 24, 26 and 28 may also be exercised in the case of a public offer for the Company's shares. Exceptionally, options granted under plans 22, 23 and 25 may be exercised as from the first year.

Options may only be exercised by Group employees. In addition, the exercise of options granted under plans 16 through 18, 20, 21, 24 and 26 through 28 is fully or partially dependent on specific targets being met concerning profit, value creation, revenue or operating margin, as described in the table below.

Because these targets were only partially achieved, 2,319,800 options granted under plans 16 through 21 were cancelled.

#### Description of the stock grant plan

The vesting and lock-up periods for stock grants made under plan 1 dated December 2006 are 3 years and 2 years respectively.

Grantees must be Group employees for their stock grants to vest. Half of each grant is subject to performance targets, based on revenue and operating margin.

#### Options and stock grants received and exercised by corporate officers and the top grantees during the year

The following were granted to members of the Management Board:

- Jean-Pascal Tricoire: 80,000 performance options under plan 28 (exercise price €82.14, expiry date 2016) and 5,000 performance stock grants under plan 1.
- Pierre Bouchut: 32,000 performance options under plan 28 (exercise price €82.14, expiry date 2016) and 2,000 performance stock grants under plan 1.

Henri Lachmann, who was granted options under plans 16 through 21, 24, 26 and 27, exercised 46,700 plan 16 options at a price of €50.73 and 71,600 plan 17 options at a price of €50.73 during the year.

**Options granted to the top ten employee grantees during the year and exercised by the ten employees exercising the most options during the year**

	Number of options	Exercise price (in €)	Expiry date
Options granted in 2006 to the top ten employee grantees (not including corporate officers) Plan 28	138,300	82.14	2016
Options exercised in 2006 by the ten employees exercising the largest number of options during the year (not including corporate officers)	282,900	54.11 <sup>(1)</sup>	NA
<i>(1) Weighted average price.</i>			

**Stock grants made to the top ten employees during the year**

	Number of shares
Grants made in 2006 to the top ten employee grantees (not including corporate officers) Plan 1	6,591

**Stock option plan details**

Plan no.	Plan date	Initial number of grantees	Initial number of options	Exercise price (in €)	Vesting conditions	% of target met	Cancelled options <sup>(1)</sup>	Options granted to corporate officers <sup>(2)</sup>	Options granted to top 10 employees <sup>(2)</sup>	Options outstanding at Dec. 31, 2006 <sup>(3)</sup>
16	April 1, 1999 P	337	1,259,300	50.73	50% - value creation 1999-2001	55.4	245,900	85,600	154,500	167,550
17	April 1, 1999 P	542	2,123,100	50.73	100% - 2001 sales, base costs and operating profit	47.7	1,078,600	107,400	172,900	200,143
18	March 24, 2000 P	1,038	1,421,200	65.88	50% - value creation 2000-2002	0	686,600	63,000	87,900	358,628
19	April 4, 2001 S	1,050	1,557,850	68.80	None	NA	NA	205,500	163,600	1,048,458
20	Dec. 12, 2001 S	180	1,600,000	51.76	100% - 2004 sales and operating profit	89.0	166,800	89,000	296,800	602,346
21	Feb. 5, 2003 S	433	2,000,000	45.65	50% - 2005 operating profit and return on capital employed	84.0	141,900	138,000	322,100	1,439,900
22	Feb. 5, 2003 S	111	111,000	45.65	None – reserved for winners of the NEW2004 trophies	NA	NA	-	10,000	59,050
23	May 6, 2004 S	107	107,000	56.09	None - reserved for winners of the NEW2004 trophies	NA	NA	-	10,000	52,600
24	May 6, 2004 S/P	402	2,060,700	56.09	50% - operating margin. 1/3 per year over 2004, 2005 and 2006	-	-	150,000	282,200	1,999,900
25	May 12, 2005 S	157	138,500	57.02	None - reserved for winners of the NEW2004 trophies	NA	NA	-	15,000	60,050
26	June 28, 2005 S/P	458	2,003,800	60.78	50% - 2005 and 2006 sales and operating margin	-	-	200,000	300,000	1,989,200
27	Dec. 1, 2005 S/P	419	1,614,900	72.10	50% - 2006 and 2007 sales and operating margin	-	-	150,000	293,000	1,613,700
28	Dec. 21, 2006 S/P	489	1,257,120	82.14	50% - 2007 and 2008 sales and operating margin	-	-	112,000	138,300	1,257,120
<b>17,254,470</b>							<b>2,319,800</b>	<b>1,300,500</b>	<b>2,246,300</b>	<b>10,848,645</b>

*(1) Number of options cancelled because the targets were not met (plans 16 to 21).*

*(2) Number of options after deducting options cancelled because the targets were not met.*

*(3) Number of options outstanding after deducting all options cancelled and exercised since the plan's inception.*

*S=Options to subscribe new shares.*

*P=Options to purchase existing shares.*

## General presentation of Schneider Electric SA

### Stock grant plan details

Plan no.	Plan date	Type <sup>(1)</sup>	Expiration date	Price in euros	Number of options outstanding <sup>(2)</sup>	Options granted to corporate officers <sup>(2)</sup>	Options exercised in 2006	Options cancelled in 2006	Number of options outstanding at Dec. 31, 2006
16	April 1, 1999	P	March 31, 2007	50.73	478,720	50,600	311,170	0	167,550
17	April 1, 1999	P	March 31, 2007	50.73	622,052	97,400	421,909	0	200,143
18	March 24, 2000	P	March 23, 2008	65.88	583,981	63,000	225,353	0	358,628
19	April 4, 2001	S	April 03, 2009	68.80	1,426,375	205,500	374,917	3,000	1,048,458
20	Dec. 12, 2001	S	Dec. 11, .2009	51.76	970,850	89,000	362,904	5,600	602,346
21	Feb. 5, 2003	S	Feb. 4, 2011	45.65	1,861,100	138,000	280,900	140,300	1,439,900
22	Feb. 5, 2003	S	Feb. 4, 2011	45.65	69,950	-	10,900	0	59,050
23	May 6, 2004	S	May 05, 2012	56.09	74,000	-	21,400	0	52,600
24	May 6, 2004	S/P	May 05, 2012	56.09	2,024,900	150,000	0	25,000	1,999,900 <sup>(3)</sup>
25	May 12, 2005	S	May 11, 2013	57.02	89,150	-	28,100	1,000	60,050
26	June 28, 2005	S/P	June 27, 2013	60.78	1,994,800	200,000	0	5,600	1,989,200 <sup>(3)</sup>
27	Dec. 1, 2005	S/P	Nov. 30, .2013	72.10	1,614,900	150,000	0	1,200	1,613,700 <sup>(3)</sup>
28	Dec. 21, 2006	S/P	Dec. 20, 2016	82.14	1,257,120	112,000	0	0	1,257,120 <sup>(3)</sup>
					<b>13,067,898</b>	<b>1,255,500</b>	<b>2,037,553</b>	<b>181,700</b>	<b>10,848,645</b>

(1) S=Options to subscribe new shares / P=Options to purchase existing shares. (3) Assuming exercise criteria are met.  
(2) As of January 1, 2006 for plans 16 to 27.

### Stock grant plan details

Plan no.	Plan date	Initial number of grantees	Initial number of grants	Vesting period	Lock-up period	Vesting conditions	% of target met	Cancelled grants <sup>(1)</sup>	Grants made to corporate officers <sup>(2)</sup>	Grants made to top 10 employees <sup>(2)</sup>
1	Dec. 21, 2006	221	52,006	3 years	2 years	50% - 2007 and 2008 revenue and operating margin	-	-	7,000	6,591
								<b>0</b>	<b>7,000</b>	<b>6,591</b>

(1) Number of grants cancelled because the targets were not met.  
(2) Number of grants after deducting grants cancelled because the targets were not met.

## 5. Stock market data

In France, Schneider Electric is listed on the Eurolist of the Euronext Paris market, where it is traded in lots of one under ISIN code FR0000121972. It is part of the market's benchmark CAC 40 index of France's largest stocks.

### Five-year Summary of Share-Price Performance

	2006	2005	2004	2003	2002
Average daily trading volume Euronext Paris					
- Thousands of shares	1,058.84	947.34	942.82	1,198.06	1,068.17
- Millions of euros	88.85	59.31	50.49	53.92	53.87
High and low share prices (in euros) <sup>(1)</sup> :					
- High	93.40	77.15	58.25	54.30	59.85
- Low	70.85	51.15	49.20	37.40	37.16
Year-end closing price (in euros)	84.10	75.35	51.20	51.90	45.09
Yield including tax credit (%)	3.57	2.99	3.52	3.18	3.33

(1) During the trading session.



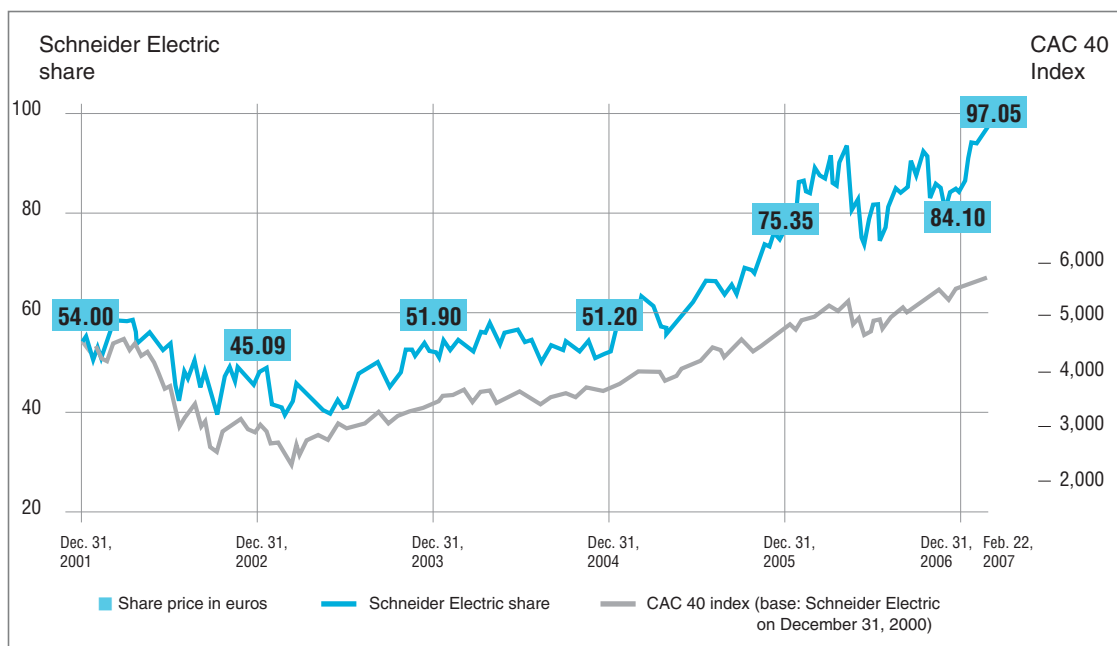
### 18-Month Trading Data

Year	Month	Trading volume (in thousands of shares)	Value (in millions of euros)	Price (in euros) <sup>(1)</sup>	
				High	Low
2005	September	17,532	1,124.51	65.80	62.25
	October	22,359	1,526.80	69.90	65.50
	November	16,298	1,169.77	74.00	68.40
	December	15,252	1,140.87	77.15	72.75
2006	January	20,947	1,682.25	87.50	75.05
	February	18,948	1,609.60	87.35	82.10
	March	20,506	1,775.79	89.80	83.55
	April	18,199	1,610.90	92.05	84.05
	May	36,779	3,178.99	93.40	77.25
	June	23,684	1,826.62	83.70	70.85
	July	17,390	1,349.18	82.00	72.80
	August	15,596	1,287.73	85.50	79.35
	September	17,821	1,535.55	90.75	82.95
	October	28,518	2,501.32	93.35	81.35
	November	30,241	2,522.78	87.10	78.45
	December	21,376	1,775.16	85.25	79.80
<b>Total 2006</b>		<b>270,005</b>	<b>22,655.87</b>		
2007	January	32,657	2,940.66	94.85	84.40
	February	26,628	2,515.83	97.70	90.00

(1) During the trading session.

### The Schneider Electric SA share vs. the CAC 40 index over 5 years

(Thomson Financial data)



### Monep

Options on Schneider Electric SA shares have been traded on the MONEP market since December 20, 1996.

### Ordinary bonds

Schneider Electric SA has made several bond issues as part of its Euro Medium Term Notes (EMTN) program over the past few years. Issues that had not yet come due as of December 31, 2006 were as follows:

In July 2006, Schneider Electric issued €500 million worth of bonds at a variable rate, due July 2011. Also in July 2006, Schneider Electric issued €500 million worth of 4.5% bonds due January 2014. These bonds are traded on the Luxembourg stock exchange under code numbers XS0260903348 and XS0260896542.

In August 2005, Schneider Electric issued €1.5 billion worth of bonds as part of its EMTN program. The issue comprises a €900 million five-year tranche at 3.125% and a €600 million twelve-year tranche at 4%. These bonds are traded on the Luxembourg stock exchange under code numbers FRF0010224337 and FRF0010224929.

In October 2003, Schneider Electric issued €750 million worth of 3.875% bonds due October 2008. These bonds are traded on the Luxembourg stock exchange under code number FR0010023200.

In October 2000, Schneider Electric issued two tranches of 6.1275% bonds due October 2007, in principal amounts of €400 million and €50 million, respectively. These bonds are traded on the Paris and Luxembourg stock exchanges under code number FR004833091.

## 6. Investor relations

### Investor Relations Officer

Pierre Bouchut  
Member of the Management Board,  
Chief Financial Officer

43-45, boulevard Franklin-Roosevelt  
92500 Rueil-Malmaison - France

Phone: +33 (0)1 41 29 71 34

### Contacts

Institutional investors, financial analysts and private shareholders may request information and documents from:

Alexandre Brunet  
Vice-President Financial Communication and  
Investors Relations at +33 (0)1 41 29 87 50.

Toll-free number for individual investors in France :  
0 800 20 55 14.

### Shareholders' Relations Committee

The Committee is made up of eight individual shareholders appointed by Schneider Electric for a three-year term. Members may serve a maximum of two terms. The Committee is designed to relay shareholders' concerns in the area of financial communication to the Company. It gives an opinion and makes suggestions on financial communication actions and resources for individual shareholders. In 2006, the members met three times and made numerous suggestions that were then implemented by Schneider Electric's financial communication department.

Examples include:

- A stronger communication strategy for individual shareholders, including the booth at the Actionaria investment fair, information meetings outside Paris and site tours.
- The content of the Letter to Shareholders.
- Changes in financial advertising (form and media).
- The Committee's participation in the Q&A session with the Chairman at the Annual Shareholders' Meeting. In this capacity, Committee members relay certain questions phoned in to the toll-free number.

### Shareholder documents

In addition to the annual report and a summary report entitled "In Brief", the Company also publishes:

- A Shareholders' Letter (three times a year).
- General, economic and financial information (presentations, press releases).
- A corporate website ([www.schneider-electric.com](http://www.schneider-electric.com)).



# Business review

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## 1. 2006 highlights

Measures and investments deployed as part of the new<sup>2</sup> company program produced higher-than-expected operating and financial results in 2006. The Group achieved record growth during the year, with an operating margin of more than 14.6%. This represents an increase of 2.2 points in two years.

The Group is making full use of four key levers—growth, efficiency, competencies and commitment—to speed its transformation and optimize performance.

### Growth

During the year, the Group pursued its strategy of enhancing core businesses, actively expanding geographically, launching innovative products and integrating new activities to offer customers more complete solutions and the best possible service.

Its performance garnered the 2006 Award for Competitive Strategy Leadership from Frost & Sullivan, a global growth consulting company.

### A sustained acquisitions strategy

Schneider Electric acquired or jointly founded a dozen companies in 2006 that together represented around €800 million in additional revenues over the full year.

■ **In electrical distribution**, the Group strengthened its position as the world's second-largest provider of installation systems and control by acquiring five companies in Europe and Asia. These included Merten in Germany, a leader in home automation that ranks fourth in its domestic market; OVA in Italy, domestic market leader in emergency lighting; AEM in Spain, a cable tray manufacturer; GET in the United Kingdom; and Clipsal Asia. Full-year revenue from installation systems and control amounted to €1.5 billion.

During the year, Schneider Electric also created a critical power subsidiary in India to serve a market that is growing by 20% a year.

■ **In automation and control**, the Group broadened its presence in the building market by acquiring Inven-sys Building Systems' IBS business in North America and Asia. With this acquisition, building automation and control represented full year revenue of nearly €900 million.

In automation and industrial control, Schneider Electric expanded its high-power speed drive lineup by acquiring Austria-based Va Tech Elin EBG Elektronik, which reported revenue of around €34 million.

With the acquisition of Citect (Australia), the Group is now the uncontested leader in Supervision Control and Data Acquisition (SCADA) software and Manufacturing Execution Systems (MES).

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### A major strategic initiative in critical power

In October 2006, Schneider Electric made a friendly offer to acquire all the outstanding shares of US-based APC, the world leader in critical power with 2006 revenue of €2.4 billion (up 20% from 2005). APC offers a perfect fit with Group subsidiary MGE UPS Systems, which leads the European critical power market and ranks second worldwide with 2006 revenue of €668 million. This combination will make Schneider Electric a high-performance powerhouse in the most vibrant segment of the electrical distribution market. Worth an estimated \$7 billion, the global critical power market is expected to grow by 7%-8% a year over the long term. The value created by this transaction is expected to exceed \$3 billion.

The \$6.1 billion acquisition was finalized on February 14, 2007.

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### Innovative new products and services

The productivity of our R&D teams, who work in close cooperation with marketing to meet customers' expectations, was reflected in the introduction of several innovative products during the year.

■ **In electrical distribution**, 2006 saw the launch of new products in the areas of protection and safety, energy savings, installation systems and control and critical power. Highlights included:

**Okken**, a low voltage switchboard offering enhanced safety and uninterrupted service features. Okken is built to fully withstand vibration and corrosion.

**Pragma**, modular enclosures for commercial and top-range residential buildings.

**Domae Quick PF**, the first lightning arrestor with an integrated grounding device and a complete end-of-life security system. This innovative, ergonomic and efficient lightning arrestor was specifically designed for the residential and small business market.

**RED**, a recloseable residual current circuit breaker that automatically reinstates power supply after checking for earth faults, for secure protection.

**FIP'clic**, an easy-to-program range of products to manage electrical heating in homes and achieve significant energy savings.

**Alvais**, a range of antibacterial light switches that meets the demanding cleanliness standards of health-care facilities, food service outlets, childcare centers, food and beverage companies and pharmaceutical firms.

■ **In Automation & Control**, the Group rolled out products with more and more embedded intelligence, smart and simple solutions and software to enhance development productivity. Notable launches included:

**Altivar 71 and 61**, speed drives that are particularly well-suited for high performance applications. These high-power drives feature advanced functionalities.

**Altivar 21**, a speed drive for motors from 0.18 to 30 kW. Altivar 21 is designed especially for HVAC systems.

**Lexium 05 and Lexium 15**, motion controllers that are compatible with Ethernet, CANopen and other standard networks and that are easy to integrate in all types of automation architectures.

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### A global R&D base

The Group has substantially internationalized its R&D base to bring its R&D centers closer to customers, innovate closer to needs and adapt production processes to local conditions.

As in France, the Group has high-performance R&D teams of around 1,500 people in Germany, the United States and Japan.

In 2006, the Group stepped up its research and innovation in digital electronics, power electronics, mechatronics, software and Internet-based technologies. Key events:

■ In January, the Electropole center in Grenoble, France opened. Electropole is the world's largest power protection and control R&D center.

■ In March, the Group's highly innovative HOMES project was selected as one of five supported by the Industrial Innovation Agency (AII) set up by the French government. In cooperation with world leaders in lighting, building control, shutters, HVAC and other systems, the Group will develop technologies and solutions for active energy control that will reduce energy use in buildings by up to 20%, in both the new and renovation segments. This project underscores the Group's ambitions in the energy efficiency market.

■ In May, the Group-led Minalogic competitiveness cluster was certified. Bringing together researchers and manufacturers in the Grenoble region, Minalogic develops chip-based embedded intelligence technologies that will be a core part of the intelligent electrical distribution and automation systems of the future.

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## Efficiency

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### New customer-focused organization

In July 2006, the Group aligned its organization to be closer to customers and speed execution by being more responsive, innovative and efficient. The new organization includes seven business units, a corporate Strategy, Customers and Technology Department responsible for overseeing the deployment of Group strategy in the business units, and an Innovation Department created to speed the process of identifying needs, developing products and bringing them to market and to expand scientific and technical partnerships.

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## Optimized resources

The Group continued to re-balance costs and sales within currency zones while optimizing its production base.

Stepped-up measures to increase productivity were taken in all countries to offset the higher cost of raw materials, energy and transport. The Group achieved productivity gains of €307 million during the year.

The supply chain was rationalized with the closure of centers and expansion of platforms with a broader scope.

Support functions were slimmed down and concentrated in mature countries, and new resources were deployed in emerging markets, notably for R&D, marketing and services.

## Employees

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### Competencies and commitment

The Group is implementing a single human resources management system worldwide following pilot tests in France and India in 2006.

In 2006, the Group stepped up recruitment of new MBAs to create a reservoir of high-potential talent. It has also increased investment in training at all levels. Schneider Electric University has launched new programs on customer focus, innovation and entrepreneurial spirit. At the same time, a new manufacturing operations institute has been created at the Group level and a training institute has been opened in China.

Occupational health and safety action plans have led to a significant decline in the lost time injury rate per employee.

Lastly, a new worldwide employee share purchase plan has been prepared for launch in the first half of 2007. It will be open to approximately 70,000 employees in 12 countries.

## 2. Operating performance

### Trends in the Group's core markets

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#### Industry

Demand in the Industry market rose sharply throughout the year around the world.

In Europe, the US and Japan, the firm economy, high profits and the need to improve productivity drove a significant increase in corporate capital investment. Large OEM exporters, notably in Germany and Japan,

benefited from strong demand for capital goods in emerging markets. Machine building was also very vibrant in China, Eastern Europe and other emerging markets.

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#### Non-residential buildings

The non-residential building market also benefited from exceptional worldwide growth in corporate capital spending in 2006. Europe saw its largest increase since 2000, with the strongest gains in the office and commercial building segments. Growth also accelerated in the US, particularly for industrial buildings, telecommunication and energy infrastructure and offices.

The market was very active in China, Australia and the rest of the Asia-Pacific zone.

In the Middle East, oil revenues continued to support the construction of hotels, hospitals, offices and stores.

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#### Residential

The residential market remained on a good trend in most of Europe, notably in Spain and the Nordic countries. Germany returned to growth for the first time in years. Demand in Europe was supported by still attractive real interest rates and longer mortgages.

In the US, on the other hand, the residential market contracted sharply after one of the strongest booms in its history.

In Australia, the overall market was down slightly in 2006 despite a significant upswing in the second half.

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#### Energy & Infrastructure

Global demand for more reliable and better quality supply has prompted regulators and other government agencies to invest heavily in more effective distribution grids.

The energy market was shaped by continued uncertainty over energy prices, supply security (notably during peak periods), transmission grid interconnection capacity and the lack of investment in generation and transmission infrastructure.

In addition, environmental issues have become a major concern for the entire industry, both for producers, who want to limit greenhouse gas emissions, and for consumers, who want to use energy as efficiently as possible.

The infrastructure market enjoyed strong growth in 2006. High crude prices are driving substantial investment in the oil and gas industry, notably in the Middle East, Russia and North America.

Demand for water supply and water treatment infrastructure has also increased sharply, particularly in emerging markets. Middle Eastern nations have continued to invest in desalination units, while customers in Europe have been investing to bring their installations into compliance with environmental legislation.

Demand for telecommunication infrastructure is back on a growth path, particularly in the US, Europe, India and China.

## Consolidated financial statements

Sector information by geographic region is based on management's current vision of Group performance. Additional analyses are being conducted to bring this information into compliance with IFRS 8, pending its adoption.

### Changes in the scope of consolidation

The Group made several acquisitions in 2006 that expanded its positions in Installation Systems and Control, Critical Power and Building and Industrial Automation.

#### Installation systems and control

On January 1, 2006, the Group bought out CIH Ltd's interest in the Clipsal Asia joint venture, in accordance with the terms of the agreement between the two partners. Clipsal Asia was previously accounted for by the equity method.

On February 28, 2006, the Group acquired AEM SA, a Spanish company that designs, manufactures and markets low voltage electrical and installation and control products.

On April 30, 2006, the Group acquired OVA G. Bargellini SpA, Italy's leading emergency lighting company with operations in the installation systems and control segment.

On May 31, 2006 the Group acquired Merten GmbH & Co Kg, a German firm that offers intelligent low voltage solutions and installation systems and control for the residential and buildings markets.

Lastly, on November 23, 2006, the Group acquired UK-based GET Group Plc. This acquisition will expand Schneider Electric's Installation Systems and Control lineup with wiring devices for the UK and British Standard export markets.

#### Industrial automation

On February 15, 2006, the Group acquired the assets of US-based Silicon Power Corporation's Crydom brand Custom Sensors business.

On March 27, 2006, the Group acquired the entire capital of Citect, an Australian manufacturer of Supervision Control and Data Acquisition (SCADA) solutions and Manufacturing Execution Systems (MES).

On September 26, 2006, the Group finalized the acquisition of Austria-based VA Tech Elin EBG Elektronik, a company that develops and manufactures high-power speed drive products and solutions.

#### Building automation

On July, 27, 2006 the Group acquired the Invensys Building Systems (IBS) business in North America and Asia. Following on the acquisition of Invensys' Advanced Building Systems business (ABS EMEA) in July 2005, this transaction extends Schneider Electric's current positions in Building Automation.

These companies have been fully consolidated from their respective acquisition dates.

The following companies acquired in 2005 and consolidated in 2006 had an impact on the scope of consolidation in relation to 2005:

- Power Measurement Inc, consolidated as from April 14, 2005,
- ELAU, fully consolidated as from June 1, 2005,
- ABS EMEA, consolidated as from July 29, 2005,
- Juno Electric Inc, consolidated as from August 24, 2005,
- BEI Technologies Inc, consolidated as from October 1, 2005.

### Other changes in the scope of consolidation

On 2006, the Group acquired further stakes in MGE-UPS group, raising its interest to 95.67% as at December 31, 2006.

On January 31, 2006, the Group announced the sale of its Num SA numerical control subsidiary.

On February 27, 2006, the Group announced the sale of Mafelec SAS, a specialty manufacturer of onboard push-button switches.

Together, these changes in scope of consolidation added €800 million, or 6.9%, to revenue and €103 million, or 6.6%, to operating profit for the year.

The average operating margin of newly consolidated entities stood at 12.4%. Before amortization of intangible assets recognized on purchase accounting, the average operating margin came to 13.3%.

## Acquisitions in progress

### APC

On October 30, 2006, the Group announced a friendly offer to purchase all outstanding shares of American Power Conversion (APC), the world leader in Critical Power.

By combining APC with its subsidiary MGE-UPS, the Group will become the global benchmark in Critical Power.

The anti-trust regulatory review in the United States ended on December 12, 2006 when the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act expired.

APC's shareholders approved the proposed merger in Extraordinary Meeting on January 16, 2007.

The European Commission's competition authorities granted final clearance under some divestment commitments on February 8, 2007. The Group plans to divest its MGE-UPS Systems operations in small systems below 10kVA. With estimated sales around €150 million, the divestment represents 6% of the combined operations of APC and MGE-UPS in Critical Power.

On February 14, 2007, the Group announced the completion of the acquisition for approximately \$6.1 billion.

Since the purchase price allocation to acquired identifiable assets and liabilities has not been completed,

the impact of the purchase accounting on balance sheet line items cannot be estimated at this stage. The global impact on net assets is estimated at \$4.5 billion before purchase accounting.

### Other acquisitions

The Group is currently negotiating or finalizing several transactions (acquisitions, participations and/or partnerships) for a total enterprise value of about €800 millions. This amount includes in particular two projects already announced: SBVE (Shaanxi Baoguang Vacuum Electronic) and Delixi Electric.

On June 27, 2006, the Group announced its intention of taking an equity stake of about 40% in SBVE (Shaanxi Baoguang Vacuum Electronic), a leading China-based manufacturer of Vacuum Interrupters. Such an equity stake may only be obtained if the equity reform plan presented by SBVE is approved by relevant authorities and shareholders, and a number of other conditions precedent are satisfied.

On December 18, 2006, the Group announced that it had signed an agreement to create Delixi Electric, a joint venture with Chinese partner Delixi Group. The 50-50 joint venture will manufacture, market and distribute low-voltage products in China, pending approval from local authorities.

### Exchange rate fluctuations

Fluctuations in the euro exchange rate had a very limited impact compared with 2005, reducing consolidated revenue by €3 million and lifting operating profit by €1 million.

### Revenue

Consolidated revenue totaled €13,730 million for the year ended December 31, 2006, up 17.6% on a current structure and currency basis from the year before.

The Group achieved record organic growth of 10.7% for full-year 2006. Acquisitions accounted for 6.9% of growth.

### Breakdown by region

Data by region includes the contribution from Critical Power activities.

Revenue in Europe rose 13.5% to €6,402 million on a current basis. On a constant structure and currency basis, the increase came to 9.6%.

This excellent performance, attributable to strong demand in all end markets, demonstrates Schneider Electric's ability to generate additional growth by leveraging an expanded product portfolio and developing services. Growth was strong in most European countries, with particularly good increases in the UK and Spain (higher than 10%). Revenue climbed by nearly 13% in Eastern Europe, led by the very active construction market.

In North America, revenue rose 21.3% on a current basis, to €3,698 million, and 7.5% on a constant structure and currency basis. Firm demand in the non-resi-

dential building market offsets the decline in the residential market.

Revenue from the Asia-Pacific division totaled €2,514 million, up 23.8% on a current basis and 15.7% on a constant basis.

The region's contribution continued to be driven by high growth in China (over 15%), India and Southeast Asia. These countries are benefiting from the powerful momentum generated by investment in infrastructure and industry.

Revenue from the Rest of the World rose 16.6% on a current basis, to €1,116 million, and 17.6% on a constant structure and currency basis. Sustained strong demand in the Middle East (notably from numerous infrastructure projects), Africa and South America supported the region's overall performance.

### Breakdown by business

Electrical Distribution generated revenue of €8,605 million, or 62.7% of the consolidated total. This represents an increase of 17.8% on a current basis and 11.8% like-for-like.

Automation & Control revenue rose 17.2% on a current basis to €4,456 million. Like-for-like growth came to 7.8%.

Critical power generated revenue of €668 million. This represents an increase of 17.4% on a current basis and 15.1% on a constant basis.

### Operating profit

Data by region includes the contribution from Critical Power activities.

Operating profit rose a reported 27.8% to €2,001 million from €1,565 million in 2005. On a constant structure and currency basis, the increase came to 21.1%. The operating margin widened 1.2 points over the year to 14.6% from 13.4%.

Operating profit includes an €18 million charge for amortization of intangible assets recognized on business combinations in 2006, versus €13 million in 2005. The Group measures operating performance on the basis of EBITA (Earnings Before Interest, Taxes and Amortization of purchase accounting intangibles). During the year, EBITA margin grew by 1.2 points to 14.7% from 13.5%.

The increase in raw material costs over the year (€227 million) was widely passed on in higher selling prices (€141 million) and also partially offset by productivity gains in the Group's manufacturing operations (€307 million).

Operating profit includes €116 million in non-recurring expenses related to asset impairment (€35 million) and restructuring programs (€81 million). At December 31, 2005, non-recurring impairment and restructuring expenses totaled €115 million.

Non-recurring expenses primarily stemmed from the reorganization of the Building Automation business in Europe, for €16 million, continued industrial reorganization in the Group's core businesses in France, the UK and Italy, for €67 million, and the reorganization of operations in Australia, for €7 million.

In addition, provisions in an amount of €38 million were set aside to cover delays and difficulties in deploying information systems.

The Group recorded gains of €46 million on the disposal of property assets in 2006, notably with the sale of the historic Telemecanique site in the Paris area.

At December 31, 2006, capitalization of development costs had a positive net impact on operating profit of €98 million, virtually the same as in 2005 (€100 million).

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### Breakdown by region

Operating margin in Europe rose by 1.9 point during the year to 15.4% at December 31, 2006.

North America reported an operating margin of 14.0% at year-end, up 0.7 point from December 31, 2005.

Operating margin in the Asia-Pacific region improved by 0.1 point to end the year at 13.0%.

Operating margin in the Rest of the World came to 15.5% compared to 14.0% in 2005.

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### Breakdown by business

Operating margin in the Electrical Distribution business widened by 1.4 point to 15.3%. Changes in the scope of consolidation and exchange rates had no impact on operating margin rate.

The Automation & Control business achieved an operating margin of 13.5%, up 0.9 point from 2005. On a constant structure and currency basis, operating margin would have been 13.6%.

Operating margin in the Critical Power business reached 12.9% in 2006, an increase from 0.8 point from 2005.

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### Finance costs and other financial income and expense, net

Finance costs and other financial income and expense, net totaled a negative €121 million compared with a negative €105 million in 2005.

Net finance costs amounted to €104 million, virtually unchanged from the €103 million recorded in 2005.

The cost of increased average net borrowings (€1,700 million in 2006 versus €1,070 million in 2005) was offset by a better return on invested cash and the modification of financing solutions.

Exchange rate fluctuations and their impact on currency hedging positions added €15 million to financial expense.

Lastly, changes in the fair value of financial instruments did not have any impact in 2006.

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### Income tax

The effective tax rate stood at 28.5% compared with 29.1% at December 31, 2005.

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### Share of profit/(losses) of associates

The Group's share of profits of associates came to €2 million at December 31, 2006.

The year-earlier figure primarily reflected the results of Clipsal Asia, which has been fully consolidated since January 1, 2006.

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### Minority interests

Minority interests totaled €37 million in 2006. Minority interests mainly correspond to the share of income attributable to minority shareholders of Clipsal Asia, MGE-UPS, Feller AG, EPS Ltd, and a number of Chinese companies.

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### Profit attributable to equity holders of the parent

Profit attributable to equity holders of the parent grew 31.7% to €1,309 million.

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### Earnings per share

The 30.5% increase from €4.56 to €5.95 reflects growth in profit for the period.

## 3. Change in financial situation

### Balance sheet and cash flow statement items

Total assets stood at €18,964 million at December 31, 2006, up 14.1% from the previous year-end. Non current assets amounted to €10,413 million and represented 54.9% of total assets, an increase of 1.8% from 2005.

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### Goodwill

Goodwill rose by €307 million over the period to €6,186 million, or 32.6% of total assets.

Acquisitions in 2006 added €728 million.

The provisional accounting for the BEI Technologies business combination was adjusted, leading in 2006 to the recognition of amortizable intangible assets in an amount of €72 million net of deferred taxes, which was deducted from the goodwill recognized in 2005.

The currency effect reduced total goodwill by €324 million.

Impairment tests conducted at the end of the year did not reveal any material losses.



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## Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets came to €3,115 million, or 16.4% of total assets, up 7.2% from the year before.

### Intangible assets

Trademarks rose by €20 million over the year to €760 million. Acquisitions added €46 million (of which €35 million for the BEI trademark), while the negative currency effect reduced the total by €27 million.

Gross capitalized development costs totaled €315 million (€264 million net), reflecting the capitalization of costs related to current projects in an amount of €121 million. Other intangible assets, net, primarily comprising software and patents, rose €75 million over the year. The increase stems from the recognition of customer lists and patents in an amount of €67 million following the acquisitions of BEI Technologies, capitalized development costs for the global SAP system in an amount of €52 million, and a negative currency effect in an amount of €28 million.

### Property, plant and equipment

Property, plant and equipment came to €1,615 million versus €1,601 million the year before. Acquisitions added €102 million, while the currency effect had a negative impact of €55 million. Net investments totaled €254 million.

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## Investments in associates

Investments in associates decreased by €38 million to €10 million following the full consolidation of Clipsal Asia since January 1, 2006.

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## Non-current financial assets

Non-current financial assets, primarily equity instruments listed in an active market and loans and receivables related to investments, totaled €430 million, a decrease of €167 million from December 31, 2005.

The decrease stemmed from the other non-current financial assets decline, following the payment of the €177 million balance on the vendor loan granted to the buyer of Legrand shares. Available-for-sale financial assets remained stable at €316 million compared to €315 million the year before.

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## Cash and net debt

Net cash provided by operating activities before changes in operating assets and liabilities rose 24.1% to €1,921 million, representing 14.0% of revenue.

Changes in operating working capital represented a negative €413 million, reflecting strong business growth over the year. The working capital ratio increased by 0.2 point to 21.4% from 21.2% the year before.

Net cash provided by operating activities totaled

€1,588 million, up 19.8% from €1,325 million in 2005.

Capital expenditure, which includes capitalized development projects, represented an outlay of €481 million compared with €476 million in 2005. These investments represented 3.5% of revenue in 2006.

Acquisitions used a total of €898 million, net of the cash acquired.

Cash proceeds from the sale of treasury stock on exercise of stock options amounted to €53 million (the Group bought back Company shares in a net amount of €73 million in 2005). Dividends paid totaled €517 million, (of which €15 million to minority interests) including €9 million for the dividend equalization tax.

Other payments with a material impact on cash included the payment of the €177 million balance on the vendor loan granted to the buyer of Legrand shares in 2002.

At December 31, 2006, net debt totaled €1,835 million or 21.1% of equity attributable to equity holders of the parent, representing an increase of €73 million from the year before. Net cash used in investing activities was almost entirely financed by cash from operations.

Cash and cash equivalents totaled €2,544 million of which €735 million in cash, €1,733 million in money market funds and €76 million in marketable securities, comprising short-term instruments such as commercial paper, monetary mutual funds and equivalents.

Total current and non-current financial liabilities amounted to €4,379 million. Of this, bonds represented €3,688 million, including the issuance of two bonds in 2006 for €1,000 million and two tranches of a €1,500 million issue in August 2005 as part of the Group's EMTN program. Lastly, acquisition debt accounted for €37 million of the total (net of the amount held in escrow for Clipsal's acquisition). Current financial liabilities totaled €885 million at December 31, 2006 and primarily included bank overdrafts, accrued interest and the current portion of bonds (€450 million).

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## Equity

Equity attributable to equity holders of the parent came to €8,717 million, or 46.0% of the balance sheet total. The €473 million increase over the year is the net result of the following:

- Payment of the 2005 dividend, in an amount of €493 million.
- Profit for the period of €1,309 million.
- Shares issued on the exercise of stock options for €61 million.
- Changes in treasury stock, which increased equity by €53 million.
- The impact of currency fluctuations, which reduced the translation reserve by €353 million.
- Fair value adjustments to hedging instruments and available-for-sale financial assets, which decreased equity by €133 million.
- Changes in actuarial gains and losses stemming from the measurement of employee benefits, which increased equity by €24 million.

Minority interests increased by €28 million to €122 million, reflecting the €37 million profit for the period, partially offset by dividend payments of €15 million.

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### Provisions

Current and non-current provisions totaled €1,729 million, or 9.1% of the balance sheet total. Of this, €287 million covered items that are expected to be paid out in less than one year.

This item primarily comprises provisions for pensions and medical care in an amount of €1,159 million. The decrease over the period corresponds to translation adjustments (€41 million) and actuarial gains and losses, recognized net of tax in equity, for a negative €30 million. The changes in the scope of consolidation, represented an increase of €27 million.

Provisions for contingencies totaled €570 million. These provisions cover product risks (warranties, disputes over identified defective products), for €145 million, economic risks (tax risks, financial risks generally corresponding to seller's guarantees), for €161 million, customer risks (customer disputes and losses on long-term contracts), for €57 million, and restructuring, for €85 million.

In addition, provisions in an amount of €38 million were set aside to cover delays and difficulties in deploying information systems.

The Group acknowledges the European Commission's decision concerning two former subsidiaries' alleged participation in a high voltage switchgear cartel and set aside the amount of the fine for €8.1 million.

The year's acquisitions added €19 million to provisions in the balance sheet, while translation adjustments reduced provisions by €20 million.

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### Other non-current liabilities

Other non-current liabilities amounted to €90 million, corresponding primarily to the put option granted to minority shareholders of MGE-UPS (€35 million). It also includes the debt related to the seller's guarantee amount in relation with Clipsal's acquisition (€47 million). This amount is being held in escrow.

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### Deferred taxes

Deferred tax assets came to €673 million, reflecting unused tax losses, in an amount of €245 million, and future tax savings on provisions for pensions, in an amount of €362 million.

Deferred tax liabilities totaled €305 million and primarily comprised deferred taxes recognized on trademarks purchased during acquisitions.

The €174 million change over the year stems primarily from the use of €133 million in tax loss carryforwards.

## Parent company financial statements

Schneider Electric posted total portfolio revenues of €557.1 million in 2006 compared with €337.8 million the previous year. Profit before tax came to €663.3 million versus €401.8 million in 2005. Net profit stood at €887.8 million versus €450.8 million in 2005.

Equity before appropriation of net profit amounted to €7,298.7 million at December 31, 2006 versus €6,848.9 million at the previous year-end, after taking into account 2006 profit, dividend payments, and shares issued on the exercise of stock options in an amount of €60.7 million.

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## Subsidiaries

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### Schneider Electric Industries SAS

Revenue totaled €3.0 billion in 2006, the same as 2005.

Operating profit decreased by 22.1% to €216.5 million from €278.0 million in 2005 and represented 7.2% of revenue.

Net profit came to €863.2 million compared with €582.5 million in 2005.

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### Cofibel

Cofibel's portfolio consists entirely of Schneider Electric shares.

Profit before tax came to €4.8 million versus €4.0 million in 2005.

Profit after tax stood at €4.7 million compared with €3.4 million the year before.

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### Cofimines

Profit from continuing operations before tax amounted to €1.7 million, versus €1.1 million from 2005.

After taking into account corporate income tax, net profit stood at €1.6 million same as 2005.

## Compensation and benefits paid to corporate officers

Details on compensation and benefits paid to corporate officers are provided in the chapter on Corporate Governance.

# 4. Sustainable development

## Introduction

### Schneider Electric's sustainable development approach

Schneider Electric emphasizes sustainable development-related improvement targets in its new<sup>2</sup> company program for 2005-2008, demonstrating the depth of its commitment in this area.

In a world in which **energy efficiency** has become a major issue, the Group is leveraging sustainable development to differentiate its offer and drive growth. Schneider Electric has staked out positions in new markets, such as energy efficiency, building automation and critical power, that will drive growth in the years ahead as it supports customers in a way that is mindful of the environment. The Group's acquisitions strategy, R&D processes and sales approach are designed to support this objective. More than ever, Schneider Electric is positioning itself as a responsible partner in energy efficiency.

**Responsibility**, a key concept in sustainable development, is an integral part of Schneider Electric's corporate culture and strategy. Because it acts responsibly, the Group is able to meet the social, economic and environmental challenges facing it in today's marketplace.

Schneider Electric published a reference document entitled *Our Principles of Responsibility* in 2002 to give all team members a common reference. Similarly, the **Planet & Society Barometer** set up in 2005 involves employees around the world in the Group's main commitments and allows them to track the action plans along with other stakeholders.

## Framework

Reference documents are distributed throughout the Group so that all team members can embrace this responsibility approach and apply it in line with local culture and legislation.

### Principles of Responsibility

In a globalizing world, *Our Principles of Responsibility* provides a framework to guide each team member's decisions and actions. The document outlines the Group's commitments to each of its stakeholder groups, including employees, business partners, shareholders, the community and the planet.

Adopted in late 2002/early 2003, *the Principles of Responsibility* were drawn up by 600 employees in 15 international working groups. They provide a frame of reference for each team member and for the Group as a whole. Failure to comply with these guidelines is considered serious misconduct.

## Policies

All of the Group's policies are aligned with *the Principles of Responsibility*.

### Environmental issues

In 1992, Schneider Electric published a formal environmental policy. It was revised in 2004 to reflect changes inside and outside the Group, with the emergence of new regulations and environmental approaches. The policy is designed to improve manufacturing processes, increase the use of eco-design and integrate customers' concerns in the area of environmental protection.

### Social issues

*Our Principles of Responsibility* also serve as a social charter. In it, the Group clearly states that "All employees can express their cultural diversity and are managed without discrimination. Team members are encouraged to develop their team spirit and their new competencies. At the same time, they are recognized for their initiatives and risk taking in contributing to the Company's growth." Human resources policies governing diversity, recruitment, international mobility, training, global compensation, leadership skills and health were deployed throughout the Group in 2006.

## Sustainable development organization

### Planet & Society Barometer

Schneider Electric created the Planet & Society Barometer in 2005 to measure its corporate social responsibility performance. With criteria covering people, environmental, community and corporate governance issues, the barometer expresses the Group's commitment to promoting sustainable development to all stakeholders.

The barometer serves three purposes:

- It provides a resource for training and raising awareness about sustainable development.
- It defines strategic avenues for improvement.
- It informs stakeholders of the Group's results and performance.

Information on the barometer is available at: [www.barometer.schneider-electric.com](http://www.barometer.schneider-electric.com)

### A dedicated organization

Formed in 2002, the Sustainable Development Department is responsible for drawing attention to and explaining the major transformations affecting the world today. These include environmental protection, energy-related geopolitical issues, economic and societal changes and globalization.

The Department and its thirty team members are responsible for:

- Organizing and executing the Group's sustainable development priorities.

- Responding to stakeholders.
- Deploying resources to raise awareness and promote action.
- Guiding the environmental department's action plans.
- Managing improvement plans in the areas of health-care, diversity and community action.
- In France, managing improvement plans in the areas of training and local economic development.

James Ross, a member of the Supervisory Board of Schneider Electric SA, has been assigned on behalf of the Board to develop specific expertise in the area of sustainable development and environmental and social risks.

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### Four working groups

Four working groups set up in 2005 impel and track action plans.

#### The Environmental Council

The Council is made up of representatives from the corporate departments who meet quarterly to discuss cross-functional issues and promote deployment of appropriate measures across the Company. The Council also devotes significant time to monitoring environmental issues at both the eco-design and eco-production levels.

#### The Health Committee

Committee members include representatives from each corporate department, the Business Units and the Operating Divisions (North America, Europe, International and Iberia and Asia-Pacific). Each quarter, the Committee meets to guide the Company's health and safety strategy and validate action plans. It leads the Group's health and safety approach and manages the network of local health and safety correspondents. An ad hoc committee met during the year to address risks related to a potential pandemic set off by avian flu.

#### The Diversity Committee (France)

Made up of all the Human Resources managers in France, this Committee is responsible for promoting diversity awareness in hiring and employee management. It meets every other month to validate strategy and action plans.

#### The Local Development Committee (France)

This Committee's mission is to drive and coordinate all responsible measures initiated by the Company in its employment pools. These highly regional yet highly cross-functional initiatives require ongoing dialogue among the various players within the Group—people involved in community outreach, business development, research, training, job opportunities, diversity and other issues—and field workers. The Committee meets three to four times a year, as well as for encounters on special topics.

Other working groups also address corporate social responsibility issues, such as the social policies committee chaired by the Executive Vice President, Human Resources and Managerial Communication.

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### Networks

Numerous culture carriers cascade Schneider Electric's sustainable development approach throughout the Company.

**As concerns the environment**, a network of 210 correspondents oversees environmental management at production sites. They are supported by an Environmental Director within the Globalization & Industry department.

The Strategy, Customers & Technology department coordinates the deployment of eco-design policy among product environment managers.

In the area of **social policy**, each Operating Division or Business Unit Executive Vice President is responsible for ensuring effective human resources management within his Division or Unit, implementing the new<sup>2</sup> company program, deploying all human resources policies (including those covering health and diversity) and ensuring compliance with *Our Principles of Responsibility*.

As for the Schneider Electric **Youth Opportunities** Foundation, a network of 200 volunteer team members lead and manage local projects. These correspondents, appointed for two years, are responsible for managing relationships with targeted associations involved in promoting job opportunities and training. This entails selecting the organization, submitting the project to the Foundation for validation and monitoring the partnership.

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### Improvement plans and indicators

#### New Reporting

As part of new<sup>2</sup>, each unit determines improvement paths aligned with both the program's vision and the unit's local reality. To ensure overall consistency and measure performance effectively, new<sup>2</sup>'s New Reporting system expresses each initiative in terms of strategic goals, target result and means. Ten of its tracking indicators directly concern sustainable development and make up the Planet & Society Barometer.

#### Planet & Society Barometer

The barometer tracks these ten indicators on a quarterly basis.

The Group's overall rating as of January 1, 2005 was 5.21 out of 10. The target for 2008 is 8 out of 10. **The end-2006 rating was 7.01 out of 10.**

The most noteworthy trends during the year concerned the environmental indicators, all of which improved, the clear upswing in the health indicator and the 10 out of 10 rating achieved by the improvement plan to donate equipment.

The diversity indicator was modified in 2006. The original indicator ("ensure that 30% of the Top managers have been in their positions for less than one year) was a means to an end, in that it measured opportunities to increase diversity by measuring mobility.

The new indicator focuses clearly on the role of women in the Company. It states, more simply, that the Group should "ensure that 20% of the participants in annual international mobility programs are women".

## Consolidation

All of the quantitative data, with the exception of the barometer indicators provided in this section, have been consolidated using two Group-wide methods:

- **Social data:** A global human resources scorecard, established annually over the past seven years based on a bottom-up reporting process.
- **Environmental data:** Reporting tables from the Group Environmental Affairs department, based on an annual manufacturing site survey.

This data is then reconciled with information from accounting and purchasing reporting systems to ensure consistency.

All Group units are included, except in specific identified cases.

## Audit

All audit missions, no matter what their initial focus, also verify key responsibility factors such as policy deployment and reporting transparency.

The Planet & Society Barometer's ten indicators				
Objectives for end-2008	Performance		Rating on a scale of 10	
	2006	2005	2006	2005
<b>People</b>				
■ Reduce the number of lost days from work accidents by 20% per employee and per year.	0.247 days ▲	0.4 days	8.60	5.6
■ Ensure that all employees have full basic health insurance.	100% ▲	100%	10	10
■ Ensure that 20% of people under international mobility program are women.	14.5% ▲	13%	4.5	3
<b>Environment</b>				
■ Ensure that all manufacturing and logistic sites are certified ISO 14001.	90.6% ▲	85%	6.86	5
■ Provide an environmental profile for 120 products representing more than 50% of total product revenue.	65 PEPS ▲	27 PEPS	5.4	2.3
■ Reduce energy consumption per production site employee by 10% (in MWh/year).	16.5 MWh	16.8 MWh	7.5	6.7
<b>Community</b>				
■ Donate €1 million worth of Schneider Electric equipment.	€2,394,300	€300,000	10	3
■ Ensure that 90% of our sites have a lasting commitment with the Schneider Electric Foundations in the area of youth opportunities.	84%	84%	7	7
<b>Corporate governance</b>				
■ Make 60% of total purchases from suppliers who support the Global Compact.	16% ▲	12%	2.6	2
■ Be included in the four major socially responsible investment index families.	3 families	3 families	7.5	7.5
<b>Overall performance at Dec. 31</b>			<b>7.01</b>	<b>5.21*</b>

\* The end-2005 rating was revised to account for the new diversity indicator.

## A responsible corporate citizen

In devising its strategy, Schneider Electric constantly includes improvement targets for economic, social and environmental performance and sets up indicators to measure its achievements objectively, as well as areas for further progress.

## Social performance

Schneider Electric's people are critical to its success. The Group motivates its employees and promotes involvement by making the most of diversity, supporting professional development, and ensuring safe, healthy working conditions.

### Framework

#### Scope of data consolidation

##### > Global scope

All data published in the following section covers the Group's global scope:

- **Consolidated units:** Corporate Functions, Operating Divisions, Business Units.
- **Non-consolidated units for compensation data:** Senior management, subsidiaries (Elim - Austria, GET - UK and MGE UPS Systems - outside France).
- **Non-consolidated units:** Companies that are less than 51%-owned by Schneider Electric.

##### > France

Certain data concern France and cover more than 80% of the workforce in France. In this case, they are flagged as "French data".

### Improvement plans - Planet & Society Barometer

#### Health and safety

→ Reduce the number of lost days from work accidents by 20% per employee and per year.

	2005	2006
Rating	5.6/10	8.60/10

→ Ensure that all employees have basic health insurance.

	2005	2006
Rating	10/10	10/10

#### Diversity

→ Ensure that 20% of people under international mobility program are women.

	2005	2006
Rating	3/10	4.5/10

## Health

Schneider Electric's health policy, applied across the Group in 2006, is aligned with the World Health Organization's definition of health ("Health is a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity").

For Schneider Electric, health is a challenge shared by all of its team members and partners. The Group also considers that health insurance coverage is a crucial lever for maintaining a high level of good health. It believes in deploying local approaches to achieve its goal of being the health benchmark in all host countries.

### > Deployment

Schneider Electric has created the Health Policy Deployment (HPD) indicator to track the deployment of its health policy across the Group. The indicator comprises three sub-criteria:

- Local language translation of the policy and distribution to all employees.
- Percentage of team members with coverage for work accidents, illness and disability.
- Formal health/safety management system in each unit that complies with an international benchmark.

### > Management involvement

#### Sponsoring

Units with the most critical accident records are tracked individually by a member of senior management. For example, Hal Grant, Executive Vice President Globalization & Industry and member of the Executive Committee, monitored the action plan in Australia. Some 17 units in nine countries were tracked by a sponsor in 2006, leading to an improved situation at all 17. In Argentina, for example, the number of days lost following a work accident fell to 29 in 2006 from 65 in 2005 and 113 in 2004.

#### Compensation

Since 2006, significantly improving safety has become a criterion in managerial compensation both in the United States and France. This principle will be gradually extended to other countries.

### > Local measures that contribute to the global action plan

#### Health management system

The Group encourages all its units to adopt an occupational health management system in line with the main international standards (ILO OSH and OHSAS). The units may decide to apply for certification if they wish. A number of sites and country organizations initiated this approach in 2006.

##### Examples:

Australia: Clipsal's health, safety and environmental management system has been certified to ISO 14001 and OHSAS 18001 standards since November 2006. Employee commitment and involvement is a key part of this management system.

China: Schneider Beijing Low Voltage has also received OHSAS 18001 certification, a goal that provided a base for building a health and environmental management system in 2006.

France: SAPEM received its first OHSAS health/safety certification in May 2006. The number of work injuries declined to 3 in 2006 from 16 in 2006.

#### Other initiatives

Schneider Electric's occupational health department continued to work with occupational psychologists from France's national conservatory of arts and crafts (CNAM) in 2006. Together, they organized discussion groups and awareness workshops for technicians, line managers, managers and occupational health professionals.

In France, the sales department launched a campaign on the driving hazards presented by such substances as alcohol, tobacco and illegal and prescription drugs. Developed in partnership with associations and institutions, the campaign included posters, communication media, training for culture carriers and a session to raise awareness among roving staff at the annual meeting on professional risk.

## Indicators

### Workforce

#### Total workforce

	2004	2005	2006
Average workforce*	84,866	88,670	100,078 ▲
Fixed-term and open-ended contracts	84,184	84,819	96,529 ▲
Average production staff	40,582	40,792	46,135 ▲
Average non-production staff	44,284	47,878	53,943 ▲
New hires	13,726	16,070	31,141
Departures	12,342	15,820	23,387

\* Including staff from temporary employment agencies.

#### Breakdown by region

(based on year-end spot count)

(percent)	2004	2005	2006
Asia-Pacific	18%	20%	22%
Europe	54%	49%	46%
North America	21%	24%	25%
Rest of the World	7%	7%	7%

#### Countries with the most employees

(percent)	2006	% change
France	21%	-1%
USA	16%	+ 12.5%
China	9%	+ 60.2%
Mexico	7%	+ 6.2%
Spain	4%	+ 10.8%
Australia	4%	+ 12.5%
UK	3%	+ 11.1%
Germany	3%	+ 36.4%
Italy	3%	+ 8.5%
Indonesia	2%	+ 32.5%
Sweden	2%	+ 6%
India	2%	+ 27.8%

#### Men / women

(percent)	2004	2005	2006
Men	63.7%	65%	64%
Women	36.3%	35%	36%

#### Gender and category

(percent)	2004	2005	2006
<b>White collar</b>	56.6%	59%	56.9%
Men	-	75%	72.5%
Women	-	25%	27.5%
<b>Blue collar</b>	43%	41%	43.1%
Men	50%	51%	53%
Women	50%	49%	47%

#### Age

(percent)	2004	2005	2006
14-24	8.1%	11.9%	11.2% ▲
25-34	29.1%	28.10%	29.6% ▲
35-44	29%	27.40%	27.7% ▲
45-54	24%	22.9%	21.8% ▲
55-64	9.6%	9.3%	9.2% ▲
> 64	0.2%	0.4%	0.5% ▲

#### Seniority

(percent)	2004	2005	2006
< 5 years	37.6%	42%	43.4%
5-14 years	29%	28.3%	27.5%
15-24 years	17.6%	16%	15.1%
25-34 years	13%	11%	10.6%
> 34 years	2.8%	2.7%	3.4%

#### Function

(percent)	2004	2005	2006
Marketing	4%	4.1%	4.4%
Sales	16%	18.3%	18.3%
Support	21%	15.7%	15.7%
Technical	6%	7.5%	8.3%
Production	10%	10.8%	10.2%
(Direct variable costs - employees linked directly to production of range core and adapted products)	43%	43.6%	43.1%

#### Type of contract

(percent)	2004	2005	2006
Flexibility rate (temporary staff/ total workforce)	17.9%	18.1%	19.5%

### Workforce (France)

#### Workforce

	2004	2005	2006
Spot headcount	19,843	20,538	20,364
New hires	883	2,842	1,637
o/w from acquired companies	0	1,197	13
Departures	1,908	2,337	1,864
o/w from divested companies	0	54	253

#### Type of contract

(percent)	2004	2005	2006
Open-ended	96.9%	95.4%	94.4%
Fixed-term	3.1%	4.6%	5.6%

Individuals on work-study programs account for two-thirds of fixed-term contracts in France.

#### Category

(percent)	2005	2006
Line employees	35.6%	34.4%
Supervisors	1.2%	1.1%
Administrative and technical staff	33.5%	33.1%
Engineers and managers	26.5%	27.5%
Work-study participants	3.2%	3.9%

#### Men/women

(percent)	2005	2006
Men	64.3%	64.8%
Women	35.7%	35.2%

### New hires

#### Type of contract

(percent)	2004	2005	2006
Open-ended	58.3%	65.2%	68%
Fixed-term	41.7%	34.8%	32%

#### Category

(percent)	2005	2006
White collar	45%	48%
Blue collar	55%	52%

#### Breakdown by region

(percent)	2005	2006
Asia-Pacific	25%	29%
Europe	27%	28%
North America	41%	34%
Rest of the World	7%	9%

### Dismissals

#### Change

	2005	2006
Number	4,460	3,795
o/w layoffs for economic reasons	1,070	620

#### Type of contract

(percent)	2005	2006
Open-ended	85.8%	88.5%
Fixed-term	14.2%	11.5%

#### Category

(percent)	2005	2006
White collar	37.5%	35.4%
Blue collar	62.5%	64.6%

#### Breakdown by region

(percent)	2005	2006
Asia-Pacific	17%	15%
Europe	25%	27%
North America	52%	50%
Rest of the World	6%	8%

### Reasons for dismissals

As part of the redeployment of resources carried out to re-balance costs and revenues geographically, headcount increased significantly in China, India, Indonesia and other countries.

At the same time, workforce reduction plans were implemented in other countries, such as France. The Group took assertive steps going beyond its legal obligations to assist employees in re-directing their careers at all concerned sites.

In 2006, Schneider Electric signed agreements in France to help re-invigorate employment pools in the depressed Barentin and Dijon areas. In Barentin, for example, the Group contributed up to €280,000 to support the creation of 77 jobs.



As of December 31, 2006, the local partners had drawn €211,825 and 67 jobs had been or were in the process of being created, of which six for disadvantaged youth, in partnership with Association pour le droit à l'initiative économique (ADIE).

In Dijon, Schneider Electric contributed up to €241,000 for a target of 50 new jobs. As of December 31, 2006, the partners had drawn €50,300 to create 13 jobs, of which 12 for disadvantaged youth, in partnership with ADIE.

## Contractors

(France)

### Temporary staff

	2005	2006
Total	2,457	2,810
o/w		
White collar	12%	11%
Blue collar	88%	89%

## Workweek organization and management

### Average annual hours worked

	2006
Number of hours	2,076

### Part-time or flex-time employees

(France)

	2005	2006
Total	1,456	1,387
(% employees)	7.09%	6.81%
Men/women		
Men	1.52%	1.48%
Women	18.05%	17.46%

### Absenteeism (France)

	2004	2005	2006
Days absent	6.9%	7.3%	5.8%
(% out of theoretical working days)			

### Reasons for absence (France)

	2004	2005	2006
Sick leave	71.7%	65.8%	73.4%
(% of total absences)			
Work/commute injuries	4.5%	5.0%	4.4%
(% of total absences)			

## Payroll and compensation

### Information on profit-based incentive and profit sharing programs and/or employee share ownership

(percent)	2004	2005	2006
Variable compensation	5%	6.10%	7.9%

For many years, French team members have benefited from variable compensation representing up to 9% of the total (depending on the Group's financial results) through profit-based incentive or profit sharing programs.

### Average cost per employee

	2004	2005	2006
Gross salary	€40.2	€40.2	€38.9
	thousand	thousand	thousand
+ payroll expenses			
+ individual and collective benefits			

## Employee share ownership

The last employee share issue took place in 2004 and was open to employees in 48 countries. The subscribed shares were issued at a discount of 15% to the average trading price.

As of December 31, 2006, 30,000 employees held 3.09% of the issued capital through corporate mutual funds. A new employee share issue is planned in 2007 with a matching payment by the Company.

## Social dialogue and relations

### Sites declaring employee representation

(percent)	2005	2006
Unions	47%	51%
Works council	55%	55%
Health and safety committee	68%	69%

### European committee

Schneider Electric's European Committee keeps employee representatives informed of changes within the Group. Committee members have their own training and information resources, including an online database and forum and a quarterly e-newsletter.

### Group works council, France

This council, which supports the various works councils in Schneider Electric's French subsidiaries, provides a setting for information and discussion with employee representatives of the Group's French units. The members' terms were renewed for a period of three years in 2006.

## Business review

Schneider Electric's commitment with this council, created in 1997, goes far beyond legal requirements. To give members an overall view of the Company and a good understanding of its business, Schneider Electric offers training, provides access to electronic resources and organizes plant tours, among other things. A five-day training session is organized for all new members to provide a panorama of the Group's operations and business environment.

### Collective agreements

In 2006, 39 agreements were signed with labor unions in France (versus 11 in 2005), of which four were Group agreements. These agreements covered a wide range of issues, including the creation of a Group negotiating body, mutualized profit-based incentive programs and profit sharing plans (Schneider Electric Industries and Schneider Electric France) and apprenticeships.

### People Scope

To achieve new2's goal of "improving together", Schneider Electric leverages the People Scope internal satisfaction survey, which also serves as a reference for benchmarking with other companies. As of August 31, 2006, all the Operating Divisions and Business Units had responded to the survey's 56 questions. Some 78,600 employees expressed their opinions, for a response rate of 78%. Topics receiving the most positive ratings included safety, personal involvement and the Group's societal commitment.

## Health and safety

### Health/safety

	2004	2005	2006
Frequency rate	22.8	16.7	9.8 ▲
Severity rate	0.19	0.16	0.10 ▲

### Accidents by category

	2006
Total accidents	1,936
Fatal accidents	3*
Serious accidents	346
Minor accidents	1,587

\* The three fatalities in 2006 occurred during commutes (one in China, one in Thailand and one in the United States).

Detailed information on the Group's health/safety improvement plan is provided on page 76.

### Health and retirement coverage

	2006
<b>Supplementary coverage offered by the Company*</b>	
Unemployment	5.2%
Social security pension benefits	26.1%
Supplementary pension benefits	35.2%
Work accidents – benefits in kind	12.4%
Work accidents – cash benefits	19.3%
Illness – benefits in kind	35.4%
Illness – cash benefits	41.3%
Life insurance (death coverage and survivor benefits)	60.8%
Disability	49.6%
Family allowances - benefits	16.0%

\* Percentage of units declaring that they offer supplementary coverage in relation to current legislation for the items listed.

## Training

### Training costs by type of training

(percent)	2004	2005	2006
Health, safety, environment	10.6%	8.9%	7%
Technical	38.7%	33.3%	30%
Foreign languages and IT	17.2%	13.1%	13%
Management and leadership	14.8%	24.7%	31%
Other	18.7%	20%	19%

### Category

(percent)	2004	2005	2006
<b>Training costs</b>			
White collar	88.9%	88.4%	77%
Blue collar	11.1%	11.6%	23%
<b>Training days</b>			
White collar	69.8%	70.4%	68%
Blue collar	30.2%	29.6%	32%

### Average number of days of training per employee

(days)	2004	2005	2006
White collar	4	4.7	4.4
Blue collar	2.2	2.1	2.5

The average number of days of training per employee rose to 3.8▲ in 2006 from 3.6 in 2005 and 3.3 in 2004.

### Training policy

Schneider Electric's training policy is designed to develop and lock-in talented men and women whose skills will help the Company meet its strategic objectives, in keeping with trends in its markets. Major paths include:

- Developing competencies and changing behavior.
- Allowing team members to anticipate and manage ongoing change.
- Deepening team members' integration in their function and in the Company.
- Tracking and evaluating the return on investment in training.
- Meeting current and future needs for improving performance.

### Schneider Electric University

One of new<sup>2</sup>'s priorities is to deploy a shared vision and to develop the Group's talents. Schneider Electric University plays a major role in this area. In 2006, it launched a new program to train in-house trainers called "Schneider teaches Schneider." This initiative is based on the conviction that the enterprise's various units are reservoirs of know-how and talent that can contribute to the Group's development. Not only does the program leverage this capital, but it also gives team members new ways to fulfill their potential.

Three new institutes were created in 2006 dedicated to product design, human resources and budget control, with the goal of deploying shared resources for these horizontal functions.

In all, 1,126 team members from 72 countries attended the University's leadership development and expertise building seminars in 2006, up 66% from the year before. The number of women participants increased by 85%.

Some 4,000 employees took e-learning courses to improve their English during the year and more than 6,000 benefited from locally deployed programs.

### Training (France)

#### Main topics

(percent)	2006
Health, safety, environment	8.5%
Technical	19%
Foreign languages and IT	13.5%
Management and leadership	12.1%
Manufacturing	9.9%

In 2006, 60% of the workforce in France received some type of training, lasting an average 24.3 hours. The number of programs offering a diploma or certification was twice as high as in previous years.

### Breakdown

(percent)	2006
<b>Men/women</b>	
Women	28%
Men	72%
<b>Category</b>	
Engineers and managers	28%
Supervisors, administrative and technical staff	40%
Line employees	32%

The Schneider Electric Industries/Schneider Electric France corporate agreement on training signed in December 2005 was deployed in 2006.

During the year, Schneider Electric France also launched an employability project as part of the new<sup>2</sup> program. Within the framework of this project:

- 200 managers and 70 human resources directors were trained in managing employability in a 26-session course.
- 38 action plans to develop employability were launched.
- 77 day-long sessions to profile talents and professions were organized at 45 sites across France to motivate team members and encourage professional development. The sessions highlighted Schneider Electric's different skills sets, external skills sets and the support system for future growth.

## Eliminating discrimination

### Gender equality

Diversity is a key topic of the new<sup>2</sup> company program. In 2006, the diversity indicator was re-worded and simplified to focus on the critical issue of women's role in the Company.

The "Choose your life" program deployed in France in 2006 in connection with the gender equality agreement signed by Schneider Electric in late 2004 reflects this commitment. It gave 20 women students from the INSA and ENSTA engineering schools in Lyon and Paris the opportunity to structure their professional choices through a three-month internship. The program will be offered every year.

To promote equal opportunity for men and women, also as part of the gender equality agreement, Schneider Electric played an active role in the opening of the first inter-company day care center in Eybens, France. The center cares for 45 children of Schneider Electric employees.

A similar center is scheduled to open in Rueil-Malmaison, France in February 2007 with 25 slots for children of Schneider Electric employees.

**Employment opportunities for disabled workers**

In 2006, Schneider Electric pursued its policy to bring disabled individuals into the workforce, with a focus on direct employment. This ongoing commitment dates back to 1985.

In France, disabled employees made up 5.38% of the workforce in France in accordance with new legislation (2.38% direct jobs and 3% via subcontractors), for a total of 326 team members.

**Diversity and temporary agencies**

During the year, Schneider Electric reviewed the situation of temporary employees with Adecco. A survey on preventing discrimination and promoting integration and diversity was conducted in the Adecco agencies that work with Schneider Electric's major sites. The results should help both partners identify areas for improvement and devise action plans.

**Relations with sub-contractors and suppliers**

**Framework**

Schneider Electric makes 92% of its purchases from 3,000 suppliers and sub-contractors.

**Improvement plans – Planet & Society Barometer**

→ Make 60% of total purchases from suppliers who support the Global Compact.

	2005	2006
Rating	2 / 10	2.66 / 10
Performance	12%	16%

**Type of purchases**

(€ million)	2006
Raw materials	1,600
Electronic components	1,500
Manufactured components	1,800
MRO purchases	2,200

**Breakdown by region**

(€ million)	2006
Europe	3,600
Americas	1,500
Asia-Pacific	1,500
Rest of the World	500

**Monitoring working conditions among sub-contractors and suppliers**

Schneider Electric uses a certification process called Schneider Supplier Quality Management to select new suppliers. The process is based on a questionnaire comprising nine sections, one of which concerns the environment and sustainable development. The Group evaluates suppliers' performance in the areas of labor relations, social accountability (SA8000), environmental protection (ISO 14001), compliance with the Restriction of Hazardous Substances (RoHS) directive and support for the Global Compact. In 2006, the questionnaire was used to evaluate 350 new suppliers, primarily in emerging markets.

**Improving working conditions among sub-contractors and suppliers**

Support for the Global Compact is a major criterion in the selection of key suppliers. This approach helps encourage suppliers to meet the Compact's objectives.

**Training for purchasing teams**

As part of the program to internationalize the purchasing function, the Group continued to recruit and develop skills in emerging markets during the year, primarily in Asia and Eastern Europe. Training new team members in internal processes and methods is critical to maintaining a uniform purchasing strategy worldwide. In 2006, the training programs were adjusted to meet the challenges of internationalization. They include a section on the Group's commitment within the Global Compact.

These measures produced tangible results in 2006, with the percentage of purchases from Global Compact signatories rising to 16% ▲ from 12% in 2005.

**Community outreach**

**Framework**

Schneider Electric's long-term commitment to helping unskilled young people has expanded rapidly with support from the Schneider Electric Youth Opportunities Foundation. The Foundation has backed real-world, lasting projects that promote education, training and mentoring since 1998 and encouraged Schneider Electric employees to participate.

(See p. 84 "Impact on regional development and community relations".)

**Improvement plans - Planet & Society Barometer**

→ Donate €1 million worth of Schneider Electric equipment.

	2005	2006
Rating	3 / 10	10 / 10

→ Ensure that 90% of our sites have a lasting commitment with the Schneider Electric Foundations in the area of youth opportunities.

	2005	2006
Rating	7 / 10	7 / 10

## Tsunami in Southeast Asia: Schneider Electric's involvement in reconstruction

Schneider Electric and its employees were deeply involved in helping the local population recover after the unprecedented natural disaster that hit South-east Asia on December 26, 2004. The corporate community collected €2,861,686 for disaster relief, of which €658,821 from employees, and also donated equipment and services.

These resources were used to fund several projects in Indonesia, Sri Lanka, India and Thailand, with a focus on daily necessities.

Each project is tracked by the Schneider Electric Foundation and local partners on the ground.

Most of the projects backed by the Foundation were inaugurated in 2006. Some 70% were completed by end-2006 and 89% will be finished by February 2007.

### Examples

> **In Indonesia**, four schools were inaugurated in July 2006 in Meulaboh and Banda Aceh, two communities devastated by the tsunami. More than 800 children were able to move out of temporary tent-schools into the brand new facilities in time for the new school year.

> **In Thailand**, the Baan Hin Lad School was rebuilt and expanded thanks to support from the Schneider

Electric Foundation and the World Vision Foundation of Thailand. A three-storey building with 18 classrooms was rebuilt to house the largest number of schoolchildren possible, in particular those whose school had been destroyed by the 2004 tsunami. The primary, middle and high school complex in Phang Nga province has capacity for 646 students.

### Schneider Electric' tsunami solidarity drive, launched in 2005, includes three programs:

**1. Emergency response:** purchase of ambulances, equipment for emergency housing and shelter and basic necessities, and installation of mobile water treatment units.

**2. Donation of equipment and services** to restore drinking water and electricity in cooperation with partners: more than €770,000 is available for distribution depending on local needs and the suitability of proposed programs. These donations fall within the scope of the €385,000 target set out in the Group's new<sup>2</sup> company program.

**3. Reconstruction** (primarily of schools and orphanages): projects to build or help build 12 schools, equip a training center, an orphanage and a medical center.

## A Foundation to encourage action and federate energies

One of the Schneider Electric Youth Opportunities Foundation's flagship programs is the Luli international mobilization campaign. Launched in 2002, the annual campaign raises awareness among the Schneider Electric workforce around the world and encourages employees to participate in the Foundation's programs. The theme for Luli 2006 was "bringing young people into society through sports". A competition to forecast the results of the soccer World Cup called "Luli Foot" was organized on the intranet for the benefit of local associations in each country, with matching funds donated to five international associations.

Along with this federating competition, the campaign called on team members to:

- Marshall their talents to organize an event that would bring together the largest number of employees possible so as to raise awareness about the issues supported by the sponsored association.
- Support the projects presented by the associations with time and money, through lasting partnerships.

**More than 75% of the Group's sites participated, providing support for 205 associations.**

## Long-term commitments

The Foundation and Schneider Electric volunteers support association-led projects over the long term.

In France, for example, representatives from the Carros site organize an annual event to collect funds for *Institut Rossetti*, an association that provides personalized assistance and material, educational and paramedical support to children who cannot study in the traditional school system.

In Mexico, Schneider Electric's local subsidiary organized and sponsored a multi-sports competition for disabled children in 2006 with its 25 leading distributors and ten largest suppliers.

In the United States, the Schneider Electric/Square D Foundation supports initiatives in the areas of education, social inclusion, healthcare and culture. Created in 1953, it supports hundreds of projects each year from a budget corresponding to 1.5% of Square D's net earnings from the previous year. In 2006, the budget amounted to \$3 million. More than 40% of these projects are related to education. One of the Schneider Electric/Square D Foundation's headline actions is the matching gift program, through which the Company matches employee donations to the association of their choice. In all, 3,351 employees have participated in the program over the past four years.

## Compliance with international law and other commitments

### Global Compact

Launched in 1999 by UN Secretary-General Kofi Annan, the Global Compact brings companies and non-governmental organizations together under the aegis of the United Nations to “unite the power of market with the authority of universal ideals”. Signatories are expected to embrace, support and enact ten principles in the areas of human rights, labour standards and the environment. Schneider Electric publicly expressed its support for universal values by joining the Global Compact in December 2002. The Group has primarily worked to share this commitment with its partners since 2003.

### World Health Organization

Schneider Electric uses the World Health Organization’s definition of health in defining its policies (“Health is a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity”).

### Diversity Charter

Schneider Electric signed the Diversity Charter launched by *Institut Montaigne* in 2004. Going beyond France, the Group has decided to apply the charter’s principles in all host countries or to update similar policies, for example in the United States.

### Apprenticeship Charter (France)

Schneider Electric has signed an apprenticeship charter in France. The charter grew out of the Group’s initiatives after Jean-Louis Borloo, the French Minister for Employment, Social Cohesion and Housing chose Henri Lachmann to lead a specific mission to promote corporate support for developing apprenticeship.

### Observatoire Social International

Schneider Electric also takes part in the work of the *Observatoire Social International* (OSI). It has signed on to the “right to lifelong education and training”, which aims to develop a relationship of partnership and co-responsibility between companies and educators and trainers.

### Other associations

Schneider Electric leads discussions on management and societal issues within the *Institut de l’Entreprise* think tank. It is a member of the Board of Directors of the French study center for corporate responsibility

(ORSE) and of the French Global Compact network. For many years, the Group has also actively supported *Association pour le développement du mécénat* (Admical), a French not-for-profit organization involved in corporate sponsorship issues that is a member of the Ceres European network, and *Institut du mécénat social* (IMS), an association that helps companies implement their corporate social responsibility policies.

### Standards organizations

Schneider Electric plays an active role within AFNOR, the French standards organization. In particular, it participates in the working group on sustainable development. The Group also works with international standards organizations in developing the standards that apply to its products. These organizations include France’s *Union Technique de l’électricité et de la communication* (UTE), the European Committee for Electrotechnical Standardization (CENELEC), the International Electrotechnical Commission (IEC) and the International Standards Organization (ISO).

## Impact on regional development and community relations

Wherever it operates, the Group makes a strong commitment to community partners. This is indispensable for a global enterprise that wants to keep in touch with real-life conditions in its local markets. Numerous projects under way and on the drawing board demonstrate Schneider Electric’s desire to be engaged, notably in the area of employment, and to contribute fully to local economic development.

### Agreements

As of end-2006, Schneider Electric’s main sites in France (including all manufacturing facilities) had signed target agreements with officials in charge of local development. These agreements cover inclusion, diversity and economic development. They strengthen Schneider Electric’s presence in its local employment pools, notably by creating a tighter network with local bodies involved in economic development.

### Youth opportunities

Schneider Electric has been involved in training programs for disadvantaged youth and high school non-completers for many years. Team members’ involvement in these programs has been a key success factor. In each host country, the Group looks for the most effective way to make a difference, from partnerships with schools and associations to financial support for young students and participation in technical or general training courses. These programs dovetail with the partnerships forged through the Schneider Electric Youth Opportunities Foundation (see “Community outreach” page 82).

**Examples**

- In Spain, the city of Meliana’s business development council asked Schneider Electric to participate in a pilot project to encourage the hiring of disadvantaged individuals, including foreigners, single parents, victims of domestic violence and people with disabilities. The program attracted some 200 participants. Half of those who received training were hired to work on assembly lines at Schneider Electric’s local site.
- In France, the national government launched a campaign called "100 opportunities – 100 jobs" with the city of Grenoble and Schneider Electric in January 2006. The campaign targets low-skilled residents of depressed neighborhoods, aged 18 to 30, who are motivated and ready to take part in a job opportunity program. The objective is to open the door to long-term employment within a period of 36 months by offering personalized skills-qualification paths with the help of 30 companies brought together and led by Schneider Electric. A positive outcome target of 60% has been set, meaning that participants obtain a fixed-term contract of more than six months, an open-ended contract or a skills-qualification training contract. The first "100 opportunities – 100 jobs" campaign was held in January 2005 in Chalon sur Saône, in partnership with Schneider Electric subsidiary SFG. A similar campaign is planned in 2007 in Normandy.

**Business creation**

Over the past ten years, Schneider Electric has supported employee projects in France to create businesses or buy going concerns through Schneider Initiatives Emploi (SIE)—a dedicated structure that allows the Group to address its employment and regional development responsibilities. The association provides confidential support during all stages of business creation, as well as afterwards, with a minimum follow-up period of three years. More than 500 project sponsors have gone on to head their own businesses in a variety of professions, from baker to consultant to electrician. SIE-backed projects show a success rate of 85% over three years. On average, each project creates 1.95 jobs.

A directory of 350 participants was widely circulated throughout the Company in 2006, as well as among the program’s alumni.

**Innovation**

To prepare the solutions of the future, Schneider Electric devotes nearly 5% of its revenue to R&D. In 2005, the Group set up a scientific council to provide guidance on the ongoing evolution of science, technology and innovation. In particular, the council is responsible for understanding the Group’s approaches and making recommendations in the following areas:

- Scientific and technical policy governing products, product development, manufacturing, services, etc., notably as concerns emerging technologies and/or technologies from other industries that could have an impact on Schneider Electric’s businesses.

- Research and innovation program management (innovation practices, scientific and technical cooperation, patent strategy, international deployment, customer involvement, suppliers, etc.).

- The Group’s global competencies strategy.

Increasingly, Schneider Electric is focusing its research on such topics as energy efficiency, speed drives, energy metering and lighting management. In medium voltage, it is doing work on new sensors and software to give devices advanced diagnostic functions. Group teams are also designing new electrical distribution products to feed energy from solar power, micro-turbines, wind farms or fuel cells into the power grid.

(See "Worldclass R&D", page 25).

**Environmental performance**

Schneider Electric fully assumes its environmental responsibility at all levels of the business by participating in the definition of new regulations and applying them early, by making sites more energy efficient, by promoting eco-design, and by raising employees’ and partners’ environmental awareness.

**Framework**

Schneider Electric neither generates nor distributes electricity. Its business primarily relies on assembly and monitoring techniques and includes very few processes with a more significant environmental impact, such as metal processing and treatment.

The Group has 205 manufacturing facilities.

It is committed to including all units in the scope of reporting. In 2005, environmental reporting was expanded from manufacturing sites to logistics facilities. The number of units covered grew to 184 in 2006 from 172 in 2005 and 139 in 2003, despite site closures and consolidation during the year.

The environmental reporting principles were officially audited in early 2006 and in early 2007.

In 2006, the Group implemented a process to measure CO2 emissions from primary energy consumption and to estimate volatile organic compound emissions. The data will be published for the first time in 2007.

**ISO 14001 certification**

	Total
Dec. 31, 2005	174
Target for end-2006	38
New certifications at end-2006	18
Dec. 31, 2006	192* ▲

\* Including site closures and consolidation in 2006.

Indicators	Reported scope				Like-for-like 2005/2006	
	2003	2004	2005	2006	2005	2006
Number of responding sites	139	159	172	184 ▲	154	154
Number of employees at manufacturing and logistics sites	43,944	47,140	50,644	60,462 ▲	47,887	50,064
Amount of waste produced (in metric tons)	93,736	94,821	100,547	105,502 ▲	102,244	98,893
Waste produced per employee (in metric tons)	1.94	2.01	1.99	1.74 ▲	2.14	1.98
Recovered waste (in metric tons)	62,645	69,741	76,286	84,836 ▲	78,439	80,286
Percentage of waste recovered	65%	73.5%	75.9%	80.4% ▲	76.7%	81.2%
Energy consumption (MWh equivalent)	674,967	692,298	793,898	918,024 ▲	822,465	823,856
Energy consumption per employee (in MWh)	15.3	14.7	15.7	15.2 ▲	17.2	16.5
Water consumption (in cubic meters)	1,643,483	1,838,221	1,874,329	2,122,381 ▲	1,687,349	1,820,887
Water consumption per employee (in cubic meters)	37.4	39.0	37.0	35.1 ▲	35.2	36.4
Estimates						
■ 2006 CO2 emissions (in metric tons)				285,655 ▲		244,177
■ CO2 emissions per employee (in metric tons)				4.7 ▲		4.9
■ 2006 VOC emissions (in kg)				337,548 ▲		330,299
■ VOC emissions per employee (in kg)				5.6 ▲		6.6

**Improvement plans - Planet & Society Barometer**

**Sites**

→ Ensure that all manufacturing and logistics sites are certified ISO 14001.

	2005	2006
Rating	5 / 10	6.86 / 10

**Customers**

→ Provide an environmental profile for 120 products representing more than 50% of total product revenue.

	2005	2006
Rating	2.3 / 10	5.4 / 10

**Energy efficiency**

→ Reduce energy consumption per production site employee by 10%.

	2005	2006
Rating	6.7 / 10	7.5 / 10

The 2006 figures include data from 184 sites compared with 172 in 2005.

The energy, waste, waste recovery and water ratios all improved on a reported basis despite a significant increase in production and outsourcing and a notable improvement in productivity. Meaningful progress was made on a like-for-like basis, except in the area of water consumption.

Readers should note that corrections have been made to data published in 2005, primarily as concerns North America.

**Water, energy and raw materials consumption**

**Water and energy**

Since 2006, the Group has provided a more detailed breakdown of water consumption that takes into account groundwater and water from the public network. The decline in consumption per employee since



2003 reflects the continuous improvement plans at each site.

Water and energy consumption data are consolidated in the table on page 86.

### Raw materials

In its ongoing drive to protect the environment, Schneider Electric is making its products more compact to conserve natural resources and constantly improving its lineup to make electrical installations more energy efficient. To facilitate end-of-life processing, it chooses materials that are easy to recycle and clip-together systems that are easy to disassemble. Life cycle analyses and recyclability assessments help the Group identify areas for improvement.

#### Example:

The latest generation Galaxy uninterruptible power supplies from MGE UPS Systems are significantly more efficient than the previous generation (now around 15 years old). As a result, the energy loss from this equipment has declined by around 15 toe (1 toe = 11,626 kWh).

## Measures to reduce energy consumption

### Energy consumption at production sites

As the marketplace's energy efficiency partner, Schneider Electric applies its solutions in its own operations through the "Energy Action" program to reduce consumption.

The objective is to reduce energy consumption per production site employee by 10% by the end of 2008. The program focuses on five key areas: heating, air conditioning, equipment (notably for data processing), lighting and specific manufacturing processes.

As of December 2006, 50 sites had launched action plans, including 26 in the United States, 5 in the United Kingdom, 18 in France and 1 in India.

In the US, the Oxford, Ohio site reduced its electricity expenses by 27% and its water bill by 9% with a return on investment within two to three years.

The five pilot sites in the UK have cut their consumption by 22%.

## European RoHS directive

The European Restriction of Hazardous Substances (RoHS) directive, which came into effect on July 1, 2006, bans lead, mercury, cadmium, hexavalent chromium and brominated flame retardants in certain electrical and electronic equipment—primarily household goods—sold in Europe.

The directive affects only a small portion of Schneider Electric's lineup directly, but it impacts a larger share indirectly. This is the case for equipment integrated in finished products covered by RoHS.

**The Group has gone far beyond the directive's requirements and decided to stop using these substances all together.**

### Step one: July 1, 2006

■ In line with its commitment, the Group brought all directly concerned and frequently integrated products into compliance with the directive as of July 1, 2006. Examples include:

> The GV2 contactor, now made using trivalent chromium instead of hexavalent chromium.

> The C60 circuit breaker, now made without lead, with trivalent chromium rather than hexavalent chromium, and with bromine-free materials for the plastic parts.

■ As part of this program, Schneider Electric has worked closely with suppliers to identify substitute components and materials that meet quality and performance requirements. In particular, specific measures were taken to ensure component reliability in the area of lead-free electronics.

■ The Group has also participated actively in the publication of guides, such as the document prepared by the Fédération des industries électriques,

électroniques et de communication (FIEEC), which presents a shared vision for the electric industry.

■ Throughout the transition period, the Group focused continuously on ensuring product quality and reliability while complying with customer deadlines.

Partners can find all the information they need to understand the directive, track implementation and consult the RoHS-compatible catalog at [www.rohs.schneider-electric.com](http://www.rohs.schneider-electric.com).

The date of RoHS-compliant production is given for each product.

### Step two: end-2008

The Group is currently eliminating the six substances from its entire low voltage lineup, including in products not covered by the directive.

In addition, the Group has decided to stop using cadmium in its products' electrical contacts, even though it could obtain a time extension from the EU.

## Eliminating hazardous substances in other countries

Although the RoHS Europe directive only applies to products sold in Europe, Schneider Electric has decided to bring its entire lineup into compliance worldwide before the end of 2008. In this way, it will be prepared for regulatory changes in other countries, such as China. Products in China will be compliant long before hazardous substances are effectively banned. New regulations are expected in the months ahead in India, the United States, South Korea, Australia and other countries.

### Promoting renewable energy sources

The Group is also making wider use of renewable energy sources. For example, the corporate restaurant at the Electropole R&D Center in Eybens, France is powered by solar energy.

The International and Iberian Operating Division's new headquarters is equipped with a photovoltaic system and a centralized HVAC solution that reduces energy costs by 15%. And the Group's future headquarters under construction in Rueil-Malmaison will comply with France's HQE green building standards, notably as concerns energy consumption.

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### Respecting ecosystems

Schneider Electric's plants in Seneca and Columbia, South Carolina have introduced innovative initiatives to help protect wildlife on their sites. Thanks to time volunteered by employees, the plants created or re-created native wildlife and plant habitats in partnership with community groups through the Wildlife and Industry Together (WAIT) program.

Projects included a Carolina Fence garden, butterfly and shade gardens, bluebird boxes and amphibian houses.

Employees and partners have made recommendations for future activities to make wildlife preservation an integral part of property and production area management.

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### Releases, nuisance and waste

#### Land use

Virtually all Schneider Electric sites are located in urban or industrial areas and do not affect any notable biotopes. None of the Group's businesses involve extraction or landfarming.

#### Releases into the water and air

Because Schneider Electric is mainly an assembler, its releases into the air and water are very limited. Mechanical component production workshops are carefully monitored, in keeping with their ISO 14001 certification. Their releases are tracked locally as required by current legislation. No major spills or releases were reported in 2006.

The Group's actions are guided by the principle of continuous improvement. In 2005, for example, the Beaumont-le-Roger plant stopped using trichloroethylene as a cleaning solvent, while in 2006, Rectiphase in France phased out zinc metal spraying for its capacitors.

Special attention is being paid to volatile organic compound (VOC) emissions in accordance with the so-called best available technology (BAT) directive (96/61). These emissions are covered by a comprehensive reporting system deployed in 2005.

For medium voltage products and equipment, the Group has signed a voluntary agreement to eliminate

SF6 emissions throughout the devices' life cycle. This entails producing and operating in leak-proof conditions and offering an end-of-life recycling service.

#### Releases into the soil

No substances are purposely released into the soil in the course of site operation. Workshop flooring is specially treated to prevent any leakage. Hazardous substances are systematically stored and handled in areas equipped with retention tanks. Retention systems are designed to compensate in the event of malfunctions or emergencies, such as fires.

During the year, Schneider Electric conducted its annual review of pollution risks at all manufacturing sites as part of ISO 14001 tracking.

None of the sites are classified Seveso. However, the Group continuously monitors 13 facilities, of which 7 in France, often because of their past manufacturing history. Monitoring is conducted in liaison with local authorities and preventive measures are carried out when necessary. Such measures were taken at the Yates site in the United States and at Maizières-les-Metz in France, where soil contaminated by transformer oil was excavated. No major incidents were reported in 2006.

#### Noise and odors

All Schneider Electric sites comply with noise limits.

#### Waste

Waste represents the majority of the Group's releases. Waste management is continuously being improved, with a recovery rate of more than 80%.

Because classification systems vary widely from country to country, the Group does not consolidate global data by category (hazardous and non-hazardous). Waste is processed to ensure local traceability. In France, for example, hazardous industrial waste accounts for around 14% of total waste. All waste is channeled to the appropriate treatment facility.

#### End-of-life management

The Group informs customers about its products' environmental impact and provides Product Environmental Profiles (PEPs) to assist them with disassembly.

In Europe, Schneider Electric offers a service to take back end-of-life products.

In 2006, MGE UPS Systems launched the "Swap pac" program so that customers would not have to manage electrical and electronic waste from outdated uninterruptible power supplies. The program comprises an environmental review of the installation's electricity consumption and quality; removal and certified destruction of the end-of-life equipment; and delivery of new equipment.

This goes far beyond the requirements of waste from electrical and electronic equipment (WEEE) regulations, which concern only a very small portion of Schneider Electric's lineup.

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## Evaluation and compliance approaches

When the ISO 14001 environmental management standard was published in 1996, Schneider Electric immediately initiated a process to certify its sites. The Group's goal is to obtain certification for all manufacturing and logistics sites within two years after their acquisition or construction.

As of December 31, 2006, 90.6% of the manufacturing and logistics sites ▲ were certified ISO 14001, for a total of 192 facilities. The rate in France was 100%.

Newly certified sites in 2006 included the Florida plant in Buenos Aires, Argentina; the regional distribution center in Budapest, Hungary; the international distribution center in Hong Kong; and Schneider Electric Logistics Asia in Singapore.

An environmental management system has also been deployed on an experimental basis at non-production sites, with 13 now certified. These include all the sales agencies in Germany. In France, the Metz and Strasbourg agencies were certified in 2006 and there are plans to extend the process to agencies nationwide in 2007.

Regulatory watch and compliance is a systematic part of the environmental management system and is certified by a third party with the ISO 14001 label.

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## Environmental management organization and training

### Organization

The organization comprises:

- A corporate Environmental Affairs department.
- A skills network.
- > Sites: environmental managers in all countries with significant operations and at all manufacturing and logistics units.
- > Products: an environmental relay in each business unit who is responsible for integrating environmental concerns in lineup management and environmental representatives in each department.

This network has access to a wide range of management and experience sharing resources including directives, application guides, an intranet site and databases.

### Employee training and information

Training and informing employees is a key mission for country and unit environmental managers. Particularly emphasized during site certification, training is facilitated by a 28-module e-learning package that takes about 15 hours to complete. The modules are fun and educational, with exercises and tests to ensure that learners have understood and retained the information presented.

All employees have access to the package via the intranet. In 2006, an educational CD-ROM on energy

efficiency was distributed to all of Schneider Electric's 600 managers worldwide.

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## Environmental risk management and prevention

The ISO 14001 environmental management system covers management of environmental risks. No Schneider Electric sites are classified Seveso.

Aside from the voluntary prevention measures discussed above for sites with a soil contamination history, no amounts have been paid out in connection with a legal ruling.

### Measures for addressing accidental pollution with consequences outside the perimeter of Group establishments

All of the Group's industrial sites, which are certified ISO 14001, have organizations in place to prevent emergencies and respond effectively if necessary. Preventive and corrective action plans are based on an analysis of non-standard situations and their potential impact. This analysis draws in part on hazard reviews for classified installations.

In France, for example, certain sites that handle large amounts of chemical compounds, such as Le Vaudreuil, MGA and 38Tex, are equipped with balloon-type containment systems to avoid any pollution through the water network. Others, like SDE, which is located next to a river, have floating beams.

Drills are held regularly throughout the year to ensure that supporting procedures are ready and effective.

A national organization has been set up to track sensitive sites, whose managers systematically receive training in environmental crisis management. Directives, procedures and national guidelines concerning environmental crisis management, historical and current operations management, pollution risk prevention and other topics are available on the intranet. Internal audits verify that these procedures are applied correctly.

In France, a soil environment committee meets quarterly to validate action plans designed to reduce potential pollution risks and eliminate any environmental consequences of past activities at sites under surveillance.

## Ratings

This section presents the findings of the leading sustainable development ratings agencies and a number of ethical investment funds. The results allow for comparison with an industry benchmark.

Improvement plans - Planet & Society Barometer		
→ Ensure that Schneider Electric is included in the four major socially responsible investment index families		
	2005	2006
Rating	7.5 / 10	7.5 / 10

## ASPI Eurozone® Index

The Advance Sustainable Performance Indices' Eurozone listing tracks the financial performance of 120 leading euroland sustainability performers from the DJ Euro Stoxx benchmark financial universe. Schneider Electric has been included since 2001. Vigeo ratings are used to select the listed stocks, in keeping with ASPI Eurozone® guidelines.

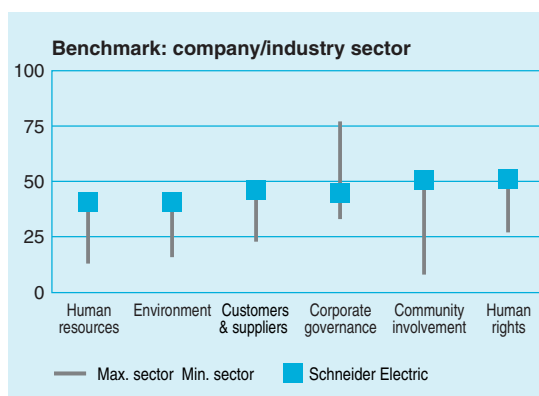
[www.vigeo.com](http://www.vigeo.com)

*Investor-solicited rating – July 2006*

*Market sector: Electrical components and equipment. (Companies in panel sector: 9)*

Component (min -- / max ++)	Rating 2006 / 07	Score 2006 / 07
Human Resources	+	40
Environment	++	40
Customers & Suppliers	+	46
Corporate Governance	=	44
Community Involvement	++	50
Human Rights	+	51

Score scaling: 0 to 100



Schneider Electric is in discussions with Vigeo to obtain a re-evaluation of the corporate governance rating, taking into account:

- > The appointment of a Supervisory Board member to monitor sustainable development practices and management of environmental and social risks.
- > Tracking of these risks by the Supervisory Board's Audit Committee.

- > The Executive Committee's exemplary cultural and generational diversity.
- > The internal auditors' work to evaluate deployment of corporate social responsibility policies.
- > The appointment of a woman to the Supervisory Board.

## Energy efficiency study Equities with high top-line potential – September 2006

In September 2006, Oddo Securities published a study on energy efficiency that particularly highlighted Schneider Electric's positioning.

The selection was drawn from the group of European equities covered by Oddo on the basis of several criteria. Special mention was given to:

- > Companies in a position to benefit in the short and medium term from a surge in revenue growth thanks to the rising importance of energy efficiency issues.
- > Stocks with a differentiating energy efficiency profile in terms of products or services, target customers and performance.
- > Pure players in terms of energy efficiency positioning.

As of the publication date, Schneider Electric topped the list of recommended investments.

## Dow Jones Indices

After being selected for the first time in 2002, Schneider Electric was included in 2007 in the Dow Jones Sustainability Index World. This family of indices bases its decisions on research provided by Sustainable Asset Management (SAM), an independent asset manager headquartered in Switzerland.

[www.sustainability-index.com](http://www.sustainability-index.com)

## Ethibel Investment Register

Schneider Electric was included in the Ethibel Investment Register in 2006. This reference for socially responsible investing is used by a growing number of European banks, fund managers and institutional investors.

Ethibel offers two products based on its register: the Ethibel Label and the Ethibel Sustainability Index.

[www.ethibel.com](http://www.ethibel.com).

## Bank Sarasin

Schneider Electric is included in a number of Bank Sarasin's ethical investment funds. The Switzerland-based bank rates companies both for its own purposes and for its customers, mainly pension funds.

[www.sarasin.com](http://www.sarasin.com)

# Methodology underlying human resources, safety and environmental indicators

## Frame of reference and definitions

In the absence of any recognized and meaningful benchmark for companies involved in manufacturing and assembling electronic components, Schneider Electric has drawn up a frame of reference with reporting methods for human resources, safety and environment indicators. The frame of reference includes all relevant definitions, measurement procedures and methods for collecting information. As part of its continuous improvement process, Schneider Electric is gradually adapting the sustainable development indicators as the Group evolves. The frame of reference is regularly updated.

## Consolidation scope and methods

Human resources and safety indicators are consolidated at the worldwide level for all companies that are fully consolidated in the Group's financial statements.

As concerns environmental data, production and logistics sites are included in the scope of consolidation after two full calendar years of operation. In 2006, the scope of environmental reporting expanded from 172 to 184 manufacturing and logistics sites, in keeping with the policy of covering the broadest possible base. Units belonging to fully consolidated companies are included on a 100% basis, as are units belonging to proportionally consolidated companies. Companies accounted for by the equity method are not included in the reporting.

## Data collection and monitoring

Human resources, safety and environment indicators are drawn from several dedicated reporting sources available on the Group's intranet. Depending on their nature, the data are consolidated by the Human Resources or the Environmental Affairs departments. Data is checked during consolidation, with a review of changes from the previous year and inter-site comparisons. No estimates are used to replace inconsistent or missing data. In keeping with its commitment to continuous improvement, Schneider Electric asked Ernst & Young to conduct a review in order to obtain a moderate level of assurance for certain human resources, safety and environment indicators.

## Calculation methods

### Environmental data

CO<sub>2</sub>: The Group uses the method endorsed by the International Energy Agency in 2006 to convert energy consumption into CO<sub>2</sub> equivalent. The conversion factors may be global (natural gas, fuel oil, diesel) or national (electricity, urban heating, etc.).

Waste: the figures do not include exceptional waste, such as that from building demolition.

ISO 14001 certification: the ISO 14001 indicator covers 192 manufacturing and logistics sites compared

with 184 for the other environmental indicators. ISO 14001 certification is one of the Planet & Society Barometer's performance indicators.

Volatile Organic Compounds (VOCs): given the nature of the Group's business, an estimate was made of VOC emissions in 2006 to provide a rough approximation.

Product Environmental Profiles (PEPs): This indicator corresponds to the number of PEPs compiled by Schneider Electric. It is one of the Planet & Society Barometer's performance indicators.

### Social data

Lost time injury rate per employee: this indicator is calculated on the basis of working days and includes all injury-related time off exceeding one day during the current and previous years. A ratio of 6/7ths has been applied to calendar days declared by the French units to obtain a corresponding number of working days, thereby increasing the final indicator. Employees of units that do not report a lost time injury figure are not included in the denominator. The lost time injury rate is one of the Planet & Society Barometer's performance indicators.

Social coverage: all units that provide benefits for at least one of the seven following areas are considered to offer basic coverage – family allowances, retirement, death insurance, illness (benefits in cash or in kind), work accidents (benefits in cash or in kind), disability and unemployment. The indicator, which includes units acquired no less than two years previously, is one of the Planet & Society Barometer's performance indicators.

Number of days of training: this indicator does not include awareness-raising campaigns, which are not considered to be part of training. The hours/days conversion is based on an 8-hour day.

Diversity: this indicator tracks the percentage of women participating in international mobility programs, which serve to identify high-potential talent within Schneider Electric. Diversity is one of the Planet & Society Barometer's performance indicators.

Global Compact: this indicator, which tracks the percentage of unit purchases made from Global Compact signatories, covers the 2,000 largest referenced suppliers in the Group's supplier base. This tends to reduce the final amount, given that suppliers who comply with the Electronic Industry Code of Conduct (EICC) also meet the Global Compact's requirements. The volume of purchases from Global Compact signatories is one of the Planet & Society Barometer's performance indicators.

## Methodological limits

Methodologies used to establish environmental indicators may provide incomplete data due to current-month estimates made during reporting. These estimates, which represent a sixth of the period, are not adjusted afterwards.

## Assurance report on certain human resources, safety and environment indicators

To the shareholders,

In our capacity as Statutory Auditors of Schneider Electric and as requested, we have performed a review that allowed us to provide a moderate level of assurance on the 18 environment, safety and social indicators (hereafter referred to as "the indicators") for 2006 identified in the annual report by the ▲ symbol.

Schneider Electric's Sustainable Development Department was responsible for preparing the indicators in accordance with the frame of reference applicable in 2006. This frame of reference, which may be consulted at Group headquarters, is summarized on page 91. Our responsibility is to express a conclusion on these indicators, based on our review.

### Nature and scope of our review

We performed a limited review to provide a moderate level of assurance that the indicators are free of material misstatement. A higher level of assurance would have required a more extensive review.

- We reviewed the frame of reference with regard to its meaningfulness, completeness, neutrality and clarity.
- We met with 15 people in charge of the reporting process at the Group level and in France and the United States to assess the frame of reference's application. At these levels, we reviewed internal control of data consolidation, analyzed meaningful variations and verified, on a test basis, calculations and data consolidation.
- We selected a sample of four operating units at which we verified understanding and application of the frame of reference and, on a test basis, verified the calculations and reconciled the data with supporting documentation.

We used teams specialized in sustainable development led by Eric Duvaud to perform this work.

### Information and comments

We have the following comments on the reporting frame of reference defined by Schneider Electric for the selected data:

- The individuals responsible for environmental and social reporting at the Group's sites and units should be more aware of the importance of their work. In applying the frame of reference, special attention should be paid to the distinction between "Headcount by direct variable costs (DVC) and non-direct variable costs (NDVC)" and to "Number of days lost per employee (NDL)".
- The accuracy of the method for calculating the average workforce at manufacturing sites should be improved and the methods for calculating the number of product environmental profiles compiled and the percentage of product ranges in compliance with the RoHS directive should be formalized.

- The type of tests to be conducted for all environmental and social data, as well as the individuals responsible for testing should be specified and made more efficient to ensure the continued reliability of reporting.

The Group has provided detailed information on the methodologies used to establish data on page 91 and in comments to published data. We bring the following items to your attention with regard to this information:

- Environmental data is transmitted in June and December on the basis of estimates for at least the last month of each six-month period. The data is not adjusted at the end of the year.
- Environmental data is transmitted for the manufacturing operations, which represent around 55% of the Group's total workforce.

### Conclusion

During our review, we observed the following errors:

- The frame of reference was not always correctly applied in determining the work accident frequency rate and work accident severity rate.
- The frame of reference was not always correctly applied in determining the breakdown between headcount by direct variable costs (DVC) and headcount by non-direct variable costs (NDVC). Our review of this data did not allow us to reach a conclusion.

On the basis of our review and subject to this reservation, nothing has come to our attention that causes us to believe that the reviewed indicators have not, in all material respects, been prepared in accordance with the frame of reference.

Neuilly Sur Seine, February 20, 2007

Ernst & Young et Autres	Ernst & Young
Ernst & Young	Environment and Sustainability Services
Pierre Jouanne	Eric Duvaud

> *To find out more:*

[www.schneider-electric.com](http://www.schneider-electric.com)  
(> group > sustainable development)

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

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

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

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## 5. Outlook for 2007

### Revised targets for the new<sup>2</sup> Company Program

In light of the success of the new<sup>2</sup> company program's action plans, the Group has set new financial targets for 2007-2008:

- Organic revenue growth of more than 6% per year (compared with 5% previously), due in particular to additional growth from APC.
- An EBITA margin of between 13% and 15% (compared with 12.5% and 14.5% previously). This corresponds to a potential improvement of 1 to 1.5 points (compared with the pro forma 2006 margin including APC but without non-recurring costs of 13.7%) in similar economic conditions.
- A 2-point increase in return on capital employed (ROCE) (compared with the pro forma 2006 figure including APC of 9.3% and the initial target of a 2- to 4-point increase between 2005 and 2008).

The Group's aim is to surpass global GDP growth by 3 points on average. Historical data shows that global GDP grows by around 3% a year over an average period.

EBITA is defined as Earning Before Interest, Taxes and Amortization of purchase accounting intangibles. ROCE is defined as Return On Capital Employed. Capital employed is the quarterly average of capital, the net debt and non standard provisions.

As from 2007, the Group has decided to change its indicator for measuring operating performance from EBIT margin to EBITA margin. EBITA margin excludes the amortization charge related to business combinations, because the amount of this charge does not have a direct link to the company's performance. The charge results from the decision to allocate goodwill to certain intangible assets and makes it difficult to compare a company acquired from another. The dividends distribution plan determined by new<sup>2</sup> has not changed.

The amortization charge for intangibles resulting from acquisitions came to €13 million in 2005 and €18 million in 2006. Measured in terms of EBITA margin, the new<sup>2</sup> program's original target would have been between 12.6% and 14.6%.

### Assumptions used to prepare forecasts

The forecasts and targets presented above are based primarily on the following assumptions:

- Full consolidation of APC from February 15, 2007
- Aside from the consolidation of APC, forward-looking data is based on the current scope of consolidation.
- Exchange rate assumptions have been determined at Group level. In particular, a US dollar/euro exchange rate of 1.32 has been used for 2007.
- Anticipated revenue growth has been calculated based on world economic growth projections (GDP).
- Certain price changes have been anticipated to offset higher raw material costs, notably for copper.
- The Group anticipates a negative margin impact from changes in its geographic and business mix.
- On the other hand, its ongoing strategy to control base costs, improve industrial productivity and rebalance costs should have a positive margin impact.

Some of these amounts, assumptions and estimates are based or partly based on the expectations or decisions of the Management of the Group and its subsidiaries that may change or be altered.

The forecasts, targets and forward-looking statements and information summarized above are based on data, assumptions and estimates discussed earlier that the Group considers reasonable.

Forward-looking statements depend on present expectations of future events. They are not historical facts and should not be construed as guaranteeing that the forecasts and/or objectives will be met. These amounts, assumptions and estimates, as well as all the factors taken into account to determine targets, forward-looking statements and information, are subject to various uncertainties concerning the Group's business, financial and competitive environment that could cause actual results to differ materially from those described in the forward-looking statements.

In addition, the occurrence of certain risks described in Chapter 1 (pages 28-31) of this document could have an impact on the Group's business and the achievement of the targets and forward-looking statements and information presented above.

## 6. Auditors' report on profit forecasts

To the Chairman of the Management Board,

In our capacity as Statutory Auditors of Schneider Electric SA, and as required by regulation 809/2004/EC, we present below our report on the profit forecasts for Schneider Electric SA included in section 11.4 of the Offering Memorandum dated March 7, 2007.

These forecasts and the principal assumptions on which they are based were prepared under your supervision in accordance with regulation 809/2004/EC and recommendations concerning forecasts issued by the Committee of European Securities Regulators (CESR).

It is our responsibility to report our conclusions on the manner in which the forecasts were compiled, as required by regulation 809/2004/EC, Annex I, Point 13.2.

We performed our work in accordance with professional standards in France. Our review consisted of evaluating the procedures implemented by Management to prepare the forecasts and examining evidence demonstrating that the basis of accounting used for the forecasts was consistent with the accounting policies used to prepare Schneider Electric SA's historical financial information. We also interviewed members of Schneider Electric SA's senior management to obtain the information and explanations we deemed necessary to have reasonable assurance that the forecasts were properly compiled on the basis of the stated assumptions.

Because forecasts are subject to various uncertainties that could cause actual results to differ materially, we have no conclusion to express about the likelihood that these forecasts will be fulfilled.

In our opinion:

The forecasts have been properly compiled on the stated basis.

The basis of accounting used for the profit forecast is compatible with the accounting policies of Schneider Electric SA.

This report is issued solely in connection with the offering made to the public in France and other countries of the European Union in which the prospectus approved by Autorité des Marchés Financiers (AMF) may be distributed.

Courbevoie and Neuilly-sur-Seine, March 5, 2007

The Statutory Auditors

Mazars & Guérard	Ernst & Young et Autres
Pierre Sardet	Christian Chochon
Jean-Louis Simon	Pierre Jouanne





# Consolidated financial statements at Dec. 31, 2006

- |   |          |  |          |
|---|----------|--|----------|
| 1. Consolidated statement of income . . . . .                                   | → p. 96  | 5. Notes to the consolidated financial statements . . . . .                            | → p. 101 |
| 2. Consolidated statement of cash flows . . . . .                               | → p. 97  | 6. Report of the Statutory Auditors on the consolidated financial statements . . . . . | → p. 152 |
| 3. Consolidated balance sheet . . . . .   | → p. 98  |  |          |
| 4. Consolidated statement of changes in equity and minority interests . . . . . | → p. 100 |  |          |

The consolidated and parent company financial statements for the years ended December 31, 2004 and 2005 are presented in the registration documents registered with Autorité des marchés financiers (AMF) under number D.06-0158 and D.05-0309 on March 27, 2006 and March 31, 2005, respectively.

# 1. Consolidated statement of income

<i>(in millions of euros except for earnings per share)</i>	<b>2006</b>	<b>2005*</b>	<b>2004</b>
<b>Revenue</b> <i>(note 22)</i>	<b>13,729.7</b>	<b>11,678.8</b>	<b>10,349.3</b>
Cost of sales	(8,050.6)	(6,923.8)	(6,177.4)
<b>Gross profit</b>	<b>5,679.1</b>	<b>4,755.0</b>	<b>4,171.9</b>
Research and development expenses <i>(note 23)</i>	(327.6)	(273.7)	(295.1)
Selling, general and administrative expenses	(3,234.8)	(2,812.8)	(2,549.7)
Other operating income and expenses <i>(note 25)</i>	(116.0)	(103.2)	(40.7)
<b>Operating profit</b>	<b>2,000.7</b>	<b>1,565.3</b>	<b>1,286.4</b>
Finance costs, net	(104.0)	(103.1)	(64.4)
Other financial income and expenses	(16.9)	(1.5)	5.1
<b>Finance costs and other financial income and expense, net</b> <i>(note 26)</i>	<b>(120.9)</b>	<b>(104.6)</b>	<b>(59.3)</b>
Share of profit /(losses) of associates <i>(note 7)</i>	1.9	(3.6)	(3.6)
<b>Profit before tax</b>	<b>1,881.7</b>	<b>1,457.1</b>	<b>1,223.5</b>
Income tax expense <i>(note 12)</i>	(535.1)	(427.5)	(365.2)
<b>Profit of continuing operations</b>	<b>1,346.6</b>	<b>1,029.5</b>	<b>858.3</b>
Discontinued operations			
<b>Profit for the period</b>	<b>1,346.6</b>	<b>1,029.5</b>	<b>858.3</b>
– Attributable to equity holders of the parent	1,309.4	994.3	823.9
– Attributable to minority interests	37.2	35.2	34.4
Basic earnings per share (in euros) <i>(note 14.3)</i>	5.95	4.56	3.73
Diluted earnings per share (in euros) <i>(note 14.3)</i>	5.90	4.54	3.72
* IAS 32/39 applied as from January 1, 2005 with no adjustment for 2004 (note 2). The accompanying notes are an integral part of the consolidated financial statements.			

## 2. Consolidated statement of cash flows

<i>(in millions of euros)</i>	2006	2005*	2004	
<b>I - Cash flows from operating activities:</b>				
Profit attributable to equity holders of the parent	1,309.4	994.3	823.9	
Minority interests	37.2	35.2	34.4	
Share of (profit)/ losses of associates, net of dividends received	(1.9)	2.8	3.5	
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>				
Depreciation of property, plant and equipment	282.1	279.3	285.7	
Amortization of intangible assets other than goodwill	110.4	88.8	76.7	
Losses on non current assets	32.2	20.7		
Increase/(decrease) in provisions	80.7	22.5	(27.7)	
Change in deferred taxes	99.0	97.0	78.1	
Losses/(gains) on disposals of assets	(38.0)	(0.7)	(9.0)	
Other	10.2	8.2	16.5	
<b>Net cash provided by operating activities before changes in operating assets and liabilities</b>	<b>1,921.3</b>	<b>1,548.1</b>	<b>1,282.1</b>	
(Increase)/decrease in accounts receivable	(255.8)	(185.0)	(186.0)	
(Increase)/decrease in inventories and work in process	(382.5)	(85.2)	(162.1)	
Increase/(decrease) in accounts payable	225.0	165.6	37.9	
Change in other current assets and liabilities	79.9	(118.8)	212.2	
<b>Change in working capital requirement</b>	<b>(333.4)</b>	<b>(223.4)</b>	<b>(98.0)</b>	
<b>Total I</b>	<b>1,587.9</b>	<b>1,324.7</b>	<b>1,184.1</b>	
<b>II - Cash flows from investing activities:</b>				
Purchases of property, plant and equipment	(330.1)	(308.1)	(277.8)	
Proceeds from disposals of property, plant and equipment	76.6	45.2	45.1	
Purchases of intangible assets	(225.4)	(213.7)	(97.2)	
Proceeds from disposals of intangible assets	(2.0)	0.6	0.4	
<b>Net cash used by investment in operating assets</b>	<b>(480.9)</b>	<b>(476.0)</b>	<b>(329.5)</b>	
Purchases of financial investments - net (note 3)	(897.8)	(1,267.3)	(800.9)	
Purchases of other long-term investments	163.1	(20.7)	(25.5)	
Increase in long-term pension assets	(19.6)	(48.1)	(13.4)	
<b>Sub-total</b>	<b>(754.3)</b>	<b>(1,336.1)</b>	<b>(839.8)</b>	
<b>Total II</b>	<b>(1,235.2)</b>	<b>(1,812.1)</b>	<b>(1,169.3)</b>	
<b>III - Cash flows from financing activities:</b>				
Issuance of long-term debt (note 17)	996.8	1,490.9	-	
Repayment of long-term debt	(148.7)	(70.4)	(1,352.3)	
Sale/(purchase) of treasury shares	52.9	(73.2)	(278.2)	
Increase/(reduction) in other financial debt	298.5	(76.1)	(49.6)	
Issuance of shares	76.5	22.4	61.0	
Dividends paid: Schneider Electric SA <sup>(1)</sup>	(502.6)	(395.4)	(334.2)	
Minority interests	(14.6)	(22.9)	(23.3)	
<b>Total III</b>	<b>758.8</b>	<b>875.3</b>	<b>(1,976.6)</b>	
<b>IV - Net effect of exchange rate :</b>	<b>Total IV</b>	<b>11.5</b>	<b>(31.1)</b>	<b>6.0</b>
<b>Net increase/(decrease) in cash and cash equivalents: I + II + III + IV</b>	<b>1,123.0</b>	<b>356.8</b>	<b>(1,955.8)</b>	
Cash and cash equivalents at beginning of period	1,303.3	946.5	2,902.4	
Increase/(decrease) in cash and cash equivalents	1,123.0	356.8	(1,955.9)	
<b>Cash and cash equivalents at end of period (note 13)</b>	<b>2,426.2</b>	<b>1,303.3</b>	<b>946.5</b>	

(1) Includes a précompte withholding tax back payment.

\* IAS 32/39 applied as from January 1, 2005 with no adjustment for 2004 (note 2).

The accompanying notes are an integral part of the consolidated financial statements.

### 3. Consolidated balance sheet

<b>Assets</b>						
(in millions of euros)			Dec. 31, 2006	Dec. 31, 2005	Jan. 1, 2005*	Dec. 31, 2004
<b>Non-current assets</b>						
Goodwill, net	(note 4)		6,185.7	5,878.8	4,539.0	4,462.3
Intangible assets, net	(note 5)		1,493.1	1,299.1	894.5	894.5
Property, plant and equipment, net	(note 6)		1,615.1	1,600.6	1,456.7	1,456.7
Assets held for sale	(note 6)		6.4	6.8	7.6	7.6
Total tangible and intangible assets			3,114.6	2,906.5	2,358.8	2,358.8
Investments in associates	(note 7)		10.2	48.2	65.3	65.3
Available-for-sale financial assets	(note 8)		315.7	315.4	198.5	154.3
Other financial assets	(note 8)		114.2	281.4	288.1	288.1
Total non current financial assets			429.9	596.8	486.6	442.4
Deferred taxes	(note 12)		672.8	795.0	832.7	830.3
<b>Total non-current assets</b>			<b>10,413.2</b>	<b>10,225.3</b>	<b>8,282.4</b>	<b>8,159.1</b>
<b>Current assets</b>						
Inventories and work in process	(note 9)		2,055.9	1,636.6	1,409.4	1,409.4
Trade accounts receivable	(note 10)		2,882.8	2,586.7	2,135.7	2,135.7
Other receivables and prepaid expenses	(note 11)		994.8	783.0	550.8	529.1
Current financial assets	(note 8)		73.5	0.0	0.0	0.0
Cash and cash equivalents	(note 13)		2,544.1	1,383.2	975.8	1,062.8
<b>Total current assets</b>			<b>8,551.1</b>	<b>6,389.5</b>	<b>5,071.7</b>	<b>5,137.0</b>
<b>Total assets</b>			<b>18,964.3</b>	<b>16,614.8</b>	<b>13,354.1</b>	<b>13,296.1</b>

\* IAS 32/39 applied as from January 1, 2005 with no adjustment for 2004 (note 2).  
The accompanying notes are an integral part of the consolidated financial statements.

# Liabilities and equity

(in millions of euros)

Dec. 31, 2006 Dec. 31, 2005 Jan. 1, 2005\* Dec. 31, 2004

<b>Equity</b>	<i>(note 14)</i>				
Share capital		1,821.6	1,813.0	1,809.6	1,809.6
Share premium account		4,121.0	4,069.0	4,049.9	4,049.9
Retained earnings		2,925.9	2,160.8	1,571.1	1,620.1
Translation reserve		(152.0)	200.8	(84.3)	(84.5)
<b>Equity attributable to equity holders of the parent</b>		<b>8,716.5</b>	<b>8,243.6</b>	<b>7,346.3</b>	<b>7,395.1</b>
Minority interests		121.6	93.9	76.2	72.8
<b>Total equity</b>		<b>8,838.1</b>	<b>8,337.5</b>	<b>7,422.5</b>	<b>7,467.9</b>
<b>Long-term provisions</b>					
Provisions for pensions and other post-employment benefits	<i>(note 15)</i>	1,159.0	1,200.4	1,026.2	1,026.2
Provisions for contingencies	<i>(note 16)</i>	283.1	210.0	192.3	192.3
Total long-term provisions		1,442.1	1,410.4	1,218.5	1,218.5
<b>Non-current liabilities</b>					
Ordinary and convertible bonds	<i>(note 17)</i>	3,237.9	2,691.1	1,200.0	1,200.0
Perpetual bonds	<i>(note 17)</i>	0.0	-	-	73.3
Other long-term debt	<i>(note 17)</i>	219.2	63.6	72.5	24.9
Total non-current financial liabilities		3,457.1	2,754.7	1,272.5	1,298.2
Deferred tax liabilities	<i>(note 12)</i>	305.3	259.4	225.9	203.2
Other non-current liabilities	<i>(note 18)</i>	90.2	178.8	177.7	104.4
<b>Total non-current liabilities</b>		<b>5,294.6</b>	<b>4,603.3</b>	<b>2,894.6</b>	<b>2,824.3</b>
<b>Current liabilities</b>					
Trade accounts payable		1,948.5	1,710.8	1,384.4	1,384.4
Accrued taxes and payroll costs		1,206.5	1,093.1	849.5	849.5
Short-term provisions	<i>(note 16)</i>	286.7	276.7	236.5	236.5
Other current liabilities		505.3	340.5	338.9	279.2
Short-term debt	<i>(note 17)</i>	884.6	252.9	227.7	254.3
<b>Total current liabilities</b>		<b>4,831.6</b>	<b>3,674.0</b>	<b>3,037.0</b>	<b>3,003.9</b>
<b>Total equity and liabilities</b>		<b>18,964.3</b>	<b>16,614.8</b>	<b>13,354.1</b>	<b>13,296.1</b>

\* IAS 32/39 applied as from January 1, 2005 with no adjustment for 2004 (note 2).  
The accompanying notes are an integral part of the consolidated financial statements.

## 4. Consolidated statement of changes in equity and minority interests

<i>(in millions of euros except for number of shares)</i>	Number of shares (thousands)	Share capital	Share premium account	Retained earnings	Treasury stock	Other reserves	Translation reserve	Equity attributable to equity holders of the parent	Minority interests	Total
<b>December 31, 2004 - IFRS excluding IAS 32/39</b>	<b>226,194.2</b>	<b>1,809.6</b>	<b>4,049.9</b>	<b>1,797.5</b>	<b>(199.7)</b>	<b>22.3</b>	<b>(84.5)</b>	<b>7,395.1</b>	<b>72.8</b>	<b>7,467.9</b>
IAS 32/39 adjustments (note 2)										
– Treasury stock					(87.0)			(87.0)		(87.0)
– Currency hedges				1.1		7.9		9.0		9.0
– Revaluation of available-for-sale financial assets						29.0		29.0		29.0
– Metal price hedges						5.0		5.0		5.0
– Interest rate swaps				(5.0)				(5.0)		(5.0)
– Put option granted to MGE minority shareholders								0.0	3.4	3.4
– Translation adjustment							0.2	0.2		0.2
<b>January 1, 2005 - IFRS after application of IAS 32/39</b>	<b>226,194.2</b>	<b>1,809.6</b>	<b>4,049.9</b>	<b>1,793.6</b>	<b>(286.7)</b>	<b>64.2</b>	<b>(84.3)</b>	<b>7,346.3</b>	<b>76.2</b>	<b>7,422.5</b>
Profit for the year				994.3				994.3	35.2	1,029.5
Valuation gains/(losses) taken to equity (note 14)						35.6		35.6		35.6
Exchange differences on translating foreign operations							285.1	285.1	8.3	293.4
<i>Total recognized income and expense for the period (comprehensive income)</i>				994.3		35.6	285.1	1,315.0	43.5	1,358.5
Exercise of stock options (note 14)	425.0	3.4	19.1					22.5		22.5
Dividends (note 14)				(395.4)				(395.4)	(22.9)	(418.3)
Change in treasury stock (note 14)					(68.7)			(68.7)		(68.7)
Stock options (note 14)					16.8			16.8		16.8
Other				7.1				7.1	(2.9)	4.2
<b>December 31, 2005</b>	<b>226,619.2</b>	<b>1,813.0</b>	<b>4,069.0</b>	<b>2,399.6</b>	<b>(338.6)</b>	<b>99.8</b>	<b>200.8</b>	<b>8,243.6</b>	<b>93.9</b>	<b>8,337.5</b>
Profit for the year				1,309.4				1,309.4	37.2	1,346.6
Valuation gains/(losses) taken to equity (note 14)						(109.2)		(109.2)		(109.2)
Exchange differences on translating foreign operations							(352.8)	(352.8)	(10.1)	(362.9)
<i>Total recognized income and expense for the period (comprehensive income)</i>				1,309.4		(109.2)	(352.8)	847.4	27.1	874.5
Exercise of stock options (note 14)	1,079.1	8.6	52.0					60.6		60.6
Dividends (note 14)				(493.0)				(493.0)	(14.6)	(507.6)
Change in treasury stock (note 14)					52.9			52.9		52.9
Stock options (note 14)					20.8			20.8		20.8
Other <sup>(1)</sup>				(15.8)				(15.8)	15.2	(0.6)
<b>December 31, 2006</b>	<b>227,698.3</b>	<b>1,821.6</b>	<b>4,121.0</b>	<b>3,200.2</b>	<b>(264.9)</b>	<b>(9.4)</b>	<b>(152.0)</b>	<b>8,716.5</b>	<b>121.6</b>	<b>8,838.1</b>
<i>(1) Of which the effect of a €24 million tax decrease for items initially recognized in equity and €7 million due to the effect of the capital gain on own shares.</i>										
<i>The accompanying notes are an integral part of the consolidated financial statements.</i>										

# 5. Notes to the consolidated financial statements

All amounts in millions of euros unless otherwise indicated.

The accompanying notes are an integral part of the consolidated financial statements.

The consolidated financial statements for the year ended December 31, 2006 were approved by the Management Board of Schneider Electric on February 16, 2007 and reviewed by the Supervisory Board on February 20, 2007. They will be submitted to shareholders for approval at the Annual General Meeting of April 26, 2007.

The Group's main businesses are described in Chapter 1 of the Annual Report.

## Note 1 - Summary of significant accounting policies

### 1.1 - Accounting standards

In accordance with EU regulations 1606/2002 and 1725/2003, Schneider Electric's consolidated financial statements have been prepared in compliance with the international accounting standards adopted by the European Union as of December 31, 2006. These include International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs) and the related interpretations issued by the Standards Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC). The accounting policies and methods used are described below.

The opening balance sheet at January 1, 2004 has been restated in accordance with IFRS 1 – *First-Time Adoption of IFRS* – based on the standards and interpretations applicable as of December 31, 2005. In keeping with the recommendations of the French securities regulator (AMF) during the transition period, the options used in first time adoption at January 1, 2004 were presented in the 2004 Annual Report, along with a description of the changes in accounting policies and methods and their impact on the opening and closing balance sheets and the statement of income for the year ended December 31, 2004. This information is presented in note 29 of the present report.

IAS 32 – *Financial Instruments: Disclosure and Presentation* – and IAS 39 – *Financial Instruments: Recognition and Measurement* – have been applied as from January 1, 2005. The data for 2004 has not been restated, as allowed under IFRS 1. The impact of this change in accounting method, described in note 2, has been recognized in opening equity at January 1, 2005. Because the 2004 figures have been not been restated, data for the 2004 financial year is not comparable. However, the impact on profit for the year ended December 31, 2005 is not meaningful (note 29).

The Group has applied the amendment to IAS 19 – *Employee Benefits* – concerning actuarial gains and losses since January 1, 2004, and the amendments to IAS 39 – *Financial Instruments: Recognition and Measurement* – concerning cash flow hedges of forecast intragroup transactions and the fair value option since January 1, 2005. It decided against early application of

the amendment to IAS 1 – *Capital Disclosures* – and of IFRS 7 – *Financial Instruments: Disclosures* – which will be mandatory as of January 1, 2007. Early application of IFRIC interpretation 6 – *Liabilities arising from participating in a specific market* – and IFRIC interpretation 4 – *Determining whether an arrangement contains a lease* – did not have any impact on the Group's financial statements.

The Group has not opted for early application of IFRS 8 – *Operating Segments* – published in November 2006, as the standard has not been adopted by the European Union.

The financial statements present data prepared in accordance with IFRS for the years ended December 31, 2006 and December 31, 2005. Data for the year ended December 31, 2004 has been restated in accordance with IFRS.

A reconciliation of the 2004 French GAAP accounts to the 2004 IFRS accounts is presented in note 29.

### 1.2 - Basis of presentation

The financial statements have been prepared on a historical cost basis, with the exception of derivatives and available-for-sale financial assets, which are measured at fair value. Financial liabilities are measured using the cost model. The carrying amount of hedged assets and liabilities and the related hedging instruments corresponds to their fair value.

### 1.3 - Use of estimates

The preparation of financial statements requires Group and subsidiary management to make estimates and assumptions that are reflected in the reported amounts of assets and liabilities at the date of the financial statements, revenues and expenses for the reporting period and related disclosures. Actual results could differ from those estimates.

These estimates mainly concern:

- The recoverable amount of goodwill, property, plant and equipment and intangible assets (described in note 1.10).
- The net realizable value of inventories and work in process (described in note 1.12).
- The recoverable amount of accounts receivable (described in note 1.13).
- The valuation of share-based payment (described in note 1.18).
- The calculation of provisions for contingencies, in particular for warranties (described in note 1.19).
- Pension and other post-employment benefit obligations (described in note 15).

### 1.4 - Consolidation principles

Companies over which the Group exercises exclusive control, either directly or indirectly, are fully consolidated. Exclusive control is control by all means, including ownership of a majority voting interest, significant minority ownership, and contracts or agreements with other shareholders.

Investments in operating entities controlled jointly with a limited number of partners, such as joint ventures and alliances, are accounted for by the equity method in accordance with the alternative treatment allowed under IAS 31 – *Interests in Joint Ventures*.

Companies over which the Group has significant influence ("associates") are accounted for by the equity method. Significant influence is presumed to exist when more than 20% of outstanding voting rights are held.

Companies acquired or sold during the year are included in or removed from the consolidated financial statements as of the date when effective control is acquired or relinquished.

Intragroup balances and transactions are eliminated in consolidation.

The list of consolidated subsidiaries and associates is provided in note 30. Certain non-material subsidiaries are not consolidated.

All of the companies included in the scope of consolidation have a December 31 year-end.

## 1.5 - Business combinations

In accordance with IFRS 3 – *Business Combinations* – business combinations are accounted for using the purchase method.

All identified acquired assets, liabilities and contingent liabilities are recognized at their fair value as of the date of acquisition. Provisional fair values are adjusted within a maximum of twelve months following the date of acquisition.

If the cost of acquisition is higher than the fair value of assets acquired and liabilities assumed at the date of acquisition, the excess is recorded under goodwill. If the cost of acquisition is lower than the fair value of assets acquired and liabilities assumed at the date of acquisition, the negative goodwill is immediately recognized in the income statement.

Goodwill is not amortized, but tested for impairment at least annually (note 1.10 below). Any impairment losses are recognized under Other operating income/(expense).

## 1.6 - Translation of the financial statements of foreign subsidiaries

The consolidated financial statements are drawn up in euros.

The financial statements of subsidiaries that use another functional currency are translated into euros as follows:

- Assets and liabilities are translated at official year-end exchange rates.
- Income statement and cash flow items are translated at weighted-average annual exchange rates.

Differences arising on translation are recorded in equity under "Translation reserve".

## 1.7 - Foreign currency transactions

Foreign currency transactions are recorded using the official exchange rate in effect at the date the transaction is recorded or the hedging rate. At year-end, foreign currency payables and receivables are translated into the reporting currency at year-end exchange rates or the hedging rate. Gains or losses on foreign currency conversion are recorded in the income statement under "Other financial income and expense, net". Foreign currency hedging is described below, in note 1.21.

## 1.8 - Intangible assets

### Intangible assets acquired separately or as part of a business combination

Intangible assets acquired separately are initially recognized in the balance sheet at historical cost. They are subsequently measured using the cost model, in accordance with IAS 38 – *Intangible Assets*.

Brands, customer lists and other identifiable assets of acquired companies are recognized in the balance sheet at fair value, determined by qualified experts. The valuations are performed using generally accepted methods, based on expected future cash flows. The assets are regularly tested for impairment.

Intangible assets other than brands are amortized on a straight-line basis over their useful life or the period of legal protection. The amortization charge is recognized in "Cost of sales" or in "Selling, general and administrative expenses", depending on the type of asset involved.

Amortized intangible assets are tested for impairment when there is any indication that their recoverable amount may be less than their carrying amount. Impairment losses are recognized under "Other operating income/(expense)".

### Brands

Brands acquired as part of a business combination are not amortized when they are considered to have an indefinite life.

This is determined on the basis of:

- Brand awareness.
- The Group's strategy for integrating the brand into its existing portfolio.

Brands with indefinite lives are tested for impairment annually and when there is any indication that their recoverable amount may be less than their carrying amount. When necessary, an impairment loss is recorded.

### Internally-generated intangible assets

#### Research and development costs

Research costs are recognized in the income statement when incurred.

Development costs for new projects are capitalized if, and only if:

- The project is clearly identified and its related costs are separable and reliably tracked.
- The Group has demonstrated the project's technical feasibility and its intention to complete the intangible asset and use or sell it, as well as the availability of adequate financial resources for this purpose.
- It is probable that the future economic benefits attributable to the project will flow to the Group.

Development costs that do not meet these criteria are expensed in the year in which they are incurred.

Capitalized development costs are amortized over the estimated life of the underlying technology, which generally ranges from 3 to 10 years. The amortization charge is included in the cost of the related products and reclassified into cost of sales when the products are sold.

#### Software implementation

External and internal costs for the programming, coding and testing of enterprise resource planning (ERP)



applications are capitalized and amortized over the applications' useful lives.

## 1.9 - Property, plant and equipment

Land, buildings, plant and equipment are carried at cost, less accumulated depreciation and any accumulated impairment losses, in accordance with the cost model provided for in IAS 16 – *Property, plant and equipment*.

Each part of an item of property, plant and equipment with a useful life that is different from that of the item as a whole is depreciated separately on a straight-line basis. The main useful lives are as follows:

Buildings:	20 to 40 years
Plant and equipment:	3 to 10 years
Other:	3 to 12 years

The useful life of operating assets, such as production lines, reflects the related products' estimated life cycles.

Useful lives are reviewed periodically and may be adjusted prospectively if appropriate.

The depreciable amount of an asset is determined after deducting its residual value, when the residual value is material.

Depreciation is charged to the income statement or included in the production cost of inventory or the cost of internally-generated intangible assets. It is recognized under "Cost of sales," "Research expenses" or "Selling, general and administrative expenses", depending on the case.

Property, plant and equipment are tested for impairment when there is any indication that their recoverable amount may be less than their carrying amount. Impairment losses are charged to the income statement under "Other operating income/(expense)".

### Assets held for sale

Assets held for sale are no longer depreciated and are recorded separately in the balance sheet under "Assets held for sale" at the lower of amortized cost and net realizable value.

### Leases

Finance leases, defined as leases that transfer substantially all the risks and rewards of ownership to the lessee, are recognized as an asset and a liability.

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases and the related payments are recognized as an expense on a straight-line basis over the lease term.

### Borrowing costs

Borrowing costs incurred during the construction or acquisition of property, plant and equipment and intangible assets are expensed when incurred, in accordance with the recommended treatment under IAS 23 – *Borrowing Costs*.

## 1.10 - Impairment of assets

In accordance with IAS 36 – *Impairment of Assets* – the recoverable amount of long-lived assets is assessed as follows:

■ All depreciable and amortizable property, plant and equipment and intangible assets are reviewed at each balance sheet date to determine whether there is any indication that the asset may be impaired. Indications of impairment are identified on the basis of external or internal information. If such an indication exists, the Group tests the asset for impairment by comparing its carrying amount to the higher of fair value less costs to sell and value in use.

■ Non-amortizable intangible assets and goodwill are tested for impairment annually and when there is any indication that the asset may be impaired.

Value in use is determined by discounting estimated future cash flows that will be generated by the tested assets, generally over a period of not more than five years. Estimated future cash flows are based on management's economic assumptions and operating forecasts. The discount rate corresponds to Schneider Electric's weighted average cost of capital (7.5% at December 31, 2006 and 2005 and 8.5% at December 31, 2004), plus a risk premium depending on the region in question.

Impairment tests are performed at the level of the cash-generating unit (CGU) to which the asset belongs. A cash-generating unit is the smallest group of assets that generates cash inflows that are largely independent of those cash flows from other assets or groups of assets. At Schneider Electric, CGUs generally correspond to the Operating Divisions (Europe, North America, Asia-Pacific and Rest of the World). Each of the Growth Platform businesses is also a CGU.

Goodwill is allocated to a CGU when initially recognized. This allocation is made on the basis used to track the performance of Group operations and to assess the benefits derived from the synergies of the business combination.

If the recoverable amount of an asset or CGU is lower than its carrying amount, an impairment loss is recognized. To the extent possible, impairment losses on CGUs comprising goodwill are recorded as a deduction from goodwill.

Most goodwill is allocated to CGUs in Europe and the United States. The discount rate used to test goodwill allocated to CGUs in Europe and the United States corresponds to the Group's weighted average cost of capital, with no risk premium. The perpetuity growth rate for these CGUs is 2%, unchanged from the previous year.

## 1.11 - Non-current financial assets

Investments in non-consolidated companies are classified in available-for-sale financial assets. They are initially recorded at cost and subsequently measured at fair value, when fair value can be reliably determined.

The fair value of equity instruments quoted in an active market corresponds to the quoted price on the balance sheet date.

In cases where fair value can not be reliably determined, the instruments are measured at cost net of any accumulated impairment losses. The recoverable amount is determined by reference to the Group's equity in the underlying entity's net assets and the entity's expected future profitability and business outlook. This rule is applied in particular to equity instruments that do not have a quoted market price in an active market.

Changes in fair value are accumulated in equity under other reserves up to the date of sale, at which time they are recognized in the income statement. Unrealized losses on assets that are considered to be permanently impaired are recorded under "Finance costs and other financial income and expense, net".

Loans, recorded under other financial assets, are carried at amortized cost and tested for impairment if there is any indication that their recoverable amount may be less than their carrying amount. Long-term financial receivables are discounted when the impact of discounting is meaningful.

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### 1.12 - Inventories and work in process

Inventories and work in process are stated at the lower of cost (generally determined by the weighted-average cost method) or estimated net realizable value.

Net realizable value corresponds to the estimated selling price net of remaining expenses to complete and/or sell the products.

Impairment losses on materials are recognized in "Cost of sales" and on finished products in "Selling, general and administrative expenses".

The cost of work in process, semi-finished and finished products includes direct materials and labor costs, subcontracting costs, production overheads based on normal capacity utilization rates and the portion of research and development costs related to the production process (corresponding to the amortization of capitalized projects in production and product and range maintenance costs).

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### 1.13 - Accounts receivable

An allowance for doubtful accounts is recorded when it is probable that receivables will not be collected and the amount of the loss can be reasonably estimated. Doubtful accounts and the related allowances are identified and determined based on historical loss experience, the age of the receivables and a detailed assessment of related credit risks. Once it is known with certainty that a doubtful account will not be collected, the doubtful account and the related allowance are written off to the income statement.

Accounts receivable in more than one year are discounted in cases where the discounting adjustment is material.

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### 1.14 - Deferred taxes

Deferred taxes, corresponding to temporary differences between the tax basis and reporting basis of consolidated assets and liabilities, are recorded using the liability method. Deferred tax assets are recognized when it is probable that they will be recovered at a reasonably determinable date.

Future tax benefits arising from the utilization of tax loss carry forwards (including amounts available for carry forward without time limit) are recognized only when they can reasonably be expected to be realized.

Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities that concern the same unit and are expected to reverse in the same period are netted off.

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### 1.15 - Cash and cash equivalents

Cash and cash equivalents presented in the balance sheet consist of cash, bank accounts, term deposits of three months or less and other liquid marketable securities. Substantially all marketable securities represent short-term instruments that can be easily converted into a determinable cash amount, such as commercial paper, mutual funds and equivalents. In light of their nature and maturities, these instruments carry virtually no risk of impairment. The Group treats them as cash equivalents.

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### 1.16 - Treasury stock

Schneider Electric shares held by the parent company or by fully consolidated companies are measured at cost and deducted from equity. They are held at their acquisition price until sold.

Gains and losses on the sale of treasury stock are recognized in equity, net of tax.

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### 1.17 - Pensions and other post-employment benefit obligations

Depending on local practices and laws, the Group's subsidiaries participate in pension, termination benefit and other long-term benefit plans. Benefits paid under these plans depend on such factors as seniority, compensation levels and payments into mandatory retirement programs.

#### Defined contribution plans

Payments made under defined contribution plans are recorded in the income statement, in the year of payment and are in full settlement of the Group's liability.

#### Defined benefit plans

The present value of defined benefit obligations is determined using the projected unit credit method.

The amount recognized in the balance sheet corresponds to the present value of the obligation, adjusted for unrecognized past service cost and reduced by the fair value of plan assets at the balance sheet date.

If the plan has a surplus (i.e. the fair value of plan assets is greater than the present value of the obligation, as adjusted for unrecognized past service cost), the recognized asset is limited to the lower of unrecognized past service cost and the present value of available refunds and reductions in future contributions to the plan.

Changes resulting from periodic changes in actuarial assumptions regarding general financial and business conditions or demographics (i.e., changes in the discount rate, annual salary increases, return on plan assets, years of service, etc.) are immediately recognized in the Group's obligation and as a separate component of equity in "Other reserves".

#### Mandatory general plans and multi-employer plans

In most countries, the Group participates in mandatory general plans, while in some countries, it contributes to multi-employer plans. Depending on their terms and conditions, these plans are treated as defined contribution or defined benefit plans. For defined benefit plans, the Group recognizes its share of the related obligation, assets and costs.

### Supplementary pension benefits

The Group also provides supplementary pension benefits to a limited number of active and retired senior executives. These defined benefit obligations are accrued for based on the contractual terms of the agreements, which provide guaranteed minimum benefits over and above those paid under general pension schemes.

### Other commitments

Provisions are booked to cover the cost of providing healthcare benefits for certain retired employees in Europe and the United States.

The Group also records for all its subsidiaries an obligation for seniority-related benefits (primarily long service awards in its French subsidiaries).

## 1.18 - Share-based payment

The Group grants different types of share-based payment to senior executives and certain employees. These include:

- Options to buy existing Schneider Electric shares and to subscribe new shares.
- Shares granted without consideration.
- Stock Appreciation Rights (SARs).

IFRS 2 – *Share-based payment* – applies only to plans set up after November 7, 2002 than did not vest prior to January 1, 2005.

In accordance with IFRS 2, these plans are valued on the date of grant, using the Cox, Ross, Rubinstein binomial option pricing model, and are recognized as an expense over the vesting period, generally three or four years depending on the country.

A contra entry is posted to the own shares reserve for shares granted without consideration and for options to purchase or subscribe shares. In the case of SARs, a liability is recorded corresponding to the amount of the remeasured benefit at the closing date.

## 1.19 - Provisions for contingencies

A provision is recorded when the Group has a present obligation as a result of a past event, and a reliable estimate can be made of the amount of the obligation. If the obligation is not probable and cannot be reliably estimated, but remains possible, it is classified as a contingent liability and disclosed in the notes to the consolidated financial statements. Provisions are calculated on a case-by-case or statistical basis. Long-term provisions (greater than one year) are discounted. Discounting adjustments for long-term provisions were calculated at a rate of 3.8% at December 31, 2006, 3.2% at December 31, 2005, and 3.4% at December 31, 2004.

Provisions are primarily set aside to cover:

- Economic risks. These include tax risks arising from tax audits performed by various local tax administrations and financial risks arising primarily on guarantees given to third parties in relation to certain assets and liabilities.
- Customer risks. These provisions primarily concern liability claims arising from alleged defects in products sold to customers and other third parties and are determined on a case-by-case basis.

### ■ Technical risks:

- Provisions are recorded on a statistical basis for the residual cost of product warranties not covered by insurance. Such warranties may run up to 18 months.
- The Group also recognizes provisions to cover disputes concerning defective products and recalls of clearly identified products.

■ Environmental risks. These provisions are primarily set aside to cover potential reclamation costs.

■ Restructuring costs, when the Group has prepared a detailed formal plan for the restructuring and has either announced or started to implement the plan at year-end.

## 1.20 - Financial liabilities

Financial liabilities primarily comprise bonds and short and long-term bank debt. These liabilities are initially recorded at fair value, taking into account any direct transaction costs, and subsequently measured at amortized cost based on their effective interest rate.

## 1.21 - Financial instruments and derivatives

Risk hedging management is centralized. The Group's policy is to use derivative financial instruments exclusively to manage and hedge changes in exchange rates, interest rates or prices of certain raw materials. These risks are managed and hedged primarily through the use of swaps, options and futures, depending upon the nature of the Group's exposure. Derivative financial instruments are never used for speculative purposes.

### Foreign currency hedges

The Group periodically enters into foreign currency contracts to hedge foreign currency transactions. Some of these contracts are designated as hedges of operating receivables and payables carried in the balance sheets of Group companies. The Group does not apply hedge accounting to these instruments because at year-end, foreign currency contracts are marked to market and gains or losses are recorded in other financial income and expense. These gains or losses offset the losses or gains arising from converting foreign currency payables and receivables into the reporting currency at year-end rates, in accordance with IAS 21 – *The effects of changes in foreign exchange rates*.

The Group may also hedge recurring future transactions or planned acquisitions or disposals of investments. In accordance with IAS 39, these are treated as cash flow hedges. The hedging instruments are recognized in the balance sheet and are measured at fair value at the period-end. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is accumulated in equity, under other reserves, and recognized in the income statement when the hedged transaction affects profit or loss. The ineffective portion of the gain or loss on the hedging instrument is recognized in other financial income and expense.

In addition, certain long-term receivables and loans to subsidiaries are considered to be part of the Group's net investment, as defined by IAS 21 – *Net Investment in a Foreign Operation*. In accordance with the rules governing net investment hedging, the impact of exchange rate fluctuations is recorded in equity and recognized in the statement of income when the investment is sold.

### Interest rate swaps

Interest rate swaps, which synthetically adjust interest rates on certain indebtedness, involve the exchange of fixed and floating-rate interest payments. The differential to be paid (or received) is accrued (or deferred) as an adjustment to interest income or expense over the life of the agreement. The Group does not apply hedge accounting as described in IAS 39 for interest rate swaps. The impact is immediately recognized in the income statement.

### Commodity contracts

The Group also enters into raw material forward purchase contracts. Moreover the Group enters into contracts including swaps and options to hedge price risks on all or part of its forecast future purchases. Under IAS 39, these qualify as cash flow hedges. The hedging instruments are recognized in the balance sheet and are measured at fair value at the period-end. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is accumulated in equity, under other reserves, and reclassified into the income statement under cost of sales when the hedged transaction affects profit or loss, leading to an adjustment of gross profit. The ineffective portion of the gain or loss on the hedging instrument is immediately recognized in other financial income and expense.

Cash flows from derivative financial instruments are recognized in the statement of cash flows in a manner consistent with the underlying transactions.

### Asset-backed securities issued by the Special Purpose Entity holding perpetual bonds

In accordance with SIC 12 – *Special Purpose Entities* – and IAS 39, the special purpose entity that holds the perpetual bonds issued by the Group in 1991 was consolidated at December 31, 2005.

The swaps taken out by the special purpose entity in connection with the perpetual bonds have been measured at fair value.

Interest rate swaps on the perpetual bonds taken out directly by the Group are classified as derivative instruments that do not qualify for hedge accounting. They are therefore measured at fair value and gains and losses arising from remeasurement at fair value are recorded in other financial income and expense.

On December 15, 2006, the Group bought back the perpetual bonds issued in 1991 from the special purpose entity. As a result, the special purpose entity was no longer consolidated at December 31, 2006.

### Put options granted to minority shareholders

Under IAS 32 – *Financial Instruments: Disclosure and Presentation*, commitments to buy out minority shareholders (e.g. put options) must be recognized in debt, in an amount corresponding to the purchase price of the minority interest.

In the absence of established accounting practice, the difference between the purchase price of the minority interests and the share in the acquired net assets has been posted to goodwill without remeasuring the acquired assets and liabilities. Subsequent changes in the fair value of the debt will be recognized by adjusting goodwill.

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## 1.22 - Revenue recognition

The Group's revenues primarily include merchandise sales and revenues from service and project contracts.

### Merchandise sales

Revenue from sales is recognized when the product is shipped and title transferred (standard shipping terms are FOB).

Rebates offered to the distributors are accrued as a deduction from revenue when the products are sold to the distributor.

Certain subsidiaries also offer cash discounts to distributors. These discounts are deducted from sales.

Total sales are presented net of these discounts and rebates.

### Service contracts

Revenue from service contracts is recorded over the contractual period of service. It is recognized when the result of the transaction can be reliably determined, by the percentage of completion method.

### Long-term contracts

Income from long-term contracts is recognized using the percentage-of-completion method, based either on the percentage of costs incurred in relation to total estimated costs of the entire contract, or on the contract's technical milestones, notably proof of installation or delivery of equipment. When a contract includes performance clauses in the Group's favor, the related revenue is recognized at each project milestone and a provision is set aside if targets are not met.

Losses at completion for a given contract are provided for in full as soon as they become probable. The cost of work-in-process includes direct and indirect costs relating to the contracts.

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## 1.23 - Earnings per share

Earnings per share is calculated in accordance with IAS 33 – *Earnings per share*.

Diluted earnings per share is calculated by adjusting profit and the weighted average number of shares outstanding for the dilutive effect of the exercise of stock options outstanding at the balance sheet date. The dilutive effect of stock options is determined by applying the "treasury stock" method, which consists of taking into account the number of shares that could be purchased, based on the average share price for the year, using the proceeds from the exercise of the rights attached to the options.

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## 1.24 - Statement of cash flows

The consolidated statement of cash flows has been prepared using the "indirect method", which consists of reconciling net profit to net cash provided by operations. Net cash and cash equivalents represent cash and cash equivalents as presented in the balance sheet (note 1.15) net of bank overdrafts.

## Note 2 - Application of IAS 32 and IAS 39 as from January 1, 2005

IAS 32 – *Financial Instruments – Disclosure and Presentation* and IAS 39 – *Financial Instruments – Recognition and Measurement* – have been applied as from January 1, 2005.

The following table, which reconciles the closing balance sheet for 2004 with the opening balance sheet for 2005, shows the impact on the main balance sheet items affected by the application of IAS 32 and IAS 39.

	Dec. 31, 2004 IFRS before IAS 32 and 39	Treasury stock	Fair value adjustment	Hedging instruments	Derivative instruments not qualifying for hedge	Perpetual bonds	Puts granted to minority interests	Jan. 1, 2005 IFRS including IAS 32 and 39
Goodwill	4,462.3						76.7	4,539.0
Available-for-sale financial assets	154.3		44.2					198.5
Deferred tax assets	830.3				1.0	1.4		832.7
Other accounts receivable	529.1			19.9	1.8			550.8
Cash and cash equivalents	1,062.8	(87.0)						975.8
Other assets	6,257.3							6,257.3
<b>Total Assets</b>	<b>13,296.1</b>	<b>(87.0)</b>	<b>44.2</b>	<b>19.9</b>	<b>2.8</b>	<b>1.4</b>	<b>76.7</b>	<b>13,354.1</b>
Retained earnings, net of tax	1,797.5				(1.2)	(2.7)		1,793.6
Own shares reserve	(199.7)	(87.0)						(286.7)
Other reserves, net of tax	22.3		29.0	12.9				64.2
Translation reserve	(84.5)				0.2			(84.3)
<i>Total equity attributable to equity holders of the parent</i>	<i>7,395.1</i>	<i>(87.0)</i>	<i>29.0</i>	<i>12.9</i>	<i>(1.0)</i>	<i>(2.7)</i>	<i>0.0</i>	<i>7,346.3</i>
Minority interests	72.8						3.4	76.2
Perpetual bonds	73.3					(73.3)		0.0
Long-term financial debt	24.9					47.6		72.5
Deferred tax liabilities	203.2		15.2	7.0	0.5			225.9
Short-term financial debt	254.3					(26.6)		227.7
Other non current liabilities	104.4						73.3	177.7
Other current liabilities	279.2				3.3	56.4		338.9
Other liabilities	4,888.9							4,888.9
<b>Total Liabilities</b>	<b>13,296.1</b>	<b>(87.0)</b>	<b>44.2</b>	<b>19.9</b>	<b>2.8</b>	<b>1.4</b>	<b>76.7</b>	<b>13,354.1</b>

### 2.1 - Treasury stock

IAS 32 requires all Schneider Electric shares held by the parent company and subsidiaries to be recorded as a deduction from equity, whatever the purpose for which the shares are held. In accordance with this standard, Schneider Electric shares with a value of €87 million carried in assets in the French GAAP balance sheet at December 31, 2004, under "Cash and cash equivalents", have been reclassified as a deduction from equity.

### 2.2 - Available-for-sale financial assets

In accordance with IAS 39, investments in non-consolidated companies have been reclassified as available-for-sale financial assets and measured at fair value (corresponding to market value in the case of listed shares). Gains and losses arising from remeasurement at fair value are accumulated in equity under other reserves.

Fair value adjustments to available-for-sale financial assets at January 1, 2005 amounted to €44.2 million.

### 2.3 - Derivative instruments and hedge accounting

IAS 39 requires all derivative instruments to be recognized in the balance sheet and measured at fair value, whereas in the French GAAP accounts, these instruments were generally carried off-balance sheet. The treatment of gains and losses arising from remeasurement at fair value depends on whether or not the instruments qualify for hedge accounting under IAS 39.

Currency instruments qualified as cash flow hedges under IAS 39 have been recognized in the balance sheet under other receivables at their fair value of €12.2 million, leading to an adjustment of equity in the same amount, recorded under other reserves.

Hedges of future metal purchases qualified as cash flow hedges under IAS 39 have been recognized in the balance sheet under other receivables at their fair value of €7.7 million, leading to an adjustment of equity in the same amount, recorded under other reserves.

### 2.4 - Derivative instruments not qualifying for hedge accounting

Derivative instruments not qualifying for hedge accounting under IAS 39 have been recognized at fair value in the balance sheet, in assets for €1.8 million and in liabilities for €3.3 million, leading to corresponding adjustments to equity. The instruments concerned consist mainly of interest rate hedges on intragroup debt.

## 2.5 - Perpetual bonds

In the French GAAP accounts, the 1991 perpetual bonds are recorded in debt at their nominal value, while the related interest rate swaps are carried off-balance sheet.

In accordance with interpretation SIC 12 and IAS 39, the Group consolidated the special purpose entity that holds the perpetual bonds. The swaps taken out by the special purpose entity in connection with the perpetual bonds have been measured at fair value.

Interest rate swaps on the perpetual bonds taken out directly by the Group, which do not qualify for hedge accounting, are recognized in the balance sheet at fair value, with gains and losses arising from remeasurement at fair value recognized in other financial income and expense.

At January 1, 2005, the value of the perpetual bonds

and the fair value of the swaps the special purpose entity was €21 million, and the fair value of the swaps entered into directly by the Group was €56.4 million.

## 2.6 - Put options granted to minority shareholders

The Group has given commitments to buy out the minority shareholders of consolidated subsidiaries (put options). These commitments were reported off-balance sheet in the French GAAP accounts at December 31, 2004.

IAS 32 requires their recognition in debt, at fair value, which corresponds to the option strike price. As explained in note 1.21, in the absence of established accounting practice, the difference between the fair value of the put options and the underlying minority interests has been posted to goodwill.

## Note 3 - Changes in the scope of consolidation

### 3.1 - Additions and removals

The consolidated financial statements for the year ended December 31, 2006 include the accounts of the companies listed in note 30. The scope of consolidation at December 31, 2006, 2005 and 2004 is summarized as follows:

<i>Number of companies</i>	Dec. 31, 2006		Dec. 31, 2005		Dec. 31, 2004	
	France	Abroad	France	Abroad	France	Abroad
Parent company and fully consolidated subsidiaries	67	458	69	366	65	328
Proportionally consolidated companies	-	-	-	-	-	-
Companies accounted for by the equity method	1	2	1	3	2	5
Sub-total by region	68	460	70	369	67	333
<b>Total</b>	<b>528</b>		<b>439</b>		<b>400</b>	

The principal changes at December 31, 2006 were as follows:

#### Acquisitions

On January 1, 2006, the Group bought out CIH Ltd's interest in the Clipsal Asia joint venture, in accordance with the terms of the agreement between the two partners. Clipsal Asia was previously accounted for by the equity method.

On February 15, 2006, the Group acquired the assets of US-based Silicon Power Corporation's Crydom brand Custom Sensors business.

On February 28, 2006, the Group acquired AEM SA, a Spanish company that designs, manufactures and markets low voltage electrical products and installation systems and control.

On March 27, 2006, the Group acquired the entire capital of Citect, an Australian manufacturer of Supervision Control and Data Acquisition (SCADA) solutions and Manufacturing Execution Systems (MES).

On April 30, 2006 Schneider Electric acquired OVA G. Bargellini SpA, Italy's leading emergency lighting company with operations in the Installation Systems and Control segment.

On May 31, 2006 the Group acquired Merten GmbH & Co Kg, a German firm that offers intelligent low voltage solutions and Installation Systems and Control for the residential and buildings markets.

On July 27, 2006, the Group acquired the Invensys Building Systems (IBS) business in North America and Asia. Following on the acquisition of Invensys' Advanced Building Systems business (ABS EMEA) in July 2005, this transaction extends Schneider Electric's current positions in Building Automation.

On September 26, 2006, Schneider Electric finalized the acquisition of Austria-based VA Tech Elin EBG Elektronik, a company that develops and manufactures high-power speed drive products and solutions.

Lastly, on November 23, 2006, the Group acquired UK-based GET Group PLC. This acquisition will expand Schneider Electric's Installation Systems and Control lineup with wiring devices for the UK and British Standard export markets.

These companies have been fully consolidated from their respective acquisition dates.

Details of the calculation of goodwill on these acquisitions are provided in note 4.

#### Newly consolidated companies

Several joint ventures were formed during the year with Chinese partners to further develop business. These included:

- SSBEA (Schneider Shaanxi Baoguang Electrical Apparatus Co.ltd) in February 2006, in the area of medium voltage vacuum circuit breakers.
- East in September 2006, in the area of Critical Power.

## Divestments

During first-half 2006, the Group sold Num, a subsidiary specialized in numerical control systems, and Mafelec, a specialty manufacturer of onboard push-button switches. The impact of these divestments on the consolidated financial statements was not material.

## Acquisitions in progress

### APC

On October 30, 2006, Schneider Electric announced a friendly offer to purchase all outstanding shares of US-based American Power Conversion (APC), the world leader in critical power.

By combining APC with its subsidiary MGE UPS Systems, Schneider Electric will become the global benchmark in critical power.

The anti-trust regulatory review in the United States ended on December 12, 2006 when the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act expired.

APC's shareholders approved the proposed merger in Extraordinary Meeting on January 16, 2007.

The European Commission's competition authorities granted final clearance on February 8, 2007 pending certain divestments. The Group plans to divest its MGE-UPS Systems operations in small systems below 10kVA. With estimated revenue of around €150 million, the divestment represents 6% of the combined operations of APC and MGE-UPS in Critical Power.

### Other acquisitions

On June 27, 2006, the Group announced its intention to take an equity stake of 40% in SBVE (Shaanxi Baoguang Vacuum Electronic), a leading Chinese manufacturer of Vacuum Interrupters. Such an equity stake may only be obtained if the equity reform plan presented by SBVE is approved by the relevant authorities and shareholders, and a number of other conditions precedent are satisfied.

On December 18, 2006, Schneider Electric announced that it had signed an agreement to create Delixi Electric, a joint venture with Chinese partner Delixi Group. The 50-50 joint venture will manufacture, market and distribute low-voltage products in China, pending approval from local authorities.

### Other changes

In 2006, the Group acquired a further 10.8% stake in MGE UPS, raising its interest to 95.7%.

The following table shows the full-year impact of these acquisitions on 2006 revenue, operating profit and profit attributable to equity holders of the parent (i.e. as if the acquisitions had been made on January 1, 2006).

	2006 Reported	2006 Incl. acquisitions over the full year
Revenue	13,729.7	14,058.5
Operating profit	2,000.7	2,015.9
<i>Operating margin</i>	14.6%	14.3%
Profit of the period	1,309.4	1,317.0

## Impact on cash

Changes in the scope of consolidation reduced the Group's cash position by a net €897.8 million, as described below:

	2006
Acquisitions	(891.4)
<i>Cash and cash equivalents paid</i>	<i>(935.8)</i>
<i>Cash and cash equivalents acquired</i>	<i>44.4</i>
Disposals	(1.1)
Other operations	(5.3)
<b>Net financial investments</b>	<b>(897.8)</b>

## Impact on the balance sheet at December 31, 2006

The impact of the year's acquisitions on the main balance sheet items at December 31, 2006 was as follows:

	Contribution from acquisitions	Dec. 31, 2006 Reported	%
Goodwill	793.2	6,185.7	12.8 %
Property, plant & equipment and intangible assets	98.8	3,114.6	3.2 %
Working capital	226.7	2,991.9	7.6 %
<b>Capital employed</b>	<b>1,118.7</b>	<b>12,292.2</b>	<b>9.1 %</b>

## 3.2 - Impact of changes in the scope of consolidation on 2006 results

Changes in the scope of consolidation had the following impact:

### Impact on 2006 revenue and profit

	2005		2006	
	Reported	Excl. acquisitions	Acquisitions	Reported
Revenue	11,678.8	12,929.5	800.2	13,729.7
Operating profit	1,565.3	1,897.9	102.8	2,000.7
<i>Operating margin</i>	13.4%	14.7%	12.9%	14.6%
Profit attributable to equity holders of the parent	994.3	1,244.1	65.3	1,309.4

## Note 4 - Goodwill

### 4.1 - Breakdown of goodwill

The following table presents goodwill by company and the Cash Generating Unit (CGU) to which it is allocated:

	Year of acquisition	CGU (1)	Dec. 31, 2006 Net	Dec. 31, 2005 Net	Jan. 1, 2005 Net	Dec. 31, 2004 Net
Square D Company	1991	(A)	1,044.8	1,167.1	1,010.0	1,010.0
Lexel Group	1999	EOD	873.4	869.2	872.5	872.5
TAC/ Andover/ Abacus/ Applied Control Tech.	2003 to 2006	BA	605.8	637.2	563.9	563.9
MGE UPS (2)	2000 to 2006	CP	545.5	559.0	546.1	469.4
Telemecanique	1988	(A)	462.6	462.6	462.6	462.6
ABS	2005	BA	113.9	118.8	-	-
IBS	2006	BA	197.2	-	-	-
Juno Lighting Inc.	2005	NAOD	301.0	335.2	-	-
BEI Technologies	2005	CST	283.1	390.3	-	-
Clipsal	2004 to 2006	APOD	278.0	261.0	245.0	245.0
Crouzet Automatismes	2000	CST	161.8	162.6	161.9	161.9
Power Measurement Inc.	2005	NAOD	145.0	162.7	0.0	0.0
Positec	2000	EOD	105.9	105.9	105.9	105.9
Merlin Gerin	1992	(A)	87.2	87.2	87.2	87.2
Kavlico	2004	CST	81.6	89.6	106.9	106.9
OVA	2006	EOD	80.0	-	-	-
Digital Electronics	2002	APOD	76.1	84.1	83.7	83.7
Citect	2006	APOD	67.2	-	-	-
Elau	2004 and 2005	EOD	55.6	55.3	6.6	6.6
Federal Pioneer	1990	NAOD	54.0	60.1	50.2	50.2
Crydom	2006	CST	43.9	-	-	-
Infra +	2000 to 2004	EOD	43.1	43.1	43.1	43.1
Mita Holding	1999	EOD	34.7	41.9	40.7	40.7
PDL	2001	APOD	32.8	35.1	33.5	33.5
GET	2006	EOD	31.6	-	-	-
AEM	2006	EOD	30.4	-	-	-
Other subsidiaries (3)			349.5	150.8	119.2	119.2
<b>Total</b>			<b>6,185.7</b>	<b>5,878.8</b>	<b>4,539.0</b>	<b>4,462.3</b>

(1) Cash Generating Unit to which goodwill has been allocated.

EOD: European Operating Division, NAOD: North American Operating Division, APOD: Asia-Pacific Operating Division, IIOD: International Operating Division, CST: Custom Sensors & Technologies, BA: Building Automation, CP: Critical Power.

(2) Of which €32.0 million related to the put option granted to minority shareholders at Dec. 31, 2006 (€75.4 million at Dec. 31, 2005).

(3) Approximately 50 companies.

(A) Square D, Telemecanique and Merlin Gerin goodwill has been allocated on the basis of operating profit by region as of the acquisition date:

	Europe	North America	Asia-Pacific	Rest of the world
Square D	9%	80%	10%	1%
Telemecanique	71%	0%	20%	9%
Merlin Gerin	62%	10%	20%	8%



## 4.2 - Changes in goodwill

The main movements between December 31, 2005 and December 31, 2006 are summarized in the following table:

	2006	2005
<b>Net goodwill at opening</b>	<b>5,878.8</b>	<b>4,539.0</b>
Acquisitions	727.7 *	1,079.5
Disposals	(1.5)	-
Impairment	-	(8.4)
Translation adjustment	(323.8)	301.5
Reclassifications	(95.5)	(32.8)
<b>Net goodwill at year end</b>	<b>6,185.7</b>	<b>5,878.8</b>
<b>Cumulative impairment</b>	<b>(8.4)</b>	<b>(8.4)</b>
<i>*On the basis of the exchange rate on the acquisition date.</i>		

## Acquisitions

Acquisitions primarily included Invensys Building Systems (IBS) and Silicon Power Corporation (Crydom) in North America, Clipsal Asia and Citect in Asia-Pacific, and OVA Bargellini SpA., AEM SA, GET Group Plc, and Merten GmbH & Co Kg in Europe.

## Other changes

Adjustments to the provisional accounting for the BEI Technologies Inc business combination when the initial accounting was completed led to the recognition in 2006 of intangible assets of \$141.8 million (€117.9 million), of which \$42.3 million (€35.2 million) for the trademark and \$80.5 million (€66.9 million) for the distribution network. This led to the recognition of \$55.2 million (€44.5 million) for deferred tax liabilities.

Impairment tests did not reveal any losses on goodwill recognized in the balance sheet.

The main exchange rate fluctuations concerned goodwill in US dollars.

## Note 5 - Intangible assets

### 5.1 - Change in intangible assets

	Trademarks	Software	Development projects (R&D)	Other	Total
<b>Gross value</b>					
<b>Dec. 31, 2004</b>	<b>617.8</b>	<b>390.6</b>	<b>76.9</b>	<b>145.1</b>	<b>1,230.4</b>
<b>Dec. 31, 2005</b>	<b>744.4</b>	<b>486.7</b>	<b>186.8</b>	<b>310.6</b>	<b>1,728.5</b>
Acquisitions/Capitalization	1.5	20.7	120.8	82.4	225.4
Internally generated assets	-	(0.2)	-	-	(0.2)
Disposals	0.2	(4.7)	(4.5)	(10.1)	(19.1)
Translation adjustment	(26.9)	(10.1)	(7.8)	(33.6)	(78.4)
Reclassification	0.1	(60.8)	9.5	53.3	2.1
Changes in the scope of consolidation and other	46.4	6.4	9.7	93.0	155.5
<b>Dec. 31, 2006</b>	<b>765.7</b>	<b>438.0</b>	<b>314.5</b>	<b>495.6</b>	<b>2,013.8</b>
<b>Accumulated amortization and impairment</b>					
<b>Dec. 31, 2004</b>	<b>(2.5)</b>	<b>(228.9)</b>	<b>(15.0)</b>	<b>(89.5)</b>	<b>(335.9)</b>
<b>Dec. 31, 2005</b>	<b>(3.7)</b>	<b>(290.8)</b>	<b>(22.0)</b>	<b>(112.9)</b>	<b>(429.4)</b>
Allocation and impairment	(1.8)	(59.2)	(29.0)	(25.7)	(115.7)
Recapture	0.2	6.7	2.5	3.2	12.6
Translation adjustment	0.1	8.0	1.5	7.3	16.9
Reclassification	(0.2)	(1.4)	(1.4)	4.5	1.5
Changes in the scope of consolidation and other	0.1	(3.5)	(2.2)	(1.2)	(6.8)
<b>Dec. 31, 2006</b>	<b>(5.3)</b>	<b>(340.0)</b>	<b>(50.6)</b>	<b>(124.8)</b>	<b>(520.7)</b>
<b>Net value</b>					
<b>Dec. 31, 2004</b>	<b>615.3</b>	<b>161.7</b>	<b>61.9</b>	<b>55.6</b>	<b>894.5</b>
<b>Dec. 31, 2005</b>	<b>740.7</b>	<b>195.9</b>	<b>164.8</b>	<b>197.7</b>	<b>1,299.1</b>
<b>Dec. 31, 2006</b>	<b>760.4</b>	<b>98.0</b>	<b>263.9</b>	<b>370.8</b>	<b>1,493.1</b>

## Consolidated financial statements at December 31, 2006

In relation to the year's acquisitions and following the final valuation of BEI Technologies Inc, the Group recognized the BEI trademark and other intangible assets, consisting primarily of patents and customer lists (notes 4 and 5.2).

In 2006, costs totaling €52.3 million were capitalized in connection with an ongoing project to develop a Groupwide SAP core model. These on-going development costs, which were classified under software in 2004 and 2005, were reclassified under other intangible assets in 2006.

	2006 Net	2005 Net	2004 Net
MGE	300.0	300.0	300.0
Clipsal	152.5	158.0	145.8
TAC / Andover	121.3	121.2	120.6
Juno	86.8	96.9	-
Digital	34.8	39.3	39.1
BEI	30.8		
Kavlico	11.8	13.1	-
Other	22.4	12.2	9.8
<b>Total</b>	<b>760.4</b>	<b>740.7</b>	<b>615.3</b>

### 5.2 - Trademarks

Main trademarks recognized as of December 31, 2006 include:

Trademarks are not amortized as they are considered to be assets with indefinite lives. Impairment tests did not reveal any impairment of trademarks as of December 31, 2006.

## Note 6 - Property, plant and equipment

### 6.1 - Change in property, plant and equipment

	Land	Buildings	Machinery and equipment	Other	Total
<b>Gross value</b>					
Dec. 31, 2004	87.2	875.8	2,544.4	581.3	4,088.7
Dec. 31, 2005	107.7	957.5	2,805.6	590.8	4,461.2
Acquisitions	5.8	35.1	165.2	146.6	352.7
Disposals	(3.9)	(64.5)	(133.2)	(72.2)	(273.8)
Translation adjustment	(5.3)	(24.9)	(77.0)	(21.9)	(129.1)
Reclassification	(3.9)	68.9	12.6	(77.2)	0.4
Changes in scope of consolidation and other	5.5	70.4	141.0	32.3	249.2
<b>Dec. 31, 2006</b>	<b>105.9</b>	<b>1,042.5</b>	<b>2,914.2</b>	<b>598.4</b>	<b>4,660.6</b>
<b>Accumulated depreciation and impairment</b>					
Dec. 31, 2004	(13.6)	(452.3)	(1,818.4)	(347.6)	(2,631.9)
Dec. 31, 2005	(16.0)	(476.0)	(2,032.3)	(336.4)	(2,860.6)
Depreciation and impairment	(0.7)	(37.0)	(234.3)	(34.3)	(306.3)
Recapture	1.3	30.0	130.7	36.4	198.4
Translation adjustment	0.9	8.8	51.6	13.3	74.6
Reclassification	0.1	(3.2)	(1.1)	(0.2)	(4.4)
Changes in scope of consolidation and other	(0.2)	(28.9)	(100.7)	(17.4)	(147.2)
<b>Dec. 31, 2006</b>	<b>(14.6)</b>	<b>(506.3)</b>	<b>(2,186.1)</b>	<b>(338.6)</b>	<b>(3,045.5)</b>
<b>Net value</b>					
Dec. 31, 2004	73.6	423.5	726.0	233.7	1,456.7
Dec. 31, 2005	91.7	481.5	773.0	254.4	1,600.6
<b>Dec. 31, 2006</b>	<b>91.3</b>	<b>536.2</b>	<b>728.1</b>	<b>259.8</b>	<b>1,615.1</b>

Assets held for sale, presented separately in an amount of €6.4 million, correspond to land and buildings that are expected to be sold in the first half of 2007.

Reclassifications primarily correspond to assets put into use.

## 6.2 - Finance leases

Property, plant and equipment include the following assets held under finance leases:

	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Land	2.8	2.1	2.7
Buildings	78.9	63.6	80.0
Machinery and equipment	29.9	31.5	39.6
Other tangible assets	1.4	1.0	10.6
Intangible assets	0.0	0.3	4.4
Accumulated depreciation and amortization	(79.9)	(60.5)	(87.0)
<b>Assets under finance lease, net</b>	<b>33.1</b>	<b>37.9</b>	<b>50.3</b>

Future minimum lease payments under finance leases as of December 31, 2006 are as follows:

	Minimum payments	Discounted minimum payments
Less than one year	2.8	2.8
Between one year and five years	10.9	10.0
Five years and more	9.3	6.8
<b>Total commitments</b>	<b>23.0</b>	<b>16.8</b>
Discounting effect	(6.2)	-
<b>Discounted minimum payments</b>	<b>16.8</b>	<b>-</b>

## 6.3 - Operating leases

Rental expenses for operating leases in 2006, 2005 and 2004 are as follows:

	2006	2005	2004
Minimum rentals	96.0	94.4	84.4
Contingent rentals	4.6	1.2	1.1
Sub-lease rentals	(1.9)	(3.6)	(1.8)
<b>Total rental expense</b>	<b>98.7</b>	<b>92.0</b>	<b>83.7</b>

Future minimum lease payments under non-cancelable operating leases break down as follows at December 31, 2006:

	Minimum payments	Discounted minimum payments
Less than one year	83.8	83.8
Between one and five years	235.1	214.4
Five years and more	148.3	115.1
<b>Total rental commitments</b>	<b>467.2</b>	<b>413.3</b>

The Group signed a lease contract for its new headquarters in the Paris region in 2006, with a nine-year commitment as from 2008. Discounted future lease payments amount to €92 million.

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## Note 7 - Investments in associates

Investments in associates can be analyzed as follows:

	% interest at Dec. 31			Share in net assets at Dec. 31			Share in net income at Dec. 31		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Clipsal Asia Holdings Ltd	-	50.0%	50.0%	-	41.9	41.1	-	(5.3)	(2.8)
ELAU Administration GmbH <sup>(1)</sup>	-	-	49.1%	-	-	16.8	-	0.8	0.8
Delta Dore Finance	20.0%	20.0%	20.0%	13.2	11.9	11.5	1.3	1.2	1.4
VA Tech Schneider HV GmbH <sup>(2)</sup>	-	-	-	-	-	-	-	-	(0.8)
Entivity <sup>(2)</sup>	-	-	-	-	-	-	-	-	(0.5)
Other	N/A	N/A	N/A	(3.0)	(5.6)	(4.1)	0.6	(0.3)	(1.7)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10.2</b>	<b>48.2</b>	<b>65.3</b>	<b>1.9</b>	<b>(3.6)</b>	<b>(3.6)</b>

(1) Notes 3 and 4.

(2) Companies sold in 2004.

In 2006, the Group acquired all the outstanding shares in Clipsal Asia. As a result, Clipsal Asia has been fully consolidated since January 1, 2006. The Group's interest was accounted for by the equity method in 2004 and 2005.

## Note 8 - Financial assets

### 8.1 - Available-for-sale financial assets

Available-for-sale financial assets, corresponding mainly to investments in non-consolidated companies, break down as follows:

	Dec. 31, 2006 % interest	Dec. 31, 2006 Gross value	Reevaluation/ depreciation	Dec. 31, 2006 Fair value	Dec. 31, 2005 Fair value	Jan. 1, 2005* Fair value	Dec. 31, 2004 Net
<b>I – Listed available for sale financial assets</b>							
AXA	0.40%	101.5	199.0	300.5	240.3	120.9	76.7
Gold Peak Industries Holding Ltd	10.06%	10.6	(7.6)	3.0	4.6	10.1	10.1
Legrand	NS	2.2	-	2.2	10.1	-	-
Other listed AFS <sup>(1)</sup>	-	0.4	-	0.4	38.0	5.5	5.5
<b>Total listed AFS</b>		<b>114.7</b>	<b>191.4</b>	<b>306.1</b>	<b>293.0</b>	<b>136.5</b>	<b>92.3</b>
<b>II – Unlisted available for sale financial assets</b>							
SE Relays LLC <sup>(2)</sup>	100.00%	-	-	-	-	26.5	26.5
Eb@se France <sup>(3)</sup>	100.00%	20.7	(20.7)	0.0	0.0	-	-
Abacus Engineered Systems <sup>(2)</sup>	100.00%	-	-	-	-	16.8	16.8
Comipar	4.15%	16.4	(16.4)	0.0	0.0	-	-
Easy Plug SAS <sup>(3)</sup>	50.00%	8.8	(8.8)	0.0	0.0	-	-
Paramer <sup>(4)</sup>	98.96%	-	-	-	5.8	5.5	5.5
SE Venture	100.00%	6.6	(6.6)	0.0	0.0	-	-
Simak <sup>(5)</sup>	98.50%	5.5	(0.5)	5.0	5.0	4.5	4.5
Other unlisted AFS <sup>(6)</sup>		22.4	(17.8)	4.6	11.6	8.7	8.7
<b>Total unlisted AFS</b>		<b>80.4</b>	<b>(70.8)</b>	<b>9.6</b>	<b>22.4</b>	<b>62.0</b>	<b>62.0</b>
<b>Financial assets available-for-sale</b>		<b>195.1</b>	<b>120.6</b>	<b>315.7</b>	<b>315.4</b>	<b>198.5</b>	<b>154.3</b>
*IAS 32/39 applied as from January 1, 2005.							
<sup>(1)</sup> Between December 31, 2005 and December 31, 2006, shares in an amount of €37.6 million, corresponding to short-term investments (less than one year), were reclassified under current financial assets.				<sup>(2)</sup> Consolidated as from January 1, 2005.			
				<sup>(3)</sup> Removed from the scope of consolidation – in liquidation.			
				<sup>(4)</sup> Consolidated as from January 1, 2006.			
				<sup>(5)</sup> Dormant companies.			
				<sup>(6)</sup> Valued at less than €5 million each.			

Fair value corresponds to the closing listed price for investments listed in an active market and the carrying amount for unlisted investments. Net gains arising from remeasurement at fair value of listed investments, recorded in equity under "Other reserves" (note 14.7), totaled €40.7 million.

The Legrand shares held at December 31, 2006, which were acquired under the mechanism for exchanging Schneider Electric shares for Legrand shares set up when Schneider Electric sold Legrand in 2002, were sold back to Legrand SAS in January 2007.

### 8.2 - Other non-current financial assets

	Dec. 31, 2006			Dec. 31, 2005	Dec. 31, 2004
	Cost	Impairment	Net	Net	Net
Vendor loan to buyer of Legrand shares <sup>(1)</sup>	-	-	-	176.8	167.9
Receivable on divestment of VA Tech Schneider HV GmbH <sup>(2)</sup>	-	-	-	-	17.5
Restricted cash on Clipsal acquisition (note 18)	47.0	-	47.0	41.4	35.6
Receivables on investments and loans	6.4	(0.3)	6.1	14.0	18.7
Other	68.7	(7.6)	61.1	49.2	48.4
<b>Other non current financial assets</b>	<b>122.1</b>	<b>(7.9)</b>	<b>114.2</b>	<b>281.4</b>	<b>288.1</b>
<sup>(1)</sup> €150 million vendor loan granted in 2002, paying interest at 5.5%. The interest is capitalized and the proceeds from any sales of shares held by the investor will be used to repay the loan, which has been granted for a maximum period of 13 years.					
<sup>(2)</sup> Repaid in January 2005.					

As provided for in the agreement with the consortium of investors that acquired Legrand in 2002, the vendor loan was repaid early during first-half 2006 in connection with Legrand's stock market flotation.

### 8.3 - Current financial assets

	Dec. 31, 2006
Short-term investments <sup>(1)</sup>	48.2
Pension assets <sup>(2)</sup>	25.3
<b>Total current financial assets</b>	<b>73.5</b>
<i>(1) These investments were previously classified under "Available-for-sale financial assets" - see note 8.1.</i>	
<i>(2) These assets were previously classified under "Other receivables" - see note 11.</i>	

Substantially all pension assets concern plans in the United States which had a surplus at December 31, 2006 (note 15).

### Note 9 - Inventories and work in process

Inventories and work in process changed as follows:

	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
<b>Cost:</b>			
Raw materials	830.6	739.7	613.7
Work in process	341.8	333.2	297.3
Semi-finished and finished products	973.4	579.2	504.8
Goods	109.8	211.9	194.8
<b>Inventories and work in process at cost</b>	<b>2,255.6</b>	<b>1,864.0</b>	<b>1,610.6</b>
<b>Impairment:</b>			
Raw materials	(91.3)	(97.9)	(70.4)
Work in process	(15.7)	(21.8)	(21.0)
Semi-finished and finished products	(81.1)	(63.9)	(54.8)
Goods	(11.6)	(43.8)	(55.0)
<b>Impairment loss</b>	<b>(199.7)</b>	<b>(227.4)</b>	<b>(201.2)</b>
<b>Net :</b>			
Raw materials	739.3	641.8	543.3
Work in process	326.1	311.4	276.3
Semi-finished and finished products	892.3	515.3	450.0
Goods	98.2	168.1	139.8
<b>Inventories and work in process, net</b>	<b>2,055.9</b>	<b>1,636.6</b>	<b>1,409.4</b>

### Note 10 - Trade accounts receivable

	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Accounts receivable	2,509.2	2,204.4	1,772.5
Notes receivable	386.7	417.5	396.2
Advances to suppliers	85.9	71.4	63.0
<b>Accounts receivable at cost</b>	<b>2,981.8</b>	<b>2,693.3</b>	<b>2,231.7</b>
Impairment	(99.0)	(106.6)	(96.0)
<b>Accounts receivable, net</b>	<b>2,882.8</b>	<b>2,586.7</b>	<b>2,135.7</b>

The Group's accounts receivable are generated from sales to customers operating in a wide range of businesses and geographic regions. Consequently, the Group believes that there is no significant concentration of credit risk.

All trade accounts receivable are due in less than one year.

## Note 11 - Other receivables and prepaid expenses

	Dec. 31, 2006	Dec. 31, 2005	Jan. 1, 2005	Dec. 31, 2004
Other receivables	311.5	183.1	203.6	203.6
<i>Précompte</i> Equalization tax credit*	50.0	76.0	-	-
Carryback credit	97.0	97.0	97.0	97.0
Other tax credits	421.0	298.0	148.0	148.0
Derivative instruments	-	14.8	21.7	-
Pension assets**	-	7.0	-	-
Prepaid expenses	115.3	107.1	80.5	80.5
<b>Total</b>	<b>994.8</b>	<b>783.0</b>	<b>550.8</b>	<b>529.1</b>
*Including long-term portion: €25.3 million in 2006 and €50.7 million in 2005				
**Pension assets were reclassified under current financial assets at December 31, 2006.				

The *précompte* equalization tax credit corresponds to a €76 million payment to the French Treasury to cover the exceptional 25% exit tax on dividends distributed in 2005 following the repeal of the equalization tax and *avoir fiscal* tax credit. The credit amounted to €51 million in 2006 after Schneider Electric was reimbursed the first one third of the amount.

The Group also has a €97 million carry back credit with the French Treasury in addition to tax loss carry forwards recorded under deferred tax assets (note 12). This credit can be deducted from income tax payable in 2007 or can be reimbursed as at January 1, 2008.

## Note 12 - Income tax

Whenever possible, Group entities file consolidated tax returns. Schneider Electric SA files a consolidated tax return with its French subsidiaries held directly or indirectly through Schneider Electric Industries SAS.

### 12.1 - Analysis of income tax expense for the year

	2006	2005	2004
<b>Current taxes</b>			
France	(38.1)	(15.7)	(13.5)
International	(393.6)	(314.8)	(265.9)
<b>Total</b>	<b>(431.7)</b>	<b>(330.5)</b>	<b>(279.4)</b>
<b>Deferred taxes</b>			
France	(197.2)	(93.8)	(72.7)
International	93.8	(3.2)	(13.0)
<b>Total</b>	<b>(103.4)</b>	<b>(97.0)</b>	<b>(85.8)</b>
<b>Income tax (expense)/benefit</b>	<b>(535.1)</b>	<b>(427.5)</b>	<b>(365.2)</b>

## 12.2 - Tax proof

	2006	2005	2004
<b>Profit attributable to equity holders of the parent</b>	<b>1,309.4</b>	<b>994.3</b>	<b>823.9</b>
Income tax (expense)/benefit	(535.1)	(427.5)	(365.2)
Goodwill impairment	(0.2)	(8.4)	-
Minority interests	(37.2)	(35.2)	(34.4)
Share of profit of associates	1.9	(3.6)	(3.6)
<b>Profit before tax and goodwill impairment</b>	<b>1,880.0</b>	<b>1,469.0</b>	<b>1,227.1</b>
Statutory tax rate	34.43%	34.93%	35.43%
<b>Income tax expense calculated at the statutory</b>	<b>(647.3)</b>	<b>(513.1)</b>	<b>(434.8)</b>
<b>Reconciling items</b>			
Difference between French and foreign tax rates	65.2	51.2	46.2
Impact of tax rate reduction in France*	-	-	(14.3)
Tax credits and other tax reductions	35.4	32.8	24.4
Impact of tax losses	20.3	1.0	1.2
Other permanent differences	(8.7)	0.6	12.1
Income tax (expense)/benefit	(535.1)	(427.5)	(365.2)
<b>Effective tax rate</b>	<b>28.46%</b>	<b>29.10%</b>	<b>29.76%</b>

\*Applicable in 2005 and beyond.

## 12.3 - Deferred taxes by type

	Dec. 31, 2006	Dec. 31, 2005	Jan. 1, 2005
<i>Deferred tax assets</i>			
Tax credits and tax loss carryforwards	244.6	377.2	463.2
Provisions for pensions and other post-retirement benefit	361.9	394.2	342.9
Impairment of receivables and inventory	74.5	57.6	52.6
Non deductible provisions for contingencies and accruals	132.9	114.7	85.2
Other deferred tax assets	152.5	116.3	106.2
Deferred tax assets set off against deferred tax liabilities	(293.6)	(265.0)	(217.4)
<b>Deferred tax assets</b>	<b>672.8</b>	<b>795.0</b>	<b>832.7</b>
<i>Deferred tax liabilities</i>			
Differences between tax and accounting depreciation	(52.1)	(106.7)	(101.4)
Trademarks and other intangible assets	(329.6)	(282.1)	(193.4)
Capitalized development costs (R&D)	(25.2)	(22.5)	(16.1)
Liabilities on fair value adjustments to financial instruments and other items recognized in equity	(83.3)	(12.7)	(15.2)
Liabilities on debt instruments	-	(59.3)	(53.3)
Other deferred tax liabilities	(108.6)	(41.0)	(63.9)
Deferred tax assets set off against deferred tax liabilities	293.6	265.0	217.4
<b>Total deferred tax liabilities</b>	<b>(305.3)</b>	<b>(259.4)</b>	<b>(225.9)</b>

Deferred tax assets recorded in respect of tax loss carry forwards at December 31, 2006 essentially concern France (€119 million) and other European countries where certain tax losses can be carried forward indefinitely.

## 12.4 - Income tax recognized directly in equity

Tax on items recognized directly in equity amounted to €22.8 million at December 31, 2006 versus €16.3 million the year before and a negative €11.5 million at December 31, 2004. Income tax recognized directly in equity primarily reflects the effect of tax increases or decreases for items initially recognized in equity (as part of the transition to IFRS) and the tax impact of increases or decreases in items recognized in other reserves (note 14.7).

## Note 13 - Cash and cash equivalents

	Dec. 31, 2006	Dec. 31, 2005	Jan. 1, 2005	Dec. 31, 2004
Mutual funds and equivalent	1,718.0	749.3	355.2	355.2
Other	15.3	5.5	63.9	63.9
<b>Short-term investments</b>	<b>1,733.3</b>	<b>754.8</b>	<b>419.1</b>	<b>419.1</b>
Money market instruments and short-term deposits	76.3	117.3	11.9	11.9
Schneider Electric shares	-	-	-	87.0
Cash	734.5	511.1	544.8	544.8
<b>Total cash and cash equivalents</b>	<b>2,544.1</b>	<b>1,383.2</b>	<b>975.8</b>	<b>1,062.8</b>
Short-term bank loans and overdrafts	(116.1)	(79.9)	(28.0)	(28.0)
Treasury shares	-	-	-	(87.0)
Other	(1.8)	-	(1.3)	(1.3)
<b>Net cash and cash equivalents</b>	<b>2,426.2</b>	<b>1,303.3</b>	<b>946.5</b>	<b>946.5</b>

## Note 14 - Equity

## 14.1 - Capital

## Share capital

The Company's share capital at December 31, 2006 amounted to €1,821,586,784, represented by 227,698,348 shares with a par value of 8 euros, all fully paid up.

As at December 31, 2006, a total of 247,190,648 voting rights were attached to the 227,698,348 shares outstanding.

## Changes in share capital

The following table shows changes in Schneider Electric SA's share capital since December 31, 2003 through the exercise of stock options:

	Cumulative number of shares	Total (in €)
<b>Capital at Dec. 31, 2003</b>	<b>231,842,170</b>	<b>1,854,737,360</b>
Cancellation of shares	(7,000,000)	(56,000,000)
Worldwide employee stock purchase	705,847	5,646,776
Exercise of stock options	646,160	5,169,280
<b>Capital at Dec. 31, 2004</b>	<b>226,194,177</b>	<b>1,809,553,416</b>
Exercise of stock options	425,050	3,400,400
<b>Capital at Dec. 31, 2005</b>	<b>226,619,227</b>	<b>1,812,953,816</b>
Exercise of stock options	1,079,121	8,632,968
<b>Capital at Dec. 31, 2006</b>	<b>227,698,348</b>	<b>1,821,586,784</b>

Share premium account raised by €52,068,491 through the exercise of stock options.

## 14.2 - Ownership structure

	Capital %	December 31, 2006			December 31, 2005		Dec. 31, 2004	
		Number of shares	Voting rights %	Number of voting rights	Capital %	Voting rights %	Capital %	Voting rights %
CDC	4.42	10,062,852	5.36	13,237,852	4.44	5.30	4.45	5.24
Employees	3.09	7,028,765	5.22	12,911,628	3.35	5.67	3.76	6.04
Own shares <sup>(1)</sup>	0.94	2,150,352	-	-	0.95	-	0.95	-
Treasury stock	2.08	4,725,771	-	-	2.61	-	2.25	-
Public	89.47	203,730,608	86.65	214,165,045	88.65	85.79	88.59	85.86
<b>Total</b>	<b>100.00</b>	<b>227,698,348</b>	<b>100.00<sup>(2)</sup></b>	<b>247,190,648<sup>(2)</sup></b>	<b>100.00</b>	<b>100.00<sup>(2)</sup></b>	<b>100.00</b>	<b>100.00<sup>(2)</sup></b>

(1) Via Cofibel / Cofimines.

(2) Based on the number of voting rights as defined in article 222 12-5 of the AMF general regulations, which includes shares stripped of voting rights.

No shareholders' pact was in effect as of December 31, 2006.



## 14.3 - Earnings per share

### Determination of the share base used in calculation

(in millions of shares)	Dec. 31, 2006		Dec. 31, 2005		Dec. 31, 2004	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Common shares*	220.003	220.003	218.206	218.206	220.923	220.923
Stock options	-	2.094	-	0.708	-	0.334
<b>Average weighted number of shares</b>	<b>220.003</b>	<b>222.097</b>	<b>218.206</b>	<b>218.914</b>	<b>220.923</b>	<b>221.257</b>

\*Net of treasury stock and intragroup cross shareholdings.

### Earnings per share

(in euros)	Dec. 31, 2006		Dec. 31, 2005		Dec. 31, 2004	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Profit before tax	8.55	8.47	6.68	6.66	5.54	5.53
<b>Earnings per share</b>	<b>5.95</b>	<b>5.90</b>	<b>4.56</b>	<b>4.54</b>	<b>3.73</b>	<b>3.72</b>

## 14.4 - Dividends

In 2005, the Group paid out the 2004 dividend of €1.80 per share, for a total of €395.4 million. In 2006, the Group paid out the 2005 dividend of €2.25 per share, for a total of €493.0 million. In addition, a *précompte* withholding tax back payment in an amount of €8.7 million was recognized in the consolidated financial statements.

At the Annual Meeting of April 26, 2007, shareholders will be asked to approve a dividend of €3.0 per share for 2006. At December 31, 2006, Schneider Electric SA had distributable reserves in an amount of €275 million (versus €323 million at the previous year-end), not including profit for the year.

## 14.5 - Share-based payment

### Current stock option plans

The Board of Directors of Schneider Electric SA and later the Management Board have set up stock option plans for senior executives and certain employees. The main features of these plans were as follows at December 31, 2006:

Plan no.	Date of board meeting	Type <sup>(1)</sup>	Starting date of exercise period	Expiration date	Price (in euros)	Number of options initially granted	Options cancelled because targets not met
16	1-Apr-99	P	1-Apr-02	31-Mar-07	50.73	1,259,300	245,900
17	1-Apr-99	P	1-Apr-02	31-Mar-07	50.73	2,123,100	1,078,600
18	24-Mar-00	P	24-Mar-03	23-Mar-08	65.88	1,421,200	686,600
19	4-Apr-01	S	4-Apr-05	3-Apr-09	68.80	1,557,850	NA <sup>(2)</sup>
20	12-Dec-01	S	12-Dec-05	11-Dec-09	51.76	1,600,000	166,800
21	5-Feb-03	S	5-Feb-07	4-Feb-11	45.65	2,000,000	141,900
22	5-Feb-03	S	5-Jun-03	4-Feb-11	45.65	111,000	NA <sup>(2)</sup>
23	6-May-04	S	1-Oct-04	5-May-12	56.09	107,000	NA <sup>(2)</sup>
24	6-May-04	S or P	6-May-08	5-May-12	56.09	2,060,700	-
25	12-May-05	S	1-Oct-05	11-May-13	57.02	138,500	NA <sup>(2)</sup>
26	28-Jun-05	S or P	28-Jun-09	27-Jun-13	60.78	2,003,800	-
27	1-Dec-05	S or P	1-Dec-09	30-Nov-13	72.1	1,614,900	-
28	21-Dec-06	S or P	21-Dec-10	20-Dec-16	84.12	1,257,120	-
<b>Total</b>						<b>17,254,470</b>	<b>2,319,800</b>

(1) S = Options to subscribe new shares. P = Options to purchase existing shares.

(2) Not applicable because no criteria for exercise were set.

## Consolidated financial statements at December 31, 2006

Rules governing the stock option plans are as follows:

- To exercise the option, the grantee must be an employee or corporate officer of the Group. Exercise is also conditional on the achievement of performance criteria (note 14.5.2);
- The options expire after 8 to 10 years;
- The vesting period is 3 or 4 years in the United States and 4 years in the Rest of the World.

### Outstanding options as of December 31, 2006

Plan no.	Number of options outstanding at Dec. 31, 2005	Options exercised and or created in 2006	Options cancelled in 2006 <sup>(1)</sup>	Number of options outstanding at Dec. 31, 2006
16	478,720	(311,170)	-	167,550
17	622,052	(421,909)	-	200,143
18	583,981	(225,353)	-	358,628
19	1,426,375	(374,917)	(3,000)	1,048,458
20	970,850	(362,904)	(5,600)	602,346
21	1,861,100	(280,900)	(140,300)	1,439,900
22	69,950	(10,900)	-	59,050
23	74,000	(21,400)	-	52,600
24	2,024,900	-	(25,000)	1,999,900
25	89,150	(28,100)	(1,000)	60,050
26	1,994,800	-	(5,600)	1,989,200
27	1,614,900	-	(1,200)	1,613,700
28	0	1,257,120	-	1,257,120
<b>Total</b>	<b>11,810,778</b>	<b>(780,433)</b>	<b>(181,700)</b>	<b>10,848,645</b>

*(1) After potential cancellations due to targets being only partially met or options being allowed to lapse without being exercised.*

On December 21, 2006, the Management Board set up stock option plan no. 28, granting 1,257,120 options to subscribe new shares or purchase existing shares of Company stock at a price of €84.12 in principle exercisable between December 21, 2010 and November 20, 2016. For US employees, the plan awards 328,000 Stock Appreciation Rights (SARs) at a price of €83.80, with the same vesting period and expiration date as the options in plan 28.

To exercise the options granted under plans 26, 27 and 28 and the SARs, the grantee must be an employee or corporate officer of the Group. In addition, exercise of half the options is conditional on the achievement of annual objectives based on revenue and operating margin rate.

In 2006, 1,079,121 new Schneider Electric SA shares were issued on the exercise of currently vested stock options.

### Shares granted without consideration

Acting on the authorization granted by shareholders at the Annual Meeting of May 3, 2006, the Management Board decided at its meeting of December 21, 2006 to grant 52,006 shares without consideration. These shares have a vesting period of three years (from December 21, 2006 to December 20, 2009), followed by a lock-up period of two years (from December 21, 2009 to December 20, 2011).

To acquire the shares without consideration the grantee must be an employee or corporate officer of

the Group. In addition, acquisition of half the shares is conditional on the achievement of annual objectives based on revenue and operating margin rate.

### Valuation of share-based payment

In accordance with the accounting principles described in note 1.18, the stock option plans have been valued on the basis of an average estimated life of between seven and ten years using the following assumptions:

- Expected volatility of between 20% and 25%, corresponding to implicit volatility;
- A payout rate between 3% and 3.7%;
- A discount rate of between 3.1% and 4.1%, corresponding to a risk-free rate over the life of the plans.

Based on these assumptions, the amount recorded under "Selling, general and administrative expenses" for plans set up after November 7, 2002 breaks down as follows:

	2006	2005
Plan 21	2.5	5.8
Plan 24	5.6	5.9
Plan 25	0.0	1.5
Plan 26	6.1	3.1
Plan 27	6.6	0.5
Plan 28	0.0	-
	<b>20.8</b>	<b>16.7</b>

## 14.6 - Treasury stock

A share buyback program was authorized by shareholders at the Annual Meeting on May 6, 1999, and renewed at the Annual Meetings held on May 5, 2000, June 11, 2001, May 27, 2002, May 16, 2003, May 6, 2004, May 12, 2005 and May 3, 2006.

The purpose of the program is to reduce dilution, optimize the management of capital and cover stock option plans. The last authorized program provides for the purchase of a maximum of 10% of the share capital within a period of up to eighteen months from May 3, 2006. Under the programs of May 12, 2005 and May

3, 2006, no shares were purchased during the year ended December 31, 2006.

The Annual Shareholders' Meeting of May 3, 2006 authorized the Management Board to buy back shares. Acting on this authorization, the company set up a liquidity contract under which the financial intermediary bought 2,292,219 shares at an average price of €85.29 and sold 2,172,219 shares at an average price of €85.32.

At December 31, 2006, the Group holds 6,876,123 Schneider Electric shares in treasury stock, acquired at a cost of €311.4 million which has been recorded as a deduction from retained earnings.

## 14.7 - Other reserves

Changes in other reserves were as follows:

	Gains and losses from remeasurement at fair value			Actuarial gains and losses	Total
	Currency instruments and interest rate hedges	Hedges of metal purchases	Available- for-sale financial assets		
<b>December 31, 2004</b>				<b>22.3</b>	<b>22.3</b>
<i>Application of IAS 32/39 as from Jan. 1, 2005:</i>					
- Currency instruments	7.9				7.9
- Remeasurement of available-for-sale financial assets			29.0		29.0
- Hedges of metal purchases		5.0			5.0
<b>January 1, 2005</b>	<b>7.9</b>	<b>5.0</b>	<b>29.0</b>	<b>22.3</b>	<b>64.2</b>
- Unrealized net gains (losses) on available-for-sale financial assets			115.6		115.6
- Realized net gains (losses) on available-for-sale financial assets reclassified in the statement of income					-
- Net gains (losses) on currency instruments	(5.5)				(5.5)
- Net gains (losses) on hedges of metal purchases		3.5			3.5
- Net gains (losses) on post-retirement benefits				(78.0)	(78.0)
<b>December 31, 2005</b>	<b>2.4</b>	<b>8.5</b>	<b>144.6</b>	<b>(55.7)</b>	<b>99.8</b>
- Unrealized net gains (losses) on available-for-sale financial assets			16.5		16.5
- Realized net gains (losses) on available-for-sale financial assets reclassified in the statement of income					0.0
- Net gains (losses) on currency instruments	(136.8)				(136.8)
- Net gains (losses) on interest rate hedges	(1.7)				(1.7)
- Net gains (losses) on hedges of metal purchases		(11.5)			(11.5)
- Net gains (losses) on post-retirement benefits				24.3	24.3
<b>December 31, 2006</b>	<b>(136.1)</b>	<b>(3.0)</b>	<b>161.1</b>	<b>(31.4)</b>	<b>(9.4)</b>

The main changes during the year stemmed from changes in the fair value of hedging instruments (note 20), the remeasurement at fair value of the Group's AXA shares (note 8) and differences in actuarial gains and losses (note 15).

## Note 15 - Pension and other post-employment benefit obligations

The Group has set up various plans for employees covering pensions, termination benefits, healthcare, life insurance and other post-employment benefits, as well as long-term benefit plans for active employees, primarily in France and Australia.

Actuarial valuations are generally performed each year. The assumptions used vary according to the economic conditions prevailing in the country concerned, as follows:

	Weighted average rate			Of which US plans		
	2006	2005	2004	2006	2005	2004
Discount rate	5.0%	4.9%	5.4%	5.8%	5.8%	6.2%
Rate of compensation increases	2.9%	3.3%	3.4%	4.5%	4.1%	4.1%
Expected yield on plan assets	7.8%	8.2%	8.4%	9.0%	9.0%	9.0%
Rate of healthcare cost increases	9.5%	9.4%	9.2%	10.0%	10.0%	10.0%

The post-employment healthcare obligation mainly concerns the United States. A one-point increase in healthcare costs would increase the post-employment healthcare obligation by €38.9 million and the total of service cost and interest expense by €2.8 million. A one-point decrease in healthcare costs would decrease the post-employment healthcare obligation by €33.5 million and the total of service cost and interest expense by €2.4 million.

The discount rate is generally determined on the basis of the interest rate on investment-grade corporate bonds or government bonds.

### Pension and termination benefit obligations

Pension and termination benefit obligations primarily concern the Group's North American and European subsidiaries. For the most part, these are defined benefit plans. They feature either a lump-sum payment on the employee's retirement or regular pension payments after retirement. The amount is based on years of service, grade and end-of-career salary. They also include top-hat payments granted to certain senior executives guaranteeing supplementary retirement income beyond that provided by general, mandatory pension schemes.

Benefit obligations under these plans, which represent 89% of the Group's total commitment or €1,802 million at December 31, 2006, are partially or fully funded through payments to external funds.

External funds are invested in equities (around 61%), bonds (around 23%) and real estate (around 9%).

Contributions amounted to €19.6 million in 2006 and are estimated at €14.3 million for 2007.

At December 31, 2006, provisions for pensions and termination benefits totaled €642 million, compared with €607 million in 2005 and €521 million in 2004. These provisions have been included in non-current liabilities, as the current portion was not considered material in relation to the total liability.

Payments made under defined contribution plans are recorded in the income statement, in the year of payment and are in full settlement of the Group's liability. Defined contribution plan payments totaled €30.7 million in 2006 and €32.3 million in 2005.

### Other post-employment benefits, including healthcare and life insurance, and other long-term benefits

The North American subsidiaries pay certain healthcare costs and provide life insurance benefits to retired employees who fulfill certain criteria in terms of age and years of service. These post-employment benefit obligations are unfunded.

Healthcare coverage for North American employees represents 86% of this obligation. In September 2005, one of these plans was amended by changing the contributions and terms of eligibility. The effect of this plan amendment, which reduced the obligation by around \$20 million (€17 million), is reflected in the income statement over the vesting period, with €6 million recognized in 2005 for vested rights and €3.6 million recognized in 2006.

The assumptions used to determine post-employment benefit obligations related to healthcare and life insurance are the same as those used to estimate pension benefit obligations in the country concerned.

Other benefit obligations include healthcare coverage plans in Europe, for €42 million, and long-service awards due by subsidiaries in France, for €11 million.

At December 31, 2006, provisions for these benefit obligations totaled €517 million, compared with €593 million in 2005 and €505 million in 2004. These provisions have been included in non-current liabilities, as the current portion was not considered material in relation to the total liability.

## 15.1 - Changes in provisions for pensions and other post-employment benefit obligations

Changes in provisions for pensions and other post-employment benefit obligations (net of assets) were as follows:

	Pensions and termination benefits	Of which US plans	Other post-employment and long-term benefits	Of which US plans	Provisions for pensions and other post employment benefit obligations
<b>Dec. 31, 2004</b>	<b>521.1</b>	<b>8.8</b>	<b>505.0</b>	<b>418.5</b>	<b>1,026.2</b>
Net cost recognized in the statement of income	47.9	1.5	22.6	21.9	70.5
Benefits paid	(49.1)	-	(23.5)	(22.4)	(72.6)
Plan participants' contributions	(34.4)	(23.6)	-	-	(34.4)
Actuarial gains and losses recognized in equity	117.2	61.8	14.9	14.6	132.1
Translation adjustment	5.6	3.8	67.1	65.5	72.7
Changes in the scope of consolidation	2.4	0.0	3.0	-	5.4
Other changes	(10.7)	(0.1)	4.3	-	(6.4)
<b>Dec. 31, 2005*</b>	<b>600.0</b>	<b>52.2</b>	<b>593.4</b>	<b>498.1</b>	<b>1,193.5</b>
Net cost recognized in the statement of income	44.3	(4.5)	26.4	23.3	70.7
Benefits paid	(32.4)	0.0	(27.2)	(25.6)	(59.6)
Plan participants' contributions	(19.6)	(5.1)	-	-	(19.6)
Actuarial gains and losses recognized in equity	(6.0)	(7.8)	(23.7)	-	(29.7)
Translation adjustment	7.5	(4.7)	(52.7)	(47.3)	(45.2)
Changes in the scope of consolidation	27.9	0.0	(0.7)	-	27.2
Other changes	(4.9)	0.1	1.4	(3.1)	(3.6)
<b>Dec. 31, 2006*</b>	<b>616.8</b>	<b>30.2</b>	<b>516.9</b>	<b>445.4</b>	<b>1,133.7</b>

*\*Including €7 million in pension assets recognized under "Other receivables" (see note 11) in 2005 and €25.3 million in pension assets recognized under "Other financial assets" in 2006.*

## 15.2 - Provisions for pensions and termination benefit obligations

Annual changes in obligations, the market value of plan assets and the corresponding assets and provisions recognized in the consolidated financial statements can be analyzed as follows:

1. Reconciliation of balance sheet items	Dec. 31, 2006		Dec. 31, 2005		Dec. 31, 2004	
	o/w US plans		o/w US plans		o/w US plans	
Pension assets	25.3	25.1	7.0	7.0		
Provisions for pensions and other post-employment benefit	(642.1)	(55.3)	(607.0)	(59.2)	(521.1)	(8.8)
<b>Net Asset/(Liability) recognized in the balance sheet</b>	<b>(616.8)</b>	<b>(30.2)</b>	<b>(600.0)</b>	<b>(52.2)</b>	<b>(521.1)</b>	<b>(8.8)</b>
2. Components of net cost recognized in the statement of income	Dec. 31, 2006		Dec. 31, 2005		Dec. 31, 2004	
	o/w US plans		o/w US plans		o/w US plans	
Service cost	54.2	18.1	51.8	15.9	48.5	14.8
Interest cost (impact of discounting)	93.4	52.0	92.9	50.5	87.9	48.7
Expected return on plan assets	(104.1)	(75.0)	(97.1)	(71.8)	(87.4)	(64.6)
Past service cost	0.3	0.4	5.9	6.9	1.2	2.7
Curtailments and settlements	0.5	0.0	(5.6)		(0.8)	
<b>Net cost recognized in the statement of income</b>	<b>44.3</b>	<b>(4.5)</b>	<b>47.9</b>	<b>1.5</b>	<b>49.4</b>	<b>1.6</b>

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3. Change in projected benefit obligation	Dec. 31, 2006		Dec. 31, 2005		Dec. 31, 2004	
	o/w US plans		o/w US plans		o/w US plans	
<b>Projected benefit obligation at beginning of year</b>	<b>1,993.5</b>	<b>972.1</b>	<b>1,665.6</b>	<b>747.5</b>	<b>1,614.9</b>	<b>760.1</b>
Service cost	54.2	18.1	51.8	15.9	48.5	14.8
Interest cost (impact of discounting)	93.4	52.0	92.9	50.5	87.9	48.7
Plan participants' contributions	5.6	0.0	5.5	0.0	3.3	0.0
Benefits paid	(92.8)	(41.5)	(104.7)	(39.2)	(49.9)	(36.4)
Actuarial (gains)/losses recognized in equity	43.6	20.6	148.6	70.0	10.0	19.7
Modification of pension plan	(0.3)	0.0	6.3	6.0	(0.8)	
Changes in the scope of consolidation	28.3	0.0	2.4		11.6	
Translation adjustments	(98.5)	(103.7)	139.9	121.4	(59.9)	(59.4)
Other (including curtailments and settlements)	8.4	0.0	(14.8)			
<b>Projected benefit obligation at end of year</b>	<b>2,035.4</b>	<b>917.6</b>	<b>1,993.5</b>	<b>972.1</b>	<b>1,665.6</b>	<b>747.5</b>

Actuarial gains and losses have been fully recognized in other reserves (note 14.7).

They stem from changes in actuarial assumptions (primarily the discount rates) used to measure obligations in the United Kingdom, the euro zone and Canada.

Actuarial gains and losses related to experience adjustments amount to €12.1 million in the United States and the United Kingdom.

4. Change in fair value of plan assets	Dec. 31, 2006		Dec. 31, 2005		Dec. 31, 2004	
	o/w US plans		o/w US plans		o/w US plans	
<b>Fair value of plan assets at beginning of year</b>	<b>1,395.4</b>	<b>918.8</b>	<b>1,143.2</b>	<b>736.8</b>	<b>1,083.3</b>	<b>726.3</b>
Expected return on plan assets	104.1	75.0	97.1	71.8	87.4	64.6
Plan participants' contributions	5.6	0.0	5.4	-	3.3	-
Employer contributions	19.6	5.1	34.4	23.6	18.2	1.0
Benefits paid	(60.4)	(41.5)	(55.6)	(39.2)	(46.9)	(36.4)
Actuarial gains/(losses) recognized in equity	49.6	28.4	31.4	8.2	44.7	40.2
Modification of pension plan	-		-		-	
Changes in the scope of consolidation	0.4		0.7		0.8	
Translation adjustments	(105.8)	(99.0)	134.3	117.6	(47.6)	(58.9)
Other (including curtailments and settlements)	9.2		4.5			
<b>Fair value of plan assets at end of year</b>	<b>1,417.7</b>	<b>886.8</b>	<b>1,395.4</b>	<b>918.8</b>	<b>1,143.2</b>	<b>736.8</b>

Actuarial gains and losses have been fully recognized in other reserves (note 14.7).

They stem from changes in the effective and expected return on assets in the United States and the United Kingdom.

5. Funded status	31.12.2006		31.12.2005		31.12.2004	
	o/w US plans		o/w US plans		o/w US plans	
Projected benefit obligation	(2,035.4)	(917.6)	(1,993.5)	(972.1)	(1,665.6)	(747.5)
Fair value of plan assets	1,417.7	886.8	1,395.4	918.8	1,143.2	736.8
Effect of the asset ceiling			-	-	-	-
<i>Deferred items:</i>						
Unrecognized past service cost	0.9	0.6	(1.9)	1.1	1.3	1.9
<b>Net Asset/(Liability) recognized in the balance sheet</b>	<b>(616.8)</b>	<b>(30.2)</b>	<b>(600.0)</b>	<b>(52.2)</b>	<b>(521.1)</b>	<b>(8.8)</b>

### 15.3 - Provision for other post-employment benefits

Changes in provisions for other post-employment and long-term benefits were as follows:

<b>1. Components of net cost recognized in the statement of income</b>	<b>Dec. 31, 2006</b>	<b>Dec. 31, 2005</b>	<b>Dec. 31, 2004</b>
Service cost	6.2	6.0	6.4
Interest cost (impact of discounting)	25.2	24.6	26.2
Expected return on plan assets	-	-	-
Past service cost	(5.0)	(8.0)	(5.1)
<b>Net cost recognized in the statement of income</b>	<b>26.4</b>	<b>22.6</b>	<b>27.5</b>

<b>2. Change in projected benefit obligation</b>	<b>Dec. 31, 2006</b>	<b>Dec. 31, 2005</b>	<b>Dec. 31, 2004</b>
<b>Projected benefit obligation at beginning of year</b>	<b>543.6</b>	<b>471.0</b>	<b>489.8</b>
Service cost	6.2	6.0	6.4
Interest cost (effect of discounting)	25.2	24.6	26.2
Plan participants' contribution	1.7	1.3	0.7
Benefits paid	(27.2)	(23.5)	(23.6)
Actuarial (gains)/losses recognized in equity	(23.7)	14.9	0.9
Past service cost		(16.3)	
Changes in the scope of consolidation	(0.7)	3.0	
Translation adjustments	(48.1)	67.1	(30.3)
Other (including curtailments and settlements)	0.2	(4.5)	0.9
<b>Projected benefit obligation at end of year</b>	<b>477.2</b>	<b>543.6</b>	<b>471.0</b>

Actuarial gains and losses have been fully recognized in other reserves (note 14.7). They stem from changes in actuarial assumptions (primarily the discount rate). Substantially all plan changes concern the United States.

<b>3. Funded status</b>	<b>Dec. 31, 2006</b>	<b>Dec. 31, 2005</b>	<b>Dec. 31, 2004</b>
Projected benefit obligation	477.2	543.6	471.0
<i>Deferred items:</i>			
Unrecognized past service cost	39.7	49.8	34.0
<b>Provision recognized in the balance sheet</b>	<b>516.9</b>	<b>593.4</b>	<b>505.0</b>

## Note 16 - Provisions for contingencies

	<b>Economic risks</b>	<b>Customer risks</b>	<b>Product risks</b>	<b>Environmental risks</b>	<b>Restructuring</b>	<b>Other</b>	<b>Provisions</b>
<b>Dec. 31, 2004</b>	<b>59.6</b>	<b>47.0</b>	<b>120.3</b>	<b>34.7</b>	<b>108.0</b>	<b>59.2</b>	<b>428.8</b>
<i>Long-term portion</i>	<i>55.6</i>	<i>47.0</i>	<i>32.1</i>	<i>34.7</i>		<i>22.9</i>	<i>192.3</i>
Additions	16.9	9.1	63.8	2.4	68.5	25.1	185.8
Discounting effect	0.3	4.8	(0.4)	0.6	(0.8)	0.5	5.0
Utilizations	(5.6)	(8.0)	(51.0)	(2.6)	(81.9)	(8.6)	(157.7)
Reversals of surplus provisions	(3.1)	-	(10.3)	-	(11.3)	(3.0)	(27.7)
Translation adjustments	2.2	7.7	8.7	1.7	3.6	3.7	27.6
Changes in the scope of consolidation and other	4.8	7.1	8.8	2.9	7.7	(6.4)	24.9
<b>Dec. 31, 2005</b>	<b>75.1</b>	<b>67.7</b>	<b>139.9</b>	<b>39.7</b>	<b>93.8</b>	<b>70.5</b>	<b>486.7</b>
<i>Long-term portion</i>	<i>37.0</i>	<i>43.6</i>	<i>34.4</i>	<i>32.6</i>	<i>20.0</i>	<i>42.4</i>	<i>210.0</i>
Additions	99.5	7.6	70.9	5.6	49.9	25.8	259.3
Discounting effect	(0.3)	0.0	0.2	0.3	0.3	0.0	0.5
Utilizations	(9.9)	(10.2)	(59.0)	(1.6)	(53.8)	(9.3)	(143.8)
Reversals of surplus provisions	(7.5)	(1.0)	(17.6)	(0.3)	(1.6)	(4.7)	(32.7)
Translation adjustments	(0.5)	(5.8)	(5.1)	(1.2)	(1.2)	(5.9)	(19.7)
Changes in the scope of consolidation and other	4.5	(1.5)	16.1	1.3	(2.8)	1.9	19.5
<b>Dec. 31, 2006</b>	<b>160.9</b>	<b>56.8</b>	<b>145.4</b>	<b>43.8</b>	<b>84.6</b>	<b>78.3</b>	<b>569.8</b>
<i>Long-term portion</i>	<i>83.8</i>	<i>50.0</i>	<i>34.9</i>	<i>32.1</i>	<i>15.2</i>	<i>67.1</i>	<i>283.1</i>

## Consolidated financial statements at December 31, 2006

### (a) Economic risks

These include tax risks arising from tax audits performed by various local tax administrations and financial risks arising primarily on guarantees given to third parties in relation to certain assets and liabilities.

During the year, the Group set aside provisions in an amount of €38.0 million to cover delays and difficulties in deploying information systems, notably the SAP core model. The Group also acknowledged the European Commission's decision concerning two former subsidiaries' alleged participation in a high voltage switchgear cartel and set aside €8.1 million to cover the related fine.

### (b) Customer risks

These provisions primarily concern liability claims arising from alleged defects in products sold to customers and other third parties and are determined on a case-by-case basis. They also cover losses at the end of various long-term contracts in an amount of €6.0 million.

### (c) Product risks

Provisions are recorded on a statistical basis for the residual cost of product warranties not covered by insurance. Such warranties may run up to 18 months.

The Group also recognizes provisions to cover disputes concerning defective products and recalls of clearly identified products.

In 2006, the provision was increased by €11 million to cover newly identified technical risks. The related technical difficulties were being resolved as of December 31, 2006.

### (d) Environmental risks

These provisions are primarily set aside to cover potential reclamation costs.

No new risks were identified during site reviews in 2006.

### (e) Restructuring

New provisions were set aside during the year to cover the costs of restructuring plans in Europe (France, United Kingdom, Italy) and in Australia (note 25).

## Note 17 - Long and short-term debt

Non current financial liabilities breaks down as follows:

	Dec. 31, 2006	Dec. 31, 2005	Jan. 1, 2005	Dec. 31, 2004
Convertible and non-convertible bonds	3,687.9	2,691.1	1,200.0	1,200.0
Perpetual bonds	-	-	-	73.3
Bank and other borrowings	253.8	89.9	89.2	68.2
Lease liabilities	23.9	18.5	23.4	23.4
Employee profit sharing	5.2	6.3	7.0	7.0
Short-term portion of convertible and non-convertible bonds	(450.0)			
Short-term portion of long-term debt	(63.7)	(51.1)	(47.2)	(73.8)
<b>Non current financial liabilities</b>	<b>3,457.1</b>	<b>2,754.7</b>	<b>1,272.5</b>	<b>1,298.2</b>

Current financial liabilities breaks down as follows:

	Dec. 31, 2006	Dec. 31, 2005	Jan. 1, 2005	Dec. 31, 2004
Commercial paper	55.0	-	60.4	60.4
Accrued interest	44.9	31.4	11.3	11.3
Other short-term borrowings	154.9	90.5	80.8	80.8
Bank overdrafts	116.1	79.9	28.0	28.0
Short-term portion of convertible and non-convertible bonds	450.0			
Short-term portion of long-term debt	63.7	51.1	47.2	73.8
<b>Current financial liabilities</b>	<b>884.6</b>	<b>252.9</b>	<b>227.7</b>	<b>254.3</b>
<b>Total current and non current financial</b>	<b>4,341.7</b>	<b>3,007.6</b>	<b>1,500.2</b>	<b>1,552.5</b>



## 17.1 - Breakdown by maturity

	Dec. 31, 2006	Dec. 31, 2005	Jan. 1, 2005	Dec. 31, 2004
2005	-	-	227.7	254.3
2006	-	252.9	20.9	46.6
2007	884.6	470.5	463.1	463.1
2008	851.8	767.8	757.4	757.4
2009	25.9	3.7	3.5	3.5
2010	917.0	899.7	1.4	1.4
2011	518.0	613.1	26.2*	26.2*
2012 and beyond	1,144.4	-	-	-
<b>Total</b>	<b>4,341.7</b>	<b>3,007.6</b>	<b>1,500.2</b>	<b>1,552.5</b>

\* 2011 and beyond

## 17.2 - Breakdown by currency

	Dec. 31, 2006	Dec. 31, 2005	Jan. 1, 2005	Dec. 31, 2004
Euro	4,100.9	2,842.0	1,372.1	1,424.4
US dollar	30.5	54.6	11.7	11.7
Indian rupee	53.1	25.1	14.5	14.5
New Zealand dollar	2.5	11.6	18.6	18.6
Japanese yen	22.3	7.8	25.6	25.6
Other	132.4	66.6	57.7	57.7
<b>Total</b>	<b>4,341.7</b>	<b>3,007.6</b>	<b>1,500.2</b>	<b>1,552.5</b>

## 17.3 - Ordinary bonds

(in € million)	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004	Effective interest rate	Maturity
Schneider Electric SA 2007	450.0	450.0	450.0	6.1275% fixed	October 2007
Schneider Electric SA 2008	750.0	750.0	750.0	3.875% fixed	October 2008
Schneider Electric SA 2010	897.7	897.1	-	3.125% fixed	August 2010
Schneider Electric SA 2011	499.0	-	-	EUR + 0.2% variable	July 2011
Schneider Electric SA 2014	496.8	-	-	4.500% fixed	January 2014
Schneider Electric SA 2017	594.4	594.0	-	4.000% fixed	August 2017
<b>Total</b>	<b>3,687.9</b>	<b>2,691.1</b>	<b>1,200.0</b>		

On July 17, 2006, Schneider Electric issued €500 million worth of bonds at the Euribor 3-month rate + 0.20%, due July 18, 2011. Also on July 17, 2006, Schneider Electric issued €500 million worth of 4.5% bonds due January 17, 2014. These bonds are traded on the Luxembourg stock exchange.

On August 11, 2005, Schneider Electric SA issued €1,500 million worth of bonds as part of its EMTN program. The issue comprises a €900 million five-year tranche at 3.125% and a €600 million twelve-year tranche at 4%. These bonds are traded on the Luxembourg stock exchange.

On October 31, 2003, Schneider Electric SA issued €750 million worth of 3.875% bonds due October 31, 2008. These bonds are traded on the Luxembourg stock exchange.

On October 19 and 20, 2000, Schneider Electric SA issued two tranches of 6.1275% bonds due October

19, 2007, in principal amounts of €400 million and €50 million, respectively. These bonds are traded on the Paris and Luxembourg stock exchange.

## 17.4 - Other information

At December 31, 2006, Schneider Electric had unused confirmed credit lines of €1,038 million. These lines of credit are available for the period.

As part of the financing package for the APC acquisition, Schneider Electric SA has obtained one-year acquisition financing in an amount of €2.5 billion and a three-year confirmed line of credit in an amount of €2 billion.

## Note 18 - Other non-current liabilities

	Dec. 31, 2006	Dec. 31, 2005	Jan. 1, 2005	Dec. 31, 2004
MGE UPS acquisition debt	35.1	135.5	121.9	48.6
Clipsal acquisition debt	47.0	41.5	35.6	35.6
Magnecraft assets acquisition debt	-	-	16.2	16.2
Applied Control Technology acquisition debt	1.8	-	-	-
Other	6.3	1.8	4.0	4.0
<b>Other non-current liabilities</b>	<b>90.2</b>	<b>178.8</b>	<b>177.7</b>	<b>104.4</b>

MGE UPS acquisition debt corresponds to the put option granted to minority shareholders of MGE UPS. The amount of the debt declined to €35.1 million at December 31, 2006 from €72 million at December 31, 2005 mainly as a result of the increase in Schneider Electric's interest in MGE UPS during the year (note 3).

The agreement for the acquisition of Clipsal includes a seller's warranty providing for part of the acquisition price to be withheld until December 2007. This amount has been placed in escrow (note 8.2).

## Note 19 - Commitments and contingent liabilities

### 19.1 - Guarantees given and received

	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Contract counter guarantees <sup>(1)</sup>	176.0	173.8	171.0
Mortgages and collateral <sup>(2)</sup>	20.1	17.8	33.4
Guarantees	0.5	1.0	4.2
Other commitments given <sup>(3)</sup>	187.2	209.4	209.1
<b>Guarantees given</b>	<b>383.8</b>	<b>402.0</b>	<b>417.7</b>
Other guarantees received	41.8	35.4	33.6
<b>Guarantees received</b>	<b>41.8</b>	<b>35.4</b>	<b>33.6</b>

*(1) On certain contracts, customers require a guarantee from a bank that the contract will be fully executed by the Group. For these contracts, the Group gives a counter guarantee to the bank. If a claim occurs, the risk linked to the commitment is assessed and a provision for contingencies is recorded when the risk is considered probable and can be reasonably estimated.*

*(2) Certain loans are secured by property, plant and equipment and securities lodged as collateral.*

*(3) Other guarantees given primarily comprise letters of credit issued by Square D, as well as guarantees to certain lessors that rental payments will be made until the end of the lease.*

### 19.2 - Purchase commitments

#### Equity investments

Commitments to purchase equity investments correspond to put options given to minority shareholders in consolidated companies or relate to earn-out payments. The amount of these commitments was not material at December 31, 2006.

#### Information technology services

In 2004, the Group signed an agreement with Cap Gemini to outsource its European IT functions and deploy shared management applications using SAP. The agreement is currently being implemented in the subsidiaries. Payments to Cap Gemini replace the cost of the IT function, which was previously managed internally. Schneider Electric initially had a ten-year reciprocal agreement with Cap Gemini that has been extended by two years.

In 2006, the expense related to this outsourcing agreement contractually amounted to €136.5 million (€148.3 million in 2005).

### 19.3 - Contingent liabilities

Management is confident that balance sheet provisions for known disputes in which the Group is involved are sufficient to ensure that these disputes do not have a material impact on its financial position or profit. This is notably the case for the potential consequences of a current dispute in Belgium involving former senior executives and managers of the Group.

The loan agreements related to the Group's long-term debt do not include any rating triggers.

The Group has also signed an agreement concerning statutory employee training rights in France (DIF). Because the vested rights cannot be reliably estimated, no corresponding provision has been set aside in the financial statements.

## Note 20 - Financial instruments

The Group uses financial instruments to hedge its exposure to fluctuations in interest rates, exchange rates and metal prices.

### 20.1 - Currency risk

Because a significant proportion of transactions are denominated in currencies other than the euro, the Group is exposed to risk arising from changes in exchange rates. If the Group is not able to hedge them, fluctuations in exchange rates between the euro and these currencies can have a significant impact on our results of operations and distort year-on-year performance comparisons.

The Group actively manages its exposure to currency risk to reduce the sensitivity of earnings to changes in exchange rates. Hedging programs mainly concern foreign currency receivables, payables and operating cash flows, which are generally hedged by means of forward sales. Depending on market conditions, risks in the main currencies may be hedged based on recurring forecast flows using contracts that expire in 12 months or less.

The Group's currency hedging policy is to protect subsidiaries against risks on all transactions denominated in a currency other than their functional currency. More than twenty currencies are involved, with the US dollar, Hong Kong dollar and British pound representing the most significant sources of risk.

### 20.2 - Interest rate risk

The Group is exposed to risks associated with the effect of changing interest rates. Interest rate risk on borrowings is managed at Group level, based on consolidated debt and according to market conditions. The core aim of interest rate management policies is to optimize overall borrowing costs. Most bond debt is fixed rate. Interest rate risk is managed primarily by means of swaps.

### 20.3 - Commodity price risk

The Group is exposed to fluctuations in energy and raw material prices (in particular steel, copper, aluminum, silver, nickel, zinc and plastic). If the Group is not able to hedge, compensate or pass on our increased costs to customers, this could have an adverse impact on our financial results.

Schneider Electric has, however, implemented certain procedures to limit our exposure to rising non-ferrous raw material prices. Purchase commitments are hedged using forward contracts, swaps and, to a lesser extent, options.

### 20.4 - Carrying amount and notional amount of derivative financial instruments

		December 31, 2005				December 31, 2006		December 31, 2006	
	IFRS designation	Carrying amount	Other financial income and expense (1)	Equity (2)	Cash and cash equivalents	Carrying amount	Nominal amount Purchase	Sale	
<b>Foreign exchange</b>									
Futures - cash flow hedges	CFH*	5.9	(5.9)	(74.0)	-	(74.0)	1,393.6	-	
Futures - hedges of balance sheet items	Trading	(25.7)	44.8	-	-	19.1	136.9	563.8	
Options and other hedging instruments	Trading and CFH*	(0.3)	(0.6)	-	-	(0.9)	507.0	-	
<b>Metal prices</b>									
Futures and options	CFH*	13.1	-	(17.5)	-	(4.4)	115.8	-	
<b>Interest rates</b>									
Swaps on credit lines	Trading	-	-	-	-	-	-	-	
Other interest rate swaps	Trading	(20.1)	-	(1.7)	20.1	(1.7)	500.0	-	
<b>Hedging instruments</b>		<b>(27.1)</b>	<b>38.3</b>	<b>(93.2)</b>	<b>20.1</b>	<b>(61.9)</b>	<b>-</b>	<b>-</b>	

\* Cash flow hedge.

(1) Gains and losses on hedging instruments for the period are offset by changes in the fair value of the underlying, which are also recognized in other financial income and expenses.

(2) Reported in equity under other reserves.

The market value of financial instruments, which corresponds to their carrying amount, is estimated either internally by discounting future differential cash flows at current market interest rates or by third party banks.

## 20.5 - Carrying amount and fair value of financial instruments other than derivatives

	December 31, 2006		December 31, 2005	
	Notional amount <sup>(1)</sup>	Fair value	Notional amount <sup>(1)</sup>	Fair value
Available-for-sale financial assets	315.7	315.7	315.4	315.4
Other non-current financial assets	114.2	114.2	281.4	281.4
Marketable securities	1,733.3	1,733.3	754.8	754.8
Bonds	(3,687.9)	(3,626.4)	(2,691.1)	(2,729.2)
Other short and long-term debt	(653.8)	(653.8)	(316.5)	(316.5)
<b>Financial instruments excluding derivatives</b>	<b>(2,178.5)</b>	<b>(2,117.0)</b>	<b>(1,656.0)</b>	<b>(1,694.1)</b>

*(1) The notional amount corresponds to either amortized cost or fair value.*

## 20.6 - Currency risk

### Forward hedging positions by currency

	December 31, 2006		
	Sales	Purchases	Net
USD	181.5	(1,145.3)	(963.8)
AUD	32.2	(4.2)	28.0
JPY	10.2	(34.5)	(24.3)
AED	3.3	(11.3)	(8.0)
DKK	122.5	(253.2)	(130.7)
GBP	65.1	(29.7)	35.4
HKD	44.9	-	44.9
Other	104.1	(52.3)	51.8
<b>Total</b>	<b>563.8</b>	<b>(1,530.5)</b>	<b>(966.7)</b>

Forward currency hedging positions include €1,098 million in hedges of intragroup loans and borrowings and €131 million in hedges of operating cash flows.

## 20.7 - Interest rate risk

At December 31, 2006, gross debt totaled €4,342 million, of which 77% was fixed rate. Total cash and cash equivalents at that date amounted to €2,544 million.

A one point increase or decrease in interest rates would have the effect of increasing or reducing the Group's net finance costs by €15 million.

The use of currency swaps to hedge intragroup loans and borrowings exposes part of the Group's debt to changes in spread between the euro and the hedged currencies. The sensitivity calculation above does not take this effect into account.

## Note 21 - Related party transactions

### 21.1 - Associates

These are primarily companies over which the Group has significant influence. They are accounted for by the equity method. Transactions with these related parties are carried out on arm's length terms.

In 2006, related party transactions with associates were no longer material, as Clipsal Asia was fully consolidated as from January 1, 2006.

### 21.2 - Related parties with significant influence

No transactions were carried out during the year with members of the Board of Directors or with Supervisory Board or Management Board members.

Compensation and benefits paid to the Group's top senior executives are described in note 27.3.

## Note 22 - Segment information

The Group is divided into four operating divisions. Performance assessments and management decisions are notably based on operating profit (earnings before interest and tax).

Geographical segment information is presented after allocating Critical Power data in 2006 and data for the Growth Platforms (Building Automation, Critical Power and Custom Sensors) in 2005 and 2004. Details are provided in chapter 4 of the Annual Report (Business Review).

	Europe	North America	Asia-Pacific	Rest of the world	Total
<b>December 31, 2006</b>					
Revenue <sup>(1)</sup>	6,402	3,698	2,514	1,116	<b>13,730</b>
EBIT	983	518	327	173	<b>2,001</b>
Capital employed <sup>(2)</sup>	6,052	3,866	1,922	443	<b>12,283</b>
<b>December 31, 2005</b>					
Revenue <sup>(1)</sup>	5,644	3,047	2,031	958	<b>11,679</b>
EBIT	762	406	263	134	<b>1,565</b>
Capital employed <sup>(2)</sup>	5,272	3,873	1,718	435	<b>11,298</b>
<b>December 31, 2004</b>					
Revenue <sup>(1)</sup>	5,266	2,501	1,828	754	<b>10,349</b>
EBIT	672	314	207	94	<b>1,286</b>
Capital employed <sup>(2)</sup>	4,949	2,155	1,531	346	<b>8,981</b>
<i>(1) Based on destination of sales.</i>					
<i>(2) Based on location of assets.</i>					

Revenue and operating margin by business:

	2006 <sup>(1)</sup>	2005 restated	2005 reported	2004 reported
<b>Revenue</b>				
Electrical distribution	8,605	7,307	7,307	6,509
Automation & control	4,456	3,802	2,892	2,717
Growth platforms			1,480	1,123
Critical power	668	570	-	-
	<b>13,730</b>	<b>11,679</b>	<b>11,679</b>	<b>10,349</b>
<b>Operating margin (in %)</b>				
Electrical distribution	15.3%	13.9%	13.9%	12.8%
Automation & control	13.5%	12.6%	12.7%	12.0%
Growth platforms			12.2%	11.6%
Critical power	12.9%	12.1%	-	-
	<b>14.6%</b>	<b>13.4%</b>	<b>13.4%</b>	<b>12.4%</b>
<i>(1) Following the Group's recent expansion in the Critical Power segment, this now represents a separate reportable business segment. The businesses included in Growth Platforms in 2005 and 2004 have therefore been allocated between "Critical Power" (MGE UPS) and "Automation and Control" (all other businesses: Building Automation and Custom Sensors).</i>				

## Note 23 - Research and development

Research and development costs break down as follows:

	2006	2005	2004
Research and development costs recognized as an expense <sup>(1)</sup>	491.6	433.2	489.0
Capitalized development costs <sup>(2)</sup>	132.4	108.9	46.0
<b>Total research and development costs of the year</b>	<b>624.0</b>	<b>542.1</b>	<b>535.0</b>
<i>(1) Of which €149.4 million recognized in cost of good sold, €14.6 million in commercial costs and €327.6 million in R&amp;D costs.</i>			
<i>(2) Of which €11.6 million recognized in software.</i>			

Amortization of capitalized development costs came to €23.0 million in 2006 and €8.5 million in 2005. In addition, impairment losses of €5.0 million were recorded on capitalized development costs in 2006.

## Note 24 - Depreciation, amortization and provision expense

Depreciation, amortization and provision expenses recognized in operating expenses were as follows:

	2006	2005	2004
<b>Included in cost of sales:</b>			
Depreciation and amortization	(254.0)	(234.7)	(231.0)
Provisions	(10.8)	(29.5)	(21.5)
<b>Included in selling, general and administrative expenses:</b>			
Depreciation and amortization	(138.5)	(133.4)	(131.4)
Provisions	(20.5)	28.2	28.5
<b>Depreciation, amortization and provision expense</b>	<b>(423.8)</b>	<b>(369.4)</b>	<b>(355.4)</b>

In 2006, provisions in an amount of €49.4 million were recorded in other operating income/(expense) (note 25) and impairment of other non-current assets represented a charge of €32.2 million.

## Note 25 - Other operating income and expenses

Other operating income and expenses break down as follows:

	2006	2005	2004
Restructuring	(80.7)	(96.9)	(88.0)
Impairment losses on property, plant and equipment and intangible assets	(35.2)	(10.1)	-
Impairment losses on goodwill	(0.2)	(8.4)	-
Gains on asset disposals	45.6	13.3	14.5
Losses on asset disposals (including scrapped assets)	(7.5)	(9.8)	(5.6)
Other	(38.0)	8.7	38.4
<b>Other operating income and expenses</b>	<b>(116.0)</b>	<b>(103.2)</b>	<b>(40.7)</b>

In 2006, the Group realized capital gains on sales of property assets, including the sale of the historical Telemecanique site in the Paris area.

Operating profit includes €115.9 million in non-recurring expenses related to asset impairment (€35.2 million) and restructuring programs (€80.7 million).

Non-recurring expenses primarily stemmed from the reorganization of the Building Automation business in Europe, for €16 million, continued industrial reorganization in the Group's core businesses in Europe (France, the UK and Italy), for €67 million, and reorganization of operations in Australia for €7 million.

In addition, provisions of €38 million were set aside to cover costs arising from certain delays and problems in bringing new information systems on stream (in "other" above).

## Note 26 - Finance costs and other financial income and expense, net

This item consists solely of income and expense relating to financial assets (including cash and cash equivalents) and debt.

	2006	2005	2004
Interest income	34.1	40.3	36.1
Interest expense	(188.6)	(156.4)	(126.5)
Net gains/(losses) on the sale of marketable securities	50.5	13.0	26.0
<b>Finance costs, net</b>	<b>(104.0)</b>	<b>(103.1)</b>	<b>(64.4)</b>
Dividend income	10.7	8.6	5.9
Exchange gains and losses, net	(15.5)	7.3	3.8
Impairment losses on financial assets	18.2	(5.7)	1.1
Discounting adjustments to non-current assets and liabilities	2.0	(7.8)	(1.4)
Net gains/(losses) on disposal of long-term investments	(20.0)	(2.8)	-
Fair value adjustments*	0.1	0.6	-
Other financial expense, net	(12.4)	(1.7)	(4.3)
<b>Finance costs and other financial income and expense, net</b>	<b>(120.9)</b>	<b>(104.6)</b>	<b>(59.3)</b>
* IAS 32/39 applied as from January 1, 2005.			

## Note 27 - Employees

### 27.1 - Number of employees

The average number of permanent and temporary employees was as follows :

(number of employees)	2006	2005	2004
Production	46,135	40,792	39,092
Administration	53,943	47,878	45,102
<b>Total average number of employees</b>	<b>100,078</b>	<b>88,670</b>	<b>84,194</b>
<i>By region:</i>			
Europe	46,962	43,626	43,444
North America	23,610	21,724	19,028
Asia-Pacific	22,753	17,379	15,576
Rest of the World	6,753	5,941	6,146

The increase in employee numbers primarily reflects acquisitions for the year.

### 27.2 - Employee benefits expense

	2006	2005	2004
Payroll costs <sup>(1)</sup>	(3,796.7)	(3,485.8)	(3,307.6)
Profit-sharing and incentive bonuses	(78.4)	(62.4)	(72.7)
Stock options	(20.8)	(16.8)	(8.9)
<b>Total employee benefits expense</b>	<b>(3,895.9)</b>	<b>(3,565.0)</b>	<b>(3,389.2)</b>
<i>(1) Including €44.3 million for pension and other post-employment benefits and €26.4 million for other employee benefits (note 15)</i>			

### 27.3 - Management compensation and benefits

In 2006, directors' fees of €0.7 million were paid to the members of the Board of Directors. Total gross compensation paid to members of senior management (excluding corporate officers) amounted to €7.6 million, of which €4.2 million in variable bonuses.

A total of 3,464,900 options to purchase existing shares or subscribe new shares and 4,800 shares without consideration have been granted to members of Management through plans set up since 1998.

Pension and other post-employment benefit obligations with respect to members of Management amounted to €41 million at December 31, 2006.

## Note 28 - Subsequent events

### Acquisitions - American Power Conversion

On October 30, 2006, Schneider Electric announced a friendly offer to purchase all outstanding shares of US-based American Power Conversion (APC), the world leader in Critical Power. By combining APC with its subsidiary MGE UPS Systems, Schneider Electric will become the global benchmark in Critical Power.

The anti-trust regulatory review in the United States ended on December 12, 2006 when the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act expired. APC's shareholders approved the proposed merger in Extraordinary Meeting on January 16, 2007.

The European Commission's competition authorities granted final clearance on February 8, 2007. Schneider Electric plans to divest its MGE UPS Systems operations in small systems below 10 kVA. With estimated sales of around €150 million, the divestment represents 6% of the combined operations of APC and MGE UPS Systems in Critical Power.

## Note 29 - Impact of the transition to IFRS

This note includes:

- Tables reconciling the 2004 financial statements prepared in accordance with French generally accepted

accounting principles and rules (French GAAP) to the 2004 financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

- A description of the options applied in first-time adoption of IFRS, as of January 1, 2004.
- A description of the nature and impact of changes in accounting principles and policies on the 2004 opening and closing balance sheets and on the income statement for the year ended December 31, 2004.
- Information on standards with little or no impact on the Group accounts.

### 29.1 - Reconciliation of the 2004 financial statements under French GAAP and IFRS

The following tables reconcile the 2004 financial statements prepared and published in accordance with French generally accepted accounting principles and rules (French GAAP) to the 2004 financial statements prepared in accordance with International Financial Reporting Standards (IFRS), with the exception of IAS 32 and IAS 39 which were adopted prospectively from January 1, 2005.

The effect on the opening balance sheet at January 1, 2005 of applying IAS 32 and IAS 39 is presented in note 2.

#### 29.1.1 - Reconciliation of the opening balance sheet and opening equity at January 1, 2004

Assets <i>(in millions of euros)</i>	Notes	Jan. 1, 2004		
		French GAAP	Adjustments	Jan. 1, 2004 IFRS
<b>Non-current assets</b>				
Goodwill, net	29.3.2	3,512.8		3,512.8
Intangible assets	29.3.1	270.7	1.3	272.0
Property, plant and equipment	29.4.3	1,439.1	(9.3)	1,429.8
Assets held for sale	29.4.3	0.0	14.8	14.8
<b>Total</b>		<b>1,709.8</b>	<b>6.8</b>	<b>1,716.6</b>
Investments in associates		60.5		60.5
Available-for-sale financial assets		369.6		369.6
Other financial assets		585.4		585.4
<b>Total investments</b>		<b>955.0</b>	<b>0.0</b>	<b>955.0</b>
Deferred taxes	29.3.4	747.2	175.9	923.1
Other non-current assets	29.3.5	315.6	(315.2)	0.4
<b>Total non-current assets</b>		<b>7,300.9</b>	<b>(132.5)</b>	<b>7,168.4</b>
<b>Current assets</b>				
Inventories and work in process	29.3.3	1,124.1	36.2	1,160.3
Trade accounts receivable	29.3.6	1,781.3	(31.6)	1,749.7
Other receivables and prepaid expenses	29.3.1/ 29.4.5	627.0	(40.4)	586.6
Cash and cash equivalents		3,087.5		3,087.5
<b>Total current assets</b>		<b>6,619.9</b>	<b>(35.8)</b>	<b>6,584.1</b>
<b>Total assets</b>		<b>13,920.8</b>	<b>(168.3)</b>	<b>13,752.5</b>



<b>Liabilities and equity</b>		Jan. 1, 2004		Jan. 1, 2004
<i>(in millions of euros)</i>		<i>Notes</i>	<b>French GAAP</b>	<i>Adjustments</i> <b>IFRS</b>
<b>Equity</b>				
Share capital			1,854.7	1,854.7
Share premium account			4,290.8	4,290.8
Retained earnings			1,724.6	(714.6) 1,010.0
Translation reserve	29.4.2		(211.4)	211.4 0.0
<b>Equity attributable to equity holders of the parent</b>			<b>7,658.7</b>	<b>(503.2)</b> <b>7,155.5</b>
Minority interests			74.9	(0.5) 74.4
<b>Total equity</b>			<b>7,733.6</b>	<b>(503.7)</b> <b>7,229.9</b>
<b>Long-term provisions</b>				
Provisions for pensions and other post-employment benefits	29.3.5		672.5	419.5 1,092.0
Provisions for contingencies	29.4.5		156.7	(17.8) 138.9
<b>Total long-term provisions</b>			<b>829.2</b>	<b>401.7)</b> <b>1,230.9</b>
<b>Non-current liabilities</b>				
Ordinary and convertible bonds			1,200.0	1,200.0
Perpetual bonds			113.6	113.6
Other long-term debt	29.4.3		121.7	5.0 126.7
<b>Total non-current financial liabilities</b>			<b>1,435.3</b>	<b>5.0)</b> <b>1,440.3</b>
Deferred taxes	29.3.4		92.2	(42.5) 49.7
Other non-current liabilities			40.5	40.5
<b>Total non-current liabilities</b>			<b>2,397.2</b>	<b>364.2)</b> <b>2,761.4</b>
<b>Current liabilities</b>				
Trade accounts payable			1,232.9	1,232.9
Accrued taxes and payroll costs			663.1	663.1
Short-term provisions	29.4.5		299.0	(28.8) 270.2
Other current liabilities			342.0	342.0
Short-term debt			1,253.0	1,253.0
<b>Total current liabilities</b>			<b>3,790.0</b>	<b>(28.8)</b> <b>3,761.2</b>
<b>Total equity and liabilities</b>			<b>13,920.8</b>	<b>(168.3)</b> <b>13,752.5</b>

## Consolidated financial statements at December 31, 2006

<b>Equity - French GAAP - Jan. 1, 2004</b>		<b>7,658.7</b>
<i>(in millions of euros)</i>		
<i>IFRS adjustments</i>	<i>Notes</i>	
Pensions	29.3.5	(734.7)
Additional deferred taxes	29.3.4	(49.6)
Rebates	29.3.6	(31.7)
Inventory	29.3.3	36.2
Discounting of provisions	29.4.5	17.8
Elimination of deferred charges	29.3.1	(10.0)
Deferred tax impact of adjustments	29.3.4	268.0
Other		0.8
<b>Equity - IFRS - Jan. 1, 2004</b>		<b>7,155.5</b>

### 29.1.2 Reconciliation of the closing balance sheet at December 31, 2004 and the 2004 income statement and cash flow statement under French GAAP and IFRS

<b>Assets</b>	<i>Notes</i>	<b>Dec. 31, 2004</b>		<b>Dec. 31, 2004</b>
		<b>French GAAP</b>	<b>Adjustments</b>	<b>IFRS</b>
<i>(in millions of euros)</i>				
<b>Non-current assets</b>				
Goodwill, net	29.3.2	4,077.7	384.6	4,462.3
Intangible assets	29.3.1	846.5	48.0	894.5
Property, plant and equipment	29.4.3	1,458.8	(2.1)	1,456.7
Assets held for sale	29.4.3		7.6	7.6
<b>Total</b>		<b>2,305.3</b>	<b>53.5</b>	<b>2,358.8</b>
Investments in associates		65.3	0.0	65.3
Available-for-sale financial assets		154.3	0.0	154.3
Other financial assets		288.1	0.0	288.1
<b>Total investments</b>		<b>442.4</b>	<b>0.0</b>	<b>442.4</b>
Deferred taxes	29.3.4	752.8	77.5	830.3
Other non-current assets	29.3.5	262.1	(262.1)	0.0
<b>Total non-current assets</b>		<b>7,905.6</b>	<b>253.5</b>	<b>8,159.1</b>
<b>Current assets</b>				
Inventories and work in process	29.3.3	1,369.7	39.7	1,409.4
Trade accounts receivable	29.3.6	2,135.7	0.0	2,135.7
Other receivables and pre-paid expenses	29.3.1/ 29.4.5	571.5	(42.4)	529.1
Cash and cash equivalents		1,062.8	0.0	1,062.8
<b>Total current assets</b>		<b>5,139.7</b>	<b>(2.7)</b>	<b>5,137.0</b>
<b>Total assets</b>		<b>13,045.3</b>	<b>250.8</b>	<b>13,296.1</b>

<b>Liabilities and equity</b> <i>(in millions of euros)</i>	<i>Notes</i>	Dec. 31, 2004		Dec. 31, 2004
		<b>French GAAP</b>	<i>Adjustments</i>	<b>IFRS</b>
<b>Equity</b>				
Share capital		1,809.6	0.0	1,809.6
Share premium account		4,049.9		4,049.9
Retained earnings		2,023.8	(403.7)	1,620.1
Translation reserve	29.4.2	(308.2)	223.7	(84.5)
<b>Equity attributable to equity holders of the parent</b>		<b>7,575.1</b>	<b>(180.0)</b>	<b>7,395.1</b>
Minority interests		69.0	3.8	72.8
<b>Total equity</b>		<b>7,644.1</b>	<b>(176.2)</b>	<b>7,467.9</b>
<b>Long-term provisions</b>				
Provisions for pensions and other post-employment benefits	29.3.5	660.9	365.3	1,026.2
Provisions for contingencies	29.4.5	208.7	(16.4)	192.3
<b>Total long-term provisions</b>		<b>869.6</b>	<b>348.9</b>	<b>1,218.5</b>
<b>Non-current liabilities</b>				
Ordinary and convertible bonds		1,200.0	0.0	1,200.0
Perpetual bonds		73.3	0.0	73.3
Other long-term debt	29.4.3	20.8	4.1	24.9
<b>Total non-current financial liabilities</b>		<b>1,294.1</b>	<b>4.1</b>	<b>1,298.2</b>
Deferred taxes	29.3.4	101.5	101.7	203.2
Other non-current liabilities		104.4	0.0	104.4
<b>Total non-current liabilities</b>		<b>2,369.6</b>	<b>454.7</b>	<b>2,824.3</b>
<b>Current liabilities</b>				
Trade accounts payable		1,384.4	0.0	1,384.4
Accrued taxes and payroll costs		849.5	0.0	849.5
Short-term provisions	29.4.5	264.2	(27.7)	236.5
Other current liabilities		279.2	0.0	279.2
Short-term debt		254.3	0.0	254.3
<b>Total current liabilities</b>		<b>3,031.6</b>	<b>(27.7)</b>	<b>3,003.9</b>
<b>Total equity and liabilities</b>		<b>13,045.3</b>	<b>250.8</b>	<b>13,296.1</b>

<b>Net profit</b> attributable to equity holders of the parent - French GAAP - 2004 <i>(in millions of euros)</i>		<b>564.6</b>
<i>IFRS adjustments</i>	<i>Notes</i>	
Amortization of goodwill	29.3.2	217.1
Capitalization of development costs	29.3.1	45.6
Reversal of amortization of actuarial gains and losses	29.3.5	38.7
Stock option expense	29.3.7	(8.9)
Deferred tax impact of adjustments	29.3.4	(32.1)
Minority interests		(4.3)
Other		3.2
<b>Net profit attributable to equity holders of the parent - IFRS - 2004</b>		<b>823.9</b>

## Consolidated financial statements at December 31, 2006

Consolidated statement of income <i>(in millions of euros except for earnings per share)</i>	Dec. 31, 2004		Dec. 31, 2004
	French GAAP	Adjustments	IFRS
<b>Revenue</b>	<b>10,365.3</b>	<b>(16.0)</b>	<b>10,349.3</b>
Cost of sales	(5,965.1)	(212.3)	(6,177.4)
<b>Gross profit</b>	<b>4,400.2</b>	<b>(228.3)</b>	<b>4,171.9</b>
Research and development expenses	(535.2)	240.1	(295.1)
Selling, general and administrative expenses	(2,554.3)	(36.1)	(2,590.4)
<b>Operating profit</b>	<b>1,310.7</b>	<b>(24.3)</b>	<b>1,286.4</b>
Finance expense, net	(65.9)	6.6	(59.3)
<b>Profit before tax</b>	<b>1,244.8</b>	<b>(17.7)</b>	<b>1,227.1</b>
Exceptional items	(96.3)	96.3	0.0
Income tax expense	(333.1)	(32.1)	(365.2)
<b>Profit of continuing operations</b>	<b>815.4</b>	<b>46.5</b>	<b>861.9</b>
Amortization of goodwill	(217.1)	217.1	0.0
Group share in income/loss of equity investments	(3.6)		(3.6)
<b>Net income before minority interests</b>	<b>594.7</b>	<b>263.6</b>	<b>858.3</b>
Minority interests	(30.1)	(4.3)	(34.4)
<b>Net income (attributable to Schneider Electric SA)</b>	<b>564.6</b>	<b>259.3</b>	<b>823.9</b>
Basic earnings per share (in euros)	2.56		3.73
Diluted earnings per share (in euros)	2.55		3.72

Cash flow statement <i>(in millions of euros)</i>	2004	Capitalization	Reclassification	Other	2004
	French GAAP	of development expenses	of short-term provisions for contingencies		IFRS
<b>Profit attributable to equity holders of the parent</b>	<b>565</b>	<b>46</b>		<b>213</b>	<b>824</b>
Net cash provided by operating activities before changes in operating assets and liabilities	1,260	46	(24)	(0)	1,282
Change in working capital	(138)		24	16	(98)
<b>Net cash provided by operating activities</b>	<b>1,122</b>	<b>46</b>	<b>0</b>	<b>16</b>	<b>1,184</b>
Cash used by investment in operating assets	(284)	(46)		1	(329)
Cash used by financial and other investments	(840)			(0)	(840)
<b>Net cash used by investing activities</b>	<b>(1,124)</b>	<b>(46)</b>	<b>0</b>	<b>1</b>	<b>(1,169)</b>
<b>Net cash used by financing activities</b>	<b>(1,976)</b>				<b>(1,976)</b>
Other	22			(17)	5
<b>Net decrease in cash and cash equivalents</b>	<b>(1,956)</b>				<b>(1,956)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>2,902</b>				<b>2,902</b>
Net change in cash and cash equivalents	(1,956)				(1,956)
<b>Cash and cash equivalents at the end of the year</b>	<b>946</b>				<b>946</b>

The main impact on the cash flow statement concerned capitalized development expenses, which appear under cash used by investment in operating assets.

Application of IAS 7 led to the reclassification of movements in certain operating provisions from change in working capital to net cash provided by operating activities before changes in operating assets and liabilities, in a negative amount of €24 million in 2004.

## 29.2 - Adjustments arising from the first-time adoption of IFRS

The opening IFRS balance sheet at January 1, 2004 was prepared using the following options and exemptions allowed under *IFRS 1- First Time Adoption of IFRS*:

- Business combinations carried out prior to January 1, 2004 were not restated.
- Cumulative actuarial gains and losses for (off-balance sheet) defined benefit plans were recognized by adjusting opening retained earnings.
- Cumulative translation adjustments were reset to zero at January 1, 2004 by adjusting opening retained earnings, without any impact on total equity.
- IAS 32 and IAS 39 were applied prospectively from January 1, 2005. As a result, the 2004 financial statements were not restated for these standards.

The other options available under IFRS 1 were not used.

### Income statement presentation

The presentation of the income statement was changed to comply with IAS 1 – *Presentation of Financial Statements*. The main change concerned items classified as exceptional in the French GAAP accounts, which are reported above the line in the IFRS income statement, in operating revenue or expense.

In addition, development costs were reclassified, as explained in note 29.3.1 below.

## 29.3 - Main adjustments recorded in 2004

### 29.3.1 - Intangible assets

#### *Intangible assets generated by development activities*

Development costs for new products and comprehensive product upgrades may be capitalized under IAS 38.

Systems were set up to track and capitalize these costs only in 2004. As a result, only development costs for new products launched since 2004 are capitalized in the IFRS accounts.

Development costs capitalized in 2004 amounted to €46 million at December 31, 2004, before tax. These costs are being amortized over the estimated life of the underlying technology, which averages 5 years.

A substantial proportion of development costs consists of maintenance or process engineering costs for existing products, which do not qualify for capitalization under IAS 38. In the IFRS accounts, these costs continue to be charged directly to the income statement; however, they are reclassified under "Cost of sales" and included in the carrying amount of inventories where appropriate. Only research costs continue to be reported under "Research and development expenses", as they cannot be capitalized.

The resulting changes in the presentation of R&D costs are as follows:

- Qualifying development costs are recorded in the balance sheet (€46 million at December 31, 2004).
- Maintenance and process engineering costs are reported under "Cost of sales" and included in the value of inventories, in an amount of €195 million at December 31, 2004 (note 29.3.3).
- The amount reported under "Research and development expenses" corresponds solely to research costs.

#### *Intangible assets previously recognized in the balance sheet*

All intangible assets carried in the opening French GAAP balance sheet at January 1, 2004 complied with the definition contained in IAS 38 – *Intangible Assets*.

Deferred charges recognized in the French GAAP balance sheet under "Other accounts receivable and prepaid expenses" were reclassified under intangible assets (€1 million at January 1, 2004 and €2 million at December 31, 2004) or eliminated (€10 million at January 1, 2004 and €12 million at December 31, 2004).

No changes were made to amortization periods.

#### *Intangible assets acquired in business combinations*

Under IFRS 3 – *Business Combinations*, intangible assets of the acquired company must be recognized separately from goodwill where the assets concerned qualify for recognition as intangible assets under IAS 38. These intangible assets were also recognized in the French GAAP accounts and adoption of IFRS 3 did not therefore result in any adjustments to the 2004 accounts.

### 29.3.2 - Goodwill

As explained above, the Group decided not to restate business combinations carried out prior to January 1, 2004.

Goodwill arising on business combinations carried out in 2004 (and final adjustments to goodwill arising on business combinations carried out in 2003) was reported in the French GAAP accounts in accordance with IFRS 3 – *Business Combinations*.

Net goodwill carried in the opening balance sheet at January 1, 2004 is no longer amortized.

This change of method had a favorable impact of €217 million on 2004 profit and €209 million on the balance sheet at December 31, 2004, after taking into account translation adjustments.

Goodwill was also adjusted by €176 million at December 31, 2004 to take into account deferred tax liabilities recognized on purchased brands, in application of IAS 12.

French GAAP (standard CRC 2002-10) comply with IAS 36 - Impairment of Assets, and goodwill is tested for impairment on the same basis in both the French GAAP and the IFRS accounts.

### 29.3.3 - Inventories

The carrying amount of inventories in the IFRS balance sheet includes process engineering costs and amortization of capitalized development costs.

The part of process engineering costs corresponding to the industrialization and the adaptation of products as well as amortization of capitalized projects are now included in the unit cost of products sold.

This change of valuation method had the effect of increasing the value of inventories by €36 million at January 1, 2004 and €40 million at December 31, 2004.

### 29.3.4 - Deferred taxes

In the French GAAP accounts, deferred taxes were recognized for all temporary differences between the book value of assets and liabilities and their tax basis, except for deferred taxes on non-amortizable intangible assets that could not be sold separately from the acquired entity (§ 313 of standard CRC 99-02), corresponding in practice to trademarks.

Under French GAAP, material deferred tax assets and liabilities were discounted when the period in which they were expected to reverse could be reliably determined.

Application of IAS 12 – *Income taxes* – had the following impact:

- A deferred tax liability is reported on trademarks recognized in connection with business combinations. The effect of this change of method on opening retained earnings at January 1, 2004 was €17 million. For acquisitions carried out in 2004, the impact was €176 million, leading to a corresponding adjustment of the goodwill recognized on the acquisitions concerned (note 29.3.2 above).

- Deferred taxes are not discounted, resulting in an increase of €33 million in deferred tax liabilities at January 1, 2004.

Deferred taxes are included in non-current assets and liabilities in accordance with IAS 1 – *Presentation of Financial Statements*, which requires a distinction to be made between current and non-current items.

The other adjustments to deferred taxes arose from adjustments made in application of other standards. They included:

- Deferred tax liability recognized in respect of the change in inventory valuation (€13 million at January 1, 2004 and €14 million at December 31, 2004).

- Deferred tax liability recognized in respect of capitalized development costs in an amount of €16 million at December 31, 2004 (note 29.3.1 above).

- Deferred tax asset recognized in respect of the additional obligation reported for defined benefit plans (mainly actuarial gains and losses) in the IFRS balance sheet (note 29.3.5 below), in an amount of €274 million at January 1, 2004 and €248 million at December 31, 2004.

### 29.3.5 - Employee benefits

In connection with the transition to IFRS, the Group performed a comprehensive review of its employee benefit plans. Some plans that were previously qualified as defined contribution – including certain Euro-

pean retirement plans and certain healthcare plans – constitute defined benefit plans under IAS 19 and were therefore reclassified.

In addition, as explained above, cumulative actuarial gains and losses and past service costs were recognized by adjusting retained earnings, as allowed under IFRS 1 – *First Time Adoption of IFRS*. The total effect of these adjustments on the opening balance sheet at January 1, 2004 was €735 million.

Plan assets were reclassified as a deduction from corresponding plan liabilities (€315 million at January 1, 2004 and €262 million at December 31, 2004).

The net impact on the benefit obligation recognized in liabilities was €420 million at January 1, 2004 and €365 million at December 31, 2004.

The absence of amortization of previously recognized actuarial gains and losses had a positive effect on the IFRS income statement of €38 million in 2004, reported under administrative costs (€20 million) and "Cost of sales" (€18 million).

Going forward, the Group has decided to recognize all actuarial gains and losses in equity under "Other reserves", as allowed under IAS 19 (revised). The amount for 2004 was €22 million, net of tax.

### 29.3.6 - Revenue recognition

The revenue recognition policies applied in the French GAAP accounts were not materially different from the requirements of IAS 18 – *Revenue* and IAS 11 – *Long-Term Contracts*.

Sales of goods are recognized when the significant risks and rewards of ownership are transferred to the buyer.

Long-term contract revenue is recognized by the percentage-of-completion method and a provision is booked for expected contract losses as soon as they are considered probable.

Volume rebates granted to distributors are recognized as an expense when the initial sales are made by Schneider Electric to these distributors. The effect of this change in recognition principle was recognized in the French GAAP and IFRS financial statements at January 1, 2004 and represented €32 million.

Certain cash discounts (€8 million in 2004) included in interest expense, and certain sales incentives (€7 million in 2004) reported under selling expenses were reclassified as a deduction from revenue in the IFRS accounts.

### 29.3.7 - IFRS 2 - Share-based payments

IFRS 2 applies to stock options granted after November 7, 2002 that had not vested prior to January 1, 2005.

The plans concerned are plan no. 21 dated February 5, 2003 (2,000,000 options exercisable as from February 5, 2007) and plan no. 24 dated May 6, 2004 (2,060,700 options exercisable as from May 6, 2008).

The Group has chosen to value options using the Cox Ross Rubinstein binomial option pricing model.

Based on market data at the grant dates, the total stock option expense came to €9 million in 2004.

## 29.4 - Information on standards with little or no impact on the Group accounts

### 29.4.1 - Consolidation scope and methods

Application of the control criteria set out in IAS 27 – *Consolidated Financial Statements And Accounting For Investments In Subsidiaries* – did not lead to any change in the companies fully consolidated in the Group accounts, except for consolidation of the special purpose entity that holds the perpetual bonds, described in note 2.

### 29.4.2 - Foreign currency translation

Cumulative translation differences were reset to zero in the opening IFRS balance sheet at January 1, 2004, as allowed under IFRS 1. The impact at January 1, 2004 was €211 million.

Adoption of IAS 21 and IAS 29 had no impact on the Group accounts because the foreign currency conversion and translation principles applied in the French GAAP accounts (notes 1.4 and 1.5 to the 2004 French GAAP consolidated financial statements) complied fully with the methods prescribed under IFRS.

### 29.4.3 - Property, plant and equipment and leases

Adoption of IAS 16 – *Property, Plant And Equipment* and IAS 40 – *Investment Property* had no impact on the Group accounts.

Property, plant and equipment consist mainly of manufacturing equipment dedicated to specific product lines and material parts of individual items of equipment were already depreciated separately in the French GAAP accounts. Consequently, there was no need to change the assets' carrying amount or depreciation schedules to comply with IAS 16. In addition, the Group does not own any investment property.

Adoption of IAS 17 – *Leases* led to the reclassification of certain non-material leases. The impact of these reclassifications at January 1, 2004 was €6 million on assets and €5 million on debt.

In accordance with IFRS 5 – *Non-Current Assets Held For Sale And Discontinued Operations* – assets held for sale at the year-end (consisting mainly of real estate) were reported separately, in an amount of €15 million at January 1, 2004 and €8 million at December 31, 2004.

### 29.4.4 - Impairment of assets

As recommended by the French securities regulator (COB, now renamed AMF), the Group elected for early adoption – starting in 2002 – of standard CRC 2002-10 concerning asset impairments. The method used to test assets for impairment complies with IAS 36 – *Impairment Of Assets* and the level (Cash Generating Unit) at which the recoverability of goodwill is assessed is also compatible with this standard.

The Group's business is highly sensitive to technological advances and property, plant and equipment were already tested for impairment at regular intervals.

For the purpose of preparing the IFRS accounts, IAS 36 was also applied to internally-generated intangible assets corresponding to capitalized development costs.

### 29.4.5 - Provisions for losses and contingencies

The transition to IFRS had no impact on provisions for losses and contingencies because the criteria applied in the French GAAP accounts to recognize these items complied with IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*.

However, in the IFRS accounts, long-term provisions for contingencies were discounted. The discounting adjustment amounted to €18 million at January 1, 2004 and €16 million at December 31, 2004.

The following reclassifications were made:

- Certain provisions for impairment of assets that were previously reported as liabilities were reclassified as a deduction from the corresponding assets (€29 million at January 1, 2004 and €28 million at December 31, 2004).
- Accrued liabilities related primarily to restructuring, the environment and product warranties were reclassified under provisions for contingencies in the IFRS financial statements at December 31, 2004, in an amount of €237 million.

## Note 30 - Consolidated companies

The main companies included in the Schneider Electric Group scope of consolidation are listed below.

		% interest Dec. 31, 2006	% interest Dec. 31, 2005	% interest Dec. 31, 2004
<b>Europe</b>				
<b>Fully consolidated</b>				
Asentics GmbH	Germany	80.00	-	-
Asentics GmbH & Co. KG	Germany	80.00	-	-
Andover Controls GmbH	Germany	100.00	100.00	100.00
Berger Lahr GmbH	Germany	100.00	100.00	100.00
Berger Lahr Positec GmbH & Co KG	Germany	100.00	100.00	100.00
Berger Lahr Services GmbH	Germany	100.00	100.00	100.00
Citect GmbH	Germany	100.00	-	-
Crouzet GmbH	Germany	100.00	100.00	100.00
Drive Tech GmbH	Germany	100.00	100.00	-
Elau Elektronik AG	Germany	-	100.00	-
Elau Engineering GmbH	Germany	100.00	100.00	-
Elau Administration GmbH	Germany	100.00	100.00	-
Elau Systems GmbH	Germany	100.00	100.00	-
Elin EBG GMBH	Germany	100.00	-	-
Elsco GmbH	Germany	100.00	100.00	100.00
Gerhard Berger GmbH & Co KG	Germany	100.00	100.00	100.00
Invensys Messner GmbH	Germany	100.00	100.00	-
Kavlico GmbH	Germany	100.00	100.00	100.00
Kind Beteiligung GmbH	Germany	100.00	-	-
MERTEN Beteiligung GmbH	Germany	100.00	-	-
MERTEN GmbH & Co.KG	Germany	100.00	-	-
MERTEN Holding GmbH	Germany	100.00	-	-
MERTEN Intec GmbH	Germany	100.00	-	-
MGE USV-Systeme GmbH	Germany	95.67	84.84	84.84
Num Guttinger GmbH	Germany	-	100.00	100.00
Power Measurement GmbH	Germany	100.00	100.00	-
Pulsotronic Merten GmbH & Co. KG	Germany	100.00	-	-
Sarel GmbH	Germany	99.00	99.00	99.00
Schneider Electric Deutschland GmbH	Germany	100.00	100.00	100.00
Schneider Electric GmbH	Germany	100.00	100.00	100.00
Schneider Electric Motion GmbH	Germany	100.00	100.00	100.00
Schneider Factoring GmbH	Germany	-	-	100.00
SVEA BCS GmbH & Co. KG	Germany	70.00	-	-
SVEA GmbH	Germany	70.00	-	-
TAC GmbH Control System	Germany	-	-	100.00
Vitrum Beteiligungs GmbH	Austria	100.00	-	-
Vitrum GmbH & Co. KG	Austria	100.00	-	-
Berger Lahr Positec GmbH	Austria	51.00	51.00	51.00
Merten Gesellschaft M.b.H	Austria	100.00	-	-
MGE UPS Systems VertriebsgmbH	Austria	95.67	84.84	84.84
Sarel GmbH	Austria	99.00	99.00	0.00
Schneider Electric Austria GmbH	Austria	100.00	100.00	100.00
STI Elin	Austria	76.00	-	-
DRIVEScom Internet Business Services	Austria	100.00	-	-
VA TECH ELIN EBG Elektronik GmbH & Co	Austria	100.00	-	-
Cofibel	Belgium	100.00	100.00	100.00
Cofimines	Belgium	100.00	100.00	100.00
Crouzet NV	Belgium	100.00	100.00	100.00
OVA Bargellini International SA	Belgium	100.00	-	-
Sarel SA	Belgium	99.00	98.80	-
Schneider Electric NV/SA	Belgium	100.00	100.00	100.00
Schneider Electric International	Belgium	100.00	-	-
UPS Systems MGE BV	Belgium	95.67	84.84	84.84



		% interest Dec. 31, 2006	% interest Dec. 31, 2005	% interest Dec. 31, 2004
Schneider Electric Bulgaria	Bulgaria	100.00	100.00	100.00
Schneider Electric Ltd	Croatia	100.00	100.00	100.00
Elmat ApS	Denmark	100.00	100.00	100.00
ESMI A/S	Denmark	-	100.00	100.00
Invensys Bygning	Denmark	100.00	100.00	-
JO-EL Electric A/S	Denmark	100.00	100.00	100.00
Schneider Electric Danmark (ex Lauritz Knudsen)	Denmark	100.00	100.00	100.00
Schneider Electric Danmark A/S	Denmark	-	-	100.00
Schneider Nordic Baltic (ex Lexinvest A/S)	Denmark	100.00	100.00	100.00
TAC A/S	Denmark	-	100.00	100.00
AEM SA	Spain	100.00	-	-
EFI Electronics Europe SL	Spain	100.00	100.00	100.00
Himel SA	Spain	100.00	100.00	100.00
Mesa SA	Spain	100.00	100.00	100.00
MGE UPS Espana SA	Spain	95.67	84.84	84.84
Schneider Electric Espana	Spain	100.00	100.00	100.00
Telenum	Spain	-	100.00	100.00
Schneider Electric EESTI AS (ex A/S Lexel Electric)	Estonia	100.00	100.00	100.00
Atmostec Oy	Finland	100.00	100.00	-
Elari Oy	Finland	100.00	100.00	100.00
Elko Suomi Oy	Finland	100.00	100.00	100.00
I-Valo	Finland	100.00	100.00	100.00
JO-EL Electric Oy	Finland	100.00	100.00	100.00
Oy Esmi AB	Finland	100.00	100.00	100.00
Oy Lexel Electric AB	Finland	100.00	100.00	100.00
Oy Lexel Finland AB	Finland	100.00	100.00	100.00
Schneider Electric Finland Oy	Finland	100.00	100.00	100.00
TAC Com Oy	Finland	-	100.00	100.00
Alombard	France	100.00	100.00	100.00
Andover Controls SA	France	-	-	100.00
Ateliers de Constructions Electriques de Grenoble – ACEG	France	100.00	100.00	100.00
Auxibati SCI	France	100.00	100.00	100.00
BCV Technologies	France	100.00	100.00	100.00
BEI Ideacod SAS	France	100.00	100.00	-
BEI Technologies SAS	France	100.00	100.00	-
Behar Sécurité Sarl	France	100.00	-	-
Berger Lahr Positec Sarl	France	100.00	100.00	100.00
Boissière Finance	France	100.00	100.00	100.00
Citef SAS	France	100.00	100.00	100.00
Citect Sarl	France	100.00	-	-
Construction Electrique du Vivarais	France	95.67	84.84	84.84
Crouzet SA	France	100.00	100.00	100.00
DEXTUS	France	100.00	100.00	100.00
DINEL	France	100.00	100.00	-
Distrelec	France	100.00	100.00	100.00
Elau SARL	France	100.00	100.00	-
Electro Porcelaine	France	100.00	100.00	100.00
Elkron France	France	100.00	100.00	100.00
Euromatel	France	100.00	100.00	100.00
Financiere MGE	France	-	84.84	84.84
France Transfo	France	100.00	100.00	100.00
Infra +	France	100.00	100.00	100.00
JCN Participations	France	-	-	100.00
Le Moule Métallique	France	100.00	100.00	100.00
Machines Assemblage Automatique	France	100.00	100.00	100.00
Mafelec	France	-	100.00	100.00
Materlignes	France	100.00	100.00	100.00
Merlin Gerin Alès	France	100.00	100.00	100.00
Merlin Gerin Alpes	France	100.00	100.00	100.00
Merlin Gerin Loire	France	100.00	100.00	100.00
MGE Finances SAS	France	95.67	84.84	84.84

Consolidated financial statements at December 31, 2006

		% interest Dec. 31, 2006	% interest Dec. 31, 2005	% interest Dec. 31, 2004
MGE UPS	France	-	60.10	60.10
MGE UPS Systems SAS	France	95.67	84.84	84.84
Muller & Cie	France	100.00	100.00	100.00
Napac	France	100.00	-	-
Newall France	France	-	100.00	-
Newlog SAS	France	100.00	100.00	100.00
Normabarre	France	100.00	100.00	100.00
Num SA	France	-	100.00	100.00
Prodipact	France	100.00	100.00	100.00
Rectiphase	France	100.00	100.00	100.00
SA2E	France	95.67	84.84	84.84
SAEI	France	95.67	84.84	84.84
SAE Gardy	France	100.00	100.00	100.00
Sarel Appareillage Electrique	France	99.00	99.00	99.00
Satchwell SAS	France	-	100.00	-
Scanelec	France	100.00	100.00	100.00
Schneider Automation SA	France	100.00	100.00	100.00
Schneider Electric Industries SAS	France	100.00	100.00	100.00
Schneider Electrique Foncière	France	100.00	100.00	100.00
Schneider Electric France	France	100.00	100.00	-
Schneider Electric International	France	100.00	100.00	100.00
Schneider Electric SA (Société mère)	France	100.00	100.00	100.00
Schneider Toshiba Inverter Europe SAS	France	60.00	60.00	60.00
Schneider Toshiba Inverter SAS	France	60.00	60.00	60.00
SCI du Pré Blanc	France	100.00	100.00	100.00
Senside	France	100.00	100.00	80.01
Société Alpine de Préfabrication Electro-Mécanique - SAPEM	France	100.00	100.00	100.00
Société d'Application Electro-Mécanique - SAEM	France	100.00	100.00	100.00
Société Dauphinoise Electrique - SDE	France	100.00	100.00	100.00
Société du Rebauchet	France	95.67	84.84	84.84
Société Electrique d'Aubenas SA - SEA	France	100.00	100.00	100.00
Société Française Gardy SA	France	100.00	100.00	100.00
Sogefred	France	100.00	-	100.00
Sorhodel Bardin	France	100.00	100.00	100.00
Sovalmo	France	-	100.00	100.00
Société pour l'équipement des industries chimiques (SPEI)	France	100.00	100.00	100.00
Spie-Capag	France	100.00	100.00	100.00
Sté Française de Constructions Mécaniques et Electriques - SFCME	France	100.00	100.00	100.00
Sté Rhodanienne d'Etudes et de Participations - SREP	France	100.00	100.00	100.00
Systèmes Equipements Tableaux Basse Tension - SETBT	France	100.00	100.00	100.00
Transfo Services	France	100.00	100.00	100.00
Usibati SCI	France	100.00	100.00	100.00
Ajax Electrical Ltd	United Kingdom	100.00	100.00	51.00
Andover Controls Ltd	United Kingdom	100.00	100.00	100.00
Avenue Solutions Limited	United Kingdom	-	-	100.00
Berger Lahr Positec Ltd	United Kingdom	100.00	100.00	100.00
Capacitors Ltd	United Kingdom	100.00	100.00	100.00
CBS Group Limited	United Kingdom	95.67	-	-
Citect UK	United Kingdom	100.00	-	-
Crouzet Ltd	United Kingdom	100.00	100.00	100.00
Crydom UK	United Kingdom	100.00	-	-
E-GETIT Limited	United Kingdom	100.00	-	-
Elau Ltd	United Kingdom	100.00	100.00	-
Electric City Limited	United Kingdom	100.00	-	-
GET Pension Scheme Limited	United Kingdom	100.00	-	-
GET Group PLC	United Kingdom	100.00	-	-
GET PLC	United Kingdom	100.00	-	-
Grawater Ltd	United Kingdom	100.00	100.00	100.00

		% interest Dec. 31, 2006	% interest Dec. 31, 2005	% interest Dec. 31, 2004
Grawater of Wakefield Ltd	United Kingdom	100.00	100.00	100.00
JO EL Electric Ltd	United Kingdom	100.00	100.00	100.00
JO JO (UK) Ltd	United Kingdom	100.00	100.00	100.00
JO JO Products Ltd	United Kingdom	-	100.00	100.00
Lexel Holdings (UK) Limited	United Kingdom	100.00	100.00	100.00
MITA (UK) Ltd	United Kingdom	100.00	100.00	100.00
MITA Holdings Ltd	United Kingdom	100.00	100.00	100.00
MGE UPS Systems Ltd	United Kingdom	95.67	84.84	84.84
Nestfarm Limited	United Kingdom	100.00	-	-
Newall Measurement Systems Ltd	United Kingdom	100.00	100.00	-
Num (UK) Limited	United Kingdom	-	100.00	100.00
Sarel Ltd	United Kingdom	100.00	100.00	100.00
Satchwell Controls Systems Ltd	United Kingdom	100.00	100.00	-
Schneider Electric (UK) Ltd	United Kingdom	100.00	100.00	100.00
Schneider Electric Ltd	United Kingdom	100.00	100.00	100.00
TAC Regional Ltd	United Kingdom	-	100.00	100.00
TAC UK Ltd	United Kingdom	-	100.00	100.00
Thorsman Ltd	United Kingdom	100.00	100.00	100.00
Tower Manufacturing Ltd	United Kingdom	100.00	-	-
Tower Forged Products Ltd	United Kingdom	100.00	-	-
Walker Mainstay Ltd	United Kingdom	100.00	100.00	100.00
Westinghouse Systems	United Kingdom	-	100.00	100.00
Yorshire Switchgear Group Ltd	United Kingdom	100.00	100.00	100.00
MGE UPS Systems Hellas Abe	Greece	95.67	84.84	84.84
Schneider Electric AE	Greece	100.00	100.00	100.00
BEI Automative Hungary Manufacturing Inc	Hungary	100.00	100.00	-
Merlin Gerin Zala	Hungary	100.00	100.00	100.00
Prodax Elektromos	Hungary	100.00	100.00	100.00
Schneider Electric Hungaria Villamassagi RT	Hungary	100.00	100.00	100.00
Schneider Electric Ireland Ltd	Ireland	100.00	100.00	100.00
Schneider Electric Manufacturing Celbridge	Ireland	-	-	100.00
Square D Company Ireland Ltd	Ireland	100.00	100.00	100.00
Thorsman Ireland Ltd	Ireland	100.00	100.00	100.00
Thorsman Sales Ireland Ltd	Ireland	100.00	100.00	100.00
Controlli Srl	Italy	100.00	100.00	-
Crouzet Componenti	Italy	100.00	100.00	100.00
Elau Systems Italia Srl	Italy	100.00	100.00	-
MGE Italia	Italy	95.67	84.84	84.84
Num SPA	Italy	-	100.00	100.00
OVA Bargellini SpA	Italy	100.00	-	-
Pamoco Srl	Italy	100.00	100.00	100.00
SAIP & Schyller Srl	Italy	100.00	100.00	100.00
Schneider Electric Spa	Italy	100.00	100.00	100.00
Schneider Electric Industrie Italia Spa	Italy	100.00	100.00	100.00
Schneider Italia Spa	Italy	100.00	100.00	100.00
Lexel Fabrika SIA	Latvia	100.00	100.00	100.00
Schneider Electric Latvija SIA	Latvia	100.00	100.00	100.00
UAB Schneider Electric Lietuva (ex UAB Lexel Electric)	Lithuania	100.00	100.00	100.00
Sté industrielle de réassurance (SIRR)	Luxemburg	100.00	100.00	-
SGBTEMI	Luxemburg	100.00	-	-
ELKO A/S	Norway	100.00	100.00	100.00
ESMI A/S	Norway	100.00	100.00	100.00
Lexel Holding Norway AS	Norway	100.00	100.00	100.00
Merten Norge AS	Norway	100.00	-	-
Satchwell Norge AS	Norway	-	100.00	-
Schneider Electric Norge A/S	Norway	100.00	100.00	100.00
Wibe Stiger A/S	Norway	-	-	100.00
MGE UPS Systemer AS	Norway	95.67	84.84	84.84
TAC Control Systems AS	Norway	100.00	100.00	100.00
Citect BV	Netherlands	100.00	-	-
Crouzet BV	Netherlands	100.00	100.00	100.00

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		% interest Dec. 31, 2006	% interest Dec. 31, 2005	% interest Dec. 31, 2004
Polam Holding BV	Netherlands	100.00	100.00	100.00
Pro Face HMI (sous-groupe)	Netherlands	99.79	99.79	99.75
Sandas Montage BV	Netherlands	100.00	100.00	100.00
Sarel BV	Netherlands	99.00	99.00	-
Schneider Electric BV	Netherlands	100.00	100.00	100.00
Schneider Electric Logistic Centre BV	Netherlands	100.00	100.00	100.00
Stago BV	Netherlands	100.00	100.00	100.00
Andover Controls Sp Zo.o	Poland	100.00	100.00	100.00
Elda Eltra SA (ex Eltra SA)	Poland	100.00	100.00	100.00
ELDA Szczecinek SA	Poland	100.00	100.00	100.00
MGE UPS Systems Polska Sp.z.o.o	Poland	95.67	84.84	84.84
Schneider Electric Industries Polska SP	Poland	100.00	100.00	100.00
Schneider Electric Polska SP	Poland	100.00	100.00	100.00
Tour Andover Controls Polska Sp.Zo.o	Poland	100.00	100.00	100.00
Wibe Polska Sp.Zo.o	Poland	100.00	100.00	100.00
Merten Polska Sp. z o.o.	Poland	100.00	-	-
MGE Portugal Onduladores	Portugal	95.67	84.84	84.84
Schneider Electric Portugal LDA	Portugal	100.00	100.00	100.00
Merten Czech s.r.o.	Czech Republic	100.00	-	-
Schneider Electric AS	Czech Republic	98.27	98.27	98.27
Schneider Electric CZ sro	Czech Republic	100.00	100.00	100.00
Schneider Electric Romania SRL	Romania	100.00	100.00	100.00
Kalilingrad	Russia	100.00	-	-
MERTEN Russland	Russia	100.00	-	-
OOO "TAC"	Russia	100.00	100.00	100.00
UralElektroKontactor	Russia	100.00	100.00	100.00
ZAO Schneider Electric	Russia	100.00	100.00	100.00
ZAO Lexel Elektromaterialy (SPB)	Russia	100.00	100.00	100.00
Schneider Electric Jugoslavija doo	Serbia	100.00	100.00	100.00
Schneider Electric Ltd	Slovenia	100.00	100.00	100.00
Schneider Electric Slovakia Spol SRO	Slovakia	100.00	100.00	100.00
AB Elektrokontakt EKT	Sweden	100.00	100.00	100.00
AB Crahftere 1	Sweden	100.00	100.00	100.00
AB Wibe	Sweden	100.00	100.00	100.00
Crouzet AB	Sweden	50.00	50.00	-
EFAB Electric AB	Sweden	-	-	100.00
Elektriska Aktielbolaget Delta	Sweden	100.00	100.00	100.00
ELJO AB	Sweden	100.00	100.00	100.00
ESMI Multi Signal AB	Sweden	100.00	100.00	100.00
Exportvärden AB	Sweden	-	100.00	100.00
J.O. Sverige AB	Sweden	100.00	100.00	100.00
Lexel AB	Sweden	100.00	100.00	100.00
Lexel Electric AB	Sweden	100.00	100.00	100.00
Merten Svenska AB	Sweden	100.00	-	-
Num Norden	Sweden	-	100.00	100.00
TAC Protect System AB	Sweden	-	100.00	100.00
Schneider Electric Sverige AB (ex Schneider Electric AB)	Sweden	100.00	100.00	100.00
Schneider Electric Powerline Communications AB	Sweden	100.00	100.00	100.00
T.A.C. AB	Sweden	100.00	100.00	100.00
T.A.C. Holding AB	Sweden	100.00	100.00	100.00
TAC Svenska AB	Sweden	100.00	100.00	100.00
Thorsman & Co AB	Sweden	100.00	100.00	100.00
Wibe Holding AB	Sweden	-	100.00	100.00
Wibe Stegar AB	Sweden	-	-	100.00
Wibe Stegar Holding AB	Sweden	-	-	100.00
Berger Lahr Positec AG	Switzerland	100.00	100.00	100.00
Crouzet AG	Switzerland	100.00	100.00	100.00
Feller AG	Switzerland	83.70	83.70	83.70
MGE UPS Systems AG	Switzerland	95.67	84.84	84.84
Num Guttinger AG	Switzerland	-	100.00	100.00

		% interest Dec. 31, 2006	% interest Dec. 31, 2005	% interest Dec. 31, 2004
Paramer	Switzerland	100.00	-	-
Sarel AG	Switzerland	98.20	98.20	-
Schneider Electric Finances	Switzerland	100.00	100.00	100.00
Schneider Electric Suisse AG	Switzerland	100.00	100.00	100.00
Selectron Systems AG	Switzerland	100.00	100.00	100.00
MERTEN Ukraine	Ukraine	100.00	-	-
Schneider Electric Ukraine	Ukraine	100.00	100.00	100.00
<b>Proportionate</b>				
Easy Plug	France	-	-	50.00
<b>Accounted for by the equity method</b>				
Elau Administration GmbH (fully consolidated)	Germany	-	-	49.00
Delta Dore Finance SA (sub-group)	France	20.00	20.00	20.00
Môre Electric Group A/S	Norway	34.00	34.00	34.00
<b>North America</b>				
<b>Fully consolidated</b>				
Cofimines Overseas Corporation	Canada	100.00	100.00	100.00
Indy Electronics Inc.	Canada	99.79	99.79	99.75
Juno Lighting Ltd	Canada	100.00	100.00	-
Power Measurement Ltd	Canada	100.00	100.00	-
Schneider Canada Inc.	Canada	100.00	100.00	100.00
MGE Systems Mexico SA de CV	Mexico	95.67	84.84	84.84
Crouzet Automatismo	Mexico	100.00	100.00	-
Crouzet Mexique	Mexico	100.00	100.00	100.00
Custom Sensors & Technologies Mexico	Mexico	100.00	-	-
Industrias Electronicas Pacifico SA de CV	Mexico	100.00	100.00	100.00
Schneider Electric Mexico SA de CV	Mexico	100.00	100.00	100.00
Square D Company Mexico SA de CV	Mexico	100.00	100.00	100.00
Abacus	USA	100.00	100.00	-
Andover Controls Corp	USA	100.00	100.00	100.00
BEI Export Sales Co. Inc	USA	100.00	100.00	-
BEI International Inc	USA	100.00	100.00	-
BEI Properties	USA	100.00	100.00	-
BEI Sensors & Systems	USA	100.00	100.00	-
BEI Tactical Defense Systems Inc	USA	100.00	100.00	-
BEI Technologies Inc.	USA	100.00	100.00	-
Berger Lahr Motion Technology Inc.	USA	100.00	100.00	100.00
CSI Acquisition Holding Corp.	USA	-	100.00	100.00
Crydom. Inc	USA	100.00	-	-
Defense Systems Company Inc	USA	-	100.00	-
EFI Electronics Inc	USA	100.00	100.00	100.00
Elau Inc.	USA	100.00	100.00	-
Hyde Park Electronics LLC	USA	100.00	100.00	100.00
Indy Lighting Inc.	USA	100.00	100.00	-
Invensys Building System Inc	USA	100.00	-	-
Juno Lighting Inc.	USA	100.00	100.00	-
Juno Manufacturing Inc.	USA	100.00	100.00	-
Kavlico Corp	USA	100.00	100.00	100.00
MGE UPS Systems Inc	USA	95.67	84.84	84.84
Neovasys Inc	USA	100.00	100.00	-
Newall Electronics Inc	USA	100.00	100.00	-
Num Corporation	USA	-	100.00	100.00
OpticNet Inc	USA	100.00	100.00	-
Palatine Hills Leasing Inc.	USA	80.00	80.00	80.00
Powerbox Solutions LLC	USA	100.00	100.00	100.00
Power Measurement EI Inc.	USA	100.00	100.00	-
Power Measurement Inc.	USA	100.00	100.00	-
Power Measurement USA Inc.	USA	100.00	100.00	-

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		% interest Dec. 31, 2006	% interest Dec. 31, 2005	% interest Dec. 31, 2004
Precision Systems	USA	100.00	100.00	-
Pro Face America Inc.	USA	99.79	99.79	99.75
Pulstronic USA Corp.	USA	100.00	-	-
Quantronix Inc	USA	-	-	100.00
Schneider Automation Inc.	USA	100.00	100.00	100.00
Schneider Investment Holdings Pty	USA	100.00	-	-
Schneider Electric Relay LLC	USA	100.00	100.00	-
Security International Inc.	USA	100.00	100.00	100.00
Sitek Inc	USA	100.00	100.00	-
Square D Company	USA	100.00	100.00	100.00
Square D Holdings One, Inc.	USA	100.00	100.00	100.00
Square D Investment Company	USA	100.00	100.00	100.00
Square D Receivables, LLC	USA	100.00	100.00	100.00
SNA Holdings Inc.	USA	100.00	100.00	100.00
ST Inverter Americas Inc	USA	60.00	60.00	60.00
TAC Americas Inc.	USA	100.00	100.00	100.00
Tour Andover Controls Inc	USA	100.00	100.00	100.00
Veris Industries LLC	USA	100.00	100.00	100.00
<b>Accounted for by the equity method</b>				
Easy Plug Inc.	USA	-	-	50.00
<b>Asia-Pacific</b>				
<b>Fully consolidated</b>				
Citect Coporation	Australia	100.00	-	-
Citect Pte Ltd	Australia	100.00	-	-
Clipsal Pacific Holdings Pty Ltd	Australia	100.00	100.00	100.00
Clipsal Industries Pacific Pty Ltd	Australia	100.00	100.00	100.00
Clipsal South Pacific Pty Ltd	Australia	100.00	100.00	100.00
Clipsal Pacific Pty Ltd	Australia	100.00	100.00	100.00
Australian Electrical Supplies Pty Ltd	Australia	100.00	100.00	100.00
Blue Point Products Pty Ltd	Australia	100.00	100.00	100.00
Clipsal Australia Holding Pty Ltd	Australia	100.00	100.00	100.00
Clipsal Australia Pty Ltd	Australia	100.00	100.00	100.00
Clipsal Controlgear Pty Ltd	Australia	100.00	100.00	100.00
Clipsal Extrusions Pty Ltd	Australia	100.00	100.00	100.00
Clipsal Integrated Systems Pty Ltd	Australia	100.00	100.00	100.00
Clipsal Technologies Australia Pty Ltd	Australia	100.00	100.00	100.00
Invensys Buiding System Pty Ltd	Australia	100.00	-	-
Efficient Energy Systems Pty Ltd	Australia	100.00	100.00	100.00
MGE UPS Systems Australia Pty Ltd	Australia	95.67	84.84	84.84
Moduline Holdings	Australia	100.00	-	-
Moduline Pty	Australia	100.00	-	-
Nu-Lec Industries Pty Ltd	Australia	100.00	100.00	100.00
Parkside Laboratories Australia Pty Ltd	Australia	100.00	100.00	100.00
PDL Holding Australia Ltd	Australia	100.00	100.00	100.00
PDL Industries Australia Pty Ltd	Australia	100.00	100.00	-
Power Measurement Ltd	Australia	100.00	100.00	-
Pro Face Australia	Australia	100.00	100.00	-
SE Australia Holding PTY	Australia	100.00	100.00	100.00
Schneider Investment Holdings Pty	Australia	100.00	-	-
Schneider Electric Australia Pty Ltd	Australia	100.00	100.00	100.00
TAC Pacific Pty Ltd	Australia	100.00	100.00	100.00
Team Security Solutions Pty Ltd	Australia	100.00	100.00	100.00
Techrack Pty Ltd	Australia	100.00	100.00	100.00
Beijing Merlin Great Wall Computer Room Equipment & Engineering	China	57.40	50.90	50.90
Citect Control System (Shanghai) Ltd	China	100.00	-	-
Clipsal China	China	100.00	-	-
Clipsal International Trading (Shanghai) Co., Ltd.	China	100.00	-	-

		% interest Dec. 31, 2006	% interest Dec. 31, 2005	% interest Dec. 31, 2004
Crouzet China	China	100.00	-	-
East Electric System Technoly	China	57.40	-	-
Foshan Wilco Electrical Trading Co	China	100.00	-	-
Invensys Building System 5	China	100.00	-	-
Invensys Building System Gaoming	China	100.00	-	-
MERTEN Shanghai Electric Technology Co. Ltd	China	100.00	-	-
MGE North Asia SHANGHAI	China	76.54	67.87	67.87
Schneider Electrical Devices	China	100.00	-	-
Pro Face International Shanghai	China	99.79	99.79	99.78
Schneider Beijing Low Voltage	China	95.00	95.00	95.00
Schneider Beijing Medium Voltage	China	95.00	95.00	95.00
Schneider Busway (Guangzhou) Ltd	China	95.00	95.00	95.00
Schneider Electric China Invest Co Ltd	China	100.00	100.00	100.00
Schneider Electric Low Voltage (Tianjin) Cy Ltd	China	75.00	75.00	75.00
Schneider Electric Supply Beijing Co Ltd	China	100.00	100.00	100.00
Schneider Fuji Breakers (Dalian)	China	60.00	60.00	60.00
Schneider Shanghai Apparatus parts Manufacturing	China	100.00	100.00	100.00
Schneider Shanghai Industrial Control	China	80.00	80.00	80.00
Schneider Shanghai Low Voltage Term. Apparatus	China	75.00	75.00	60.00
Schneider Shanghai Power Distribution Electric App.	China	80.00	80.00	80.00
Schneider Shanghai Supply Components Ltd	China	100.00	100.00	100.00
Schneider Shilin Suzhou Transformers	China	100.00	100.00	100.00
Schneider (Suzhou) Drives Company ltd	China	90.00	90.00	90.00
Schneider Suzhou Enclosure Systems Co Ltd	China	100.00	100.00	100.00
Schneider Wingoal	China	100.00	100.00	100.00
Shanghai Manufacturing	China	95.67	84.84	84.84
SSBEA	China	70.00	-	-
Tianjin Merlin Gerin Co Ltd	China	75.00	75.00	75.00
UPE Electronics SHENZEN	China	47.84	42.42	42.42
Wu Xi Factory	China	99.79	99.79	99.75
Clipsal Korea	South Korea	100.00	-	-
MGE UPS Systems Korea Co. Ltd	South Korea	95.67	84.84	84.84
Pro Face Korea	South Korea	99.79	99.79	99.75
Samwha EOCR Co.ltd	South Korea	100.00	100.00	80.00
Schneider Electric Korea Ltd	South Korea	100.00	100.00	100.00
Bowden Extrusion HK	Hong Kong	100.00	-	-
CIS Hong-Kong	Hong Kong	100.00	-	-
Clipsal Asia Limited	Hong Kong	100.00	-	-
Clipsal Asia Holding	Hong Kong	100.00	-	-
Clipsal Datacom HK	Hong Kong	100.00	-	-
Clipsal Datacomms Asia	Hong Kong	100.00	-	-
Clipsal-Vtec (BCC)	Hong Kong	100.00	-	-
Clipsal HK Ltd	Hong Kong	100.00	-	-
Clipsal Industries HK Ltd	Hong Kong	100.00	100.00	100.00
Crouzet Asia Limited	Hong Kong	100.00	-	-
CVH Industries Ltd	Hong Kong	100.00	-	-
GP Electrical HK	Hong Kong	100.00	-	-
Invensys Building System Hong-Kong Ltd	Hong Kong	100.00	-	-
Jansweet Ltd	Hong Kong	100.00	-	-
Full Excel Pty Ltd	Hong Kong	100.00	100.00	100.00
GET Santai Limited	Hong Kong	100.00	-	-
GET Asia Limited	Hong Kong	100.00	-	-
Linkpoint Investments	Hong Kong	100.00	-	-
MGE China / Hong Kong Ltd	Hong Kong	76.54	67.87	67.87
Schneider Busway Limited	Hong Kong	100.00	100.00	100.00
Schneider Electric Business Solutions	Hong Kong	100.00	100.00	-
Schneider Electric Hong Kong Ltd	Hong Kong	100.00	100.00	100.00
TAC Pacific HK Ltd	Hong Kong	100.00	100.00	100.00
MGE India	India	95.67	-	-
MGE Indonésie	Indonesia	95.67	-	-
PT Mega Gelar Elektronil Ometraco	Indonesia	95.67	84.84	84.84

Consolidated financial statements at December 31, 2006

		% interest Dec. 31, 2006	% interest Dec. 31, 2005	% interest Dec. 31, 2004
PT Bowden Indonesia	Indonesia	100.00	-	-
PT Merten Intec Indonesia	Indonesia	100.00	-	-
PT Schneider Electric Indonesia	Indonesia	100.00	100.00	100.00
Schneider Electric Manufacturing Batam	Indonesia	100.00	100.00	100.00
Digital Electronics Corporation	Japan	99.79	99.79	99.75
Schneider Electric Japan Ltd	Japan	100.00	100.00	100.00
Toshiba Schneider Electric Ltd	Japan	100.00	88.43	83.45
Toshiba Schneider Inverter Corp.	Japan	60.00	60.00	60.00
Clipsal Asia	Malaysia	100.00	-	-
Huge Eastern	Malaysia	100.00	-	-
KSLA Malaysia	Malaysia	60.00	-	-
CIS Malaysia	Malaysia	100.00	-	-
Clipsal (Malaysia) Sdn Bhd	Malaysia	100.00	-	-
Clipsal Datacomms (M) Sdn Bhd	Malaysia	100.00	-	-
Clipsal Manufacturing	Malaysia	100.00	-	-
MGE UPS Systems Malaysia SDN BHD	Malaysia	95.67	84.84	84.84
PDL Electric (M) Sdn Bhd	Malaysia	100.00	-	-
PDL Industries Asia	Malaysia	100.00	-	-
PDL Switchgear (Asia) Sdn Bhd	Malaysia	100.00	-	-
PDL Electronics Sdn Bhd	Malaysia	100.00	-	-
Schneider Electric Industries Sdn Bhd	Malaysia	100.00	100.00	100.00
Schneider Electric Malaysia Sdn Bhd	Malaysia	30.00	30.00	30.00
CER Technologies Pty Ltd	New Zealand	100.00	100.00	100.00
Citect NZ	New Zealand	100.00	-	-
Clipsal Industries NZ Ltd	New Zealand	100.00	100.00	100.00
PDL Electronics	New Zealand	60.00	60.00	60.00
Schneider Electric New Zealand Holdings Ltd	New Zealand	100.00	100.00	100.00
Clipsal Philippines	Philippines	100.00	-	-
MGE UPS Philippines Inc.	Philippines	95.67	84.84	84.84
Schneider Electric Philippines Inc	Philippines	100.00	100.00	100.00
Andover Controls Singapore Pty Ltd	Singapore	100.00	100.00	100.00
Citect Pte	Singapore	100.00	-	-
Clipsal Datacomms Singapour	Singapore	100.00	-	-
Clipsal Integrated Systems Pte Ltd	Singapore	100.00	-	-
Clipsal International Singapour	Singapore	100.00	-	-
Clipsal Singapour	Singapore	100.00	-	-
GP Electrical Singapour	Singapore	100.00	-	-
Invensys Building System Pte Ltd	Singapore	100.00	-	-
KSLA Energy & Power Solution Pte Ltd	Singapore	60.00	-	-
Merten Asia Pte Ltd	Singapore	100.00	-	-
MGE Asia Pte Ltd	Singapore	95.67	84.84	84.84
MGE Logistics South East Asia pacific Pte Ltd	Singapore	95.67	84.84	84.84
PDL Electric (S) Pte Ltd	Singapore	100.00	-	-
TAC Control Asia	Singapore	100.00	100.00	100.00
Schneider Electric Export Services	Singapore	100.00	100.00	100.00
Schneider Electric Industrial Development Singapore Pte Ltd	Singapore	100.00	100.00	100.00
Schneider Electric Logistic Asia Pte Ltd	Singapore	100.00	100.00	100.00
Schneider Electric Overseas Asia Pte Ltd	Singapore	100.00	100.00	100.00
Schneider Electric Singapore Pte Ltd	Singapore	100.00	100.00	100.00
Schneider Electric South East Asia (HQ) Pte Ltd	Singapore	100.00	100.00	100.00
Schneider Electric Sri Lanka	Sri Lanka	100.00	-	-
Clipsal Taiwan	Taiwan	100.00	-	-
Pro Face Taiwan	Taiwan	99.79	99.79	69.82
Schneider Electric Taiwan Co Ltd	Taiwan	100.00	100.00	100.00
GP Electrical (Taiwan) Limited	Taiwan	100.00	-	-
Clipsal Thailand	Thailand	100.00	-	-
MGE UPS Systems SA	Thailand	95.67	84.84	84.84
Pro Face South East Asia Pacific	Thailand	99.79	99.79	99.75
Schneider Electric Thailand Co Ltd	Thailand	100.00	100.00	100.00
Schneider Thailand Ltd	Thailand	100.00	100.00	100.00



		% interest Dec. 31, 2006	% interest Dec. 31, 2005	% interest Dec. 31, 2004
Square D Company Thailand Ltd	Thailand	100.00	100.00	100.00
Clipsal Vietnam	Vietnam	100.00	-	-
Schneider Electric Vietnam Ltd	Vietnam	100.00	100.00	100.00
<b>Accounted for by the equity method</b>				
Clipsal Asia Holding	Hong Kong	-	50.00	50.00
Schneider Electric Engineering Ltd	Japan	40.00	40.00	40.00
<b>Rest of the World</b>				
<b>Fully consolidated</b>				
Alight Investments Holdings Pty Ltd	South Africa	100.00	100.00	100.00
Citect South Africa	South Africa	100.00	-	-
Clipsal Electronics Systems	South Africa	100.00	-	-
Clipsal Industries Pty Ltd	South Africa	100.00	100.00	100.00
Clipsal Manufacturing Pty	South Africa	100.00	-	-
Clipsal South Africa Pty Ltd	South Africa	100.00	100.00	100.00
Hoist-Tec (Pty) Ltd	South Africa	100.00	100.00	100.00
Merlin Gerin SA (Pty) Ltd (Activité Conlog)	South Africa	79.60	79.60	79.60
MGE UPS Systems SA Pty Ltd	South Africa	95.67	84.84	84.84
Nu-Lec Africa Pty	South Africa	49.00	49.00	49.00
Schneider Electric South Africa Pty Ltd	South Africa	100.00	100.00	100.00
Schneider Electric Algérie SARL	Algeria	100.00	100.00	100.00
EPS Ltd	Saudi Arabia	51.00	51.00	51.00
MGE Argentina	Argentina	95.67	-	-
Plasnavi SA	Argentina	-	100.00	100.00
Schneider Electric Argentina	Argentina	100.00	100.00	100.00
Clipsal Middle East	Bahrain	100.00	-	-
Palatine Ridge Insurance Company Ltd	Bermuda	100.00	100.00	100.00
SHL	Bermuda	100.00	100.00	100.00
CDI Power	Brazil	100.00	100.00	100.00
Crouzet Brésil	Brazil	100.00	100.00	100.00
MGE UPS Systems Do Brasil Ltda	Brazil	95.67	-	-
Primeletrica	Brazil	-	-	100.00
Schneider Electric Brasil LTDA	Brazil	100.00	100.00	100.00
Schneider Electric Chile SA	Chile	99.96	99.96	99.96
Schneider de Colombia SA	Colombia	79.98	79.98	79.98
SEP Le Guavio	Colombia	100.00	100.00	100.00
Schneider Centroamerica SA	Costa Rica	100.00	100.00	100.00
Schneider Electric Distribution Company	Egypt	87.35	78.23	78.23
Schneider Electric Egypt SA	Egypt	90.99	81.49	81.49
Clipsal Middle East FZCO	United Arab Emirates	100.00	-	-
Clipsal Middle East Co WLL	United Arab Emirates	100.00	-	-
Schneider Electric FZE	United Arab Emirates	100.00	100.00	100.00
Square D Foreign Sales Corporation	Virgin Islands	92.31	92.31	92.31
LK India Private Ltd	India	100.00	100.00	80.67
Schneider Electric India Private Ltd	India	100.00	100.00	100.00
Schneider Electric Industries Iran	Iran	67.00	67.00	67.00
Telemecanique Iran	Iran	100.00	100.00	100.00
Schneider Electric LLP	Kazakhstan	100.00	100.00	100.00
Eastmed	Lebanon	96.00	96.00	96.00
Crouzet Maroc	Morocco	100.00	100.00	100.00
MGE UPS Maroc SA	Morocco	95.67	84.84	84.84
Schneider Electric Maroc	Morocco	100.00	100.00	100.00
Schneider Electric Nigeria	Nigeria	100.00	100.00	-
Schneider Electric Peru SA	Peru	100.00	100.00	100.00
Metesan Lexel Elektrik Malzemeleri Sanayi Ve Ticaret AS	Turkey	100.00	100.00	100.00
MGE UPS Systems Bilgisayar Sistemleri Ticaret A.S	Turkey	95.67	84.84	84.84
Schneider Elektrik AS	Turkey	100.00	100.00	100.00
Schneider Electric Venezuela SA	Venezuela	91.88	91.88	91.88

## 6. Report of the Statutory Auditors on the consolidated financial statements

This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the financial statements. This information includes explanatory paragraphs discussing the auditors' assessment of certain significant accounting matters. These assessments were made for the purpose of issuing an opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. The report also includes information relating to the specific verification of information in the group management report. This report should be read in conjunction with, and is construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by the Annual Shareholders' Meeting we have audited the accompanying consolidated financial statements of Schneider Electric SA for the year ended December 31, 2006.

These consolidated financial statements have been approved by the Management Board. Our role is to express an opinion on these financial statements based on our audit.

### I. - Opinion on the financial statements

We conducted our audit in accordance with the professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the company at December 31, 2006 and the results of the consolidated group for the year then ended, in accordance with IFRS as adopted by the European Union.

### II. - Justification of assessments

In accordance with the requirements of Article L. 823-9 of French Commercial Code (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

Note 1.8 to the consolidated financial statements explains the method for recognizing research and development costs and describes the criteria under which development costs may be capitalized. We reviewed the data and assumptions used to identify development costs that qualify for capitalization, as well as the Group's calculations, and obtained assurance that adequate disclosure is made in the notes to the consolidated financial statements.

As explained in note 1.10 to the consolidated financial statements, intangible assets and goodwill are tested for impairment at least once a year and when factors exist indicating that the related assets may have suffered a loss of value. We reviewed, on a test basis, the indicators of a loss of value and the other information evidencing the absence of any loss of value.

As explained in note 1.21 to the consolidated financial statements, and in the absence of any specific IFRS recommendation, commitments to buy out minority shareholders have been recognized in debt for an amount corresponding to the purchase price of the minority interests and the share in the acquired net assets has been posted to goodwill without re-measuring the acquired assets and liabilities. We verified the estimates used in recognizing the additional goodwill and debt corresponding to the commitment and obtained assurance that the option selected by the Group is adequately disclosed in the notes to the consolidated financial statements.

As indicated in notes 1.14 and 12.3 to the consolidated financial statements, future tax benefits arising from the utilization of tax loss carry forwards are recognized only when they can reasonably be expected to be realized. We obtained assurance about the reasonableness of the assumptions used to produce the estimate of future taxable income used to support assessments of the recoverability of these deferred tax assets.

Notes 1.17 and 15 describe the method for valuing pensions and other post-employment obligations. Actuarial valuations were performed for these commitments. We reviewed the data, assumptions used, and calculations made, and obtained assurance that adequate disclosure is made in the notes to the consolidated financial statements.

Note 25 ("Other operating income / expense") states the amount of restructuring costs recorded in 2006. We verified that, based on currently available information, these costs concern restructuring measures initiated or announced before December 31, 2006, for which provisions have been recorded based on an estimate of the costs to be incurred. We also reviewed the data and assumptions used by the Group to make these estimates.

The assessments were thus made in the context of the performance of our audit of the consolidated financial statements taken as a whole and therefore contributed to the formation of our audit opinion expressed in the first part of this report.

### III. - Specific verification

In accordance with professional standards applicable in France, we have also verified the information given in the business review. We have no matters to report regarding its fair presentation and conformity with the consolidated financial statements.

Courbevoie and Neuilly-sur-Seine, February 20, 2007

The Statutory Auditors	
Mazars & Guérard	Ernst & Young et Autres
Pierre Sardet	Christian Chochon
Jean-Louis Simon	Pierre Jouanne



# Company   financial statements at Dec. 31, 2006

- |  |          |  |          |
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| 2. Statement of income . . . . .   | → p. 156 | 5. List of securities at December 31, 2006 . . . . .         | → p. 165 |
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# 1. Balance sheet

<b>Assets</b> (€ thousands)		Cost	Depreciation amortization and provisions	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
				Net	Net	Net
<b>Non-current assets:</b>						
<i>Intangible assets (note 1a)</i>						
Intangible rights		27,474	(27,474)	-	-	-
<i>Property, plant and equipment (note 1b)</i>						
Land		3,281	-	3,281	3,444	3,671
Buildings		172	(172)	-	-	-
Other		1,730	(511)	1,219	1,203	1,207
		32,657	(28,157)	4,500	4,647	4,878
<i>Investments</i>						
Shares in subsidiaries and affiliates	(note 2a)	1,819,483	(40,123)	1,779,360	2,014,108	1,880,685
Other investments	(note 2b)	211,063	(16,497)	194,566	132,835	159,348
Advances to subsidiaries and affiliates	(note 2c)	2,980,848	(173)	2,980,675	2,972,761	2,972,874
Other	(note 2d)	30,200	-	30,200	177,161	189,921
		5,041,594	(56,793)	4,984,801	5,296,865	5,202,828
<b>Total non-current assets</b>		<b>5,074,251</b>	<b>(84,950)</b>	<b>4,989,301</b>	<b>5,301,512</b>	<b>5,207,706</b>
<b>Current assets:</b>						
<i>Accounts receivable</i>						
Accounts receivable - trade		193	-	193	52	228
Other	(note 3)	350,714	(46,297)	304,417	214,626	131,778
		350,907	(46,297)	304,610	214,678	132,006
<i>Cash and cash equivalents</i>						
Marketable securities	(note 4)	169,012	-	169,012	182,262	87,046
Advances to the Group cash pool	(note 5)	5,666,443	-	5,666,443	3,917,909	2,654,394
Other		82	-	82	22	4
		5,835,537	-	5,835,537	4,100,193	2,741,444
<b>Total current assets</b>		<b>6,186,444</b>	<b>(46,297)</b>	<b>6,140,147</b>	<b>4,314,871</b>	<b>2,873,450</b>
<b>Accruals and other assets:</b>						
Prepaid expenses		496	-	496	553	856
Deferred charges	(note 6a)	3,826	-	3,826	4,573	2,309
Bond call premiums	(note 6b)	10,229	-	10,229	7,485	2,091
Conversion losses		10	-	10	10	10
<b>Total assets</b>		<b>11,275,256</b>	<b>131,247</b>	<b>11,144,009</b>	<b>9,629,004</b>	<b>8,086,422</b>

The notes form an integral part of these financial statements.

# Liabilities

and shareholders' equity (€ thousands)

		Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
<b>Shareholders' equity:</b>				
Capital stock	(note 7a)	1,821,587	1,812,954	1,809,553
Additional paid-in capital	(note 7b)	4,121,037	4,068,968	4,049,932
<i>Reserves and retained earnings</i>				
Legal reserve		192,650	192,650	192,650
Retained earnings	(note 7c)	275,145	323,112	169,239
Net income for the year		887,825	450,793	558,768
Untaxed provisions		425	425	425
<b>Total equity</b>		<b>7,298,669</b>	<b>6,848,902</b>	<b>6,780,567</b>
<b>Provisions for contingencies and pension accruals:</b>				
Provisions for contingencies	(note 8)	4,730	6,613	8,912
Accruals for pensions		31,226	30,395	18,800
<b>Total provisions for contingencies and pension accruals</b>		<b>35,956</b>	<b>37,008</b>	<b>27,712</b>
<b>Non-current liabilities:</b>				
Bonds	(note 9)	3,700,000	2,700,000	1,200,000
Other borrowings	(note 10)	99,806	30,708	70,437
Amounts payable to subsidiaries and affiliates		13	13	13
Short-term bank loans and overdrafts and other debt		3,221	3,073	2,191
		3,803,040	2,733,794	1,272,641
<b>Current liabilities:</b>				
Accounts payable - trade		52	4,472	937
Accrued taxes and payroll costs		3,972	1,880	1,296
Other liabilities		1,769	2,192	2,169
		5,793	8,544	4,402
<b>Total non-current and current liabilities</b>		<b>3,808,833</b>	<b>2,742,338</b>	<b>1,277,043</b>
Deferred income	(note 11)	551	756	1,100
Conversion gains		-	-	-
<b>Total liabilities and shareholders' equity</b>		<b>11,144,009</b>	<b>9,629,004</b>	<b>8,086,422</b>

The notes form an integral part of these financial statements.

## 2. Statement of income

(€ thousands)	2006	2005	2004
Sales of services and other	1,769	2,908	1,254
Reversals of provisions, depreciation and amortization and expense transfers	1,711	4,191	-
<b>Operating revenues</b>	<b>3,480</b>	<b>7,099</b>	<b>1,254</b>
Purchases and external charges	8,944	16,429	6,449
Taxes other than on income	1,600	2,783	1,467
Payroll costs	4,842	5,137	2,976
Depreciation, amortization and provision expense	2,209	2,217	4,117
Other operating expenses and joint-venture losses	305	1,290	149
<b>Operating expenses</b>	<b>17,900</b>	<b>27,856</b>	<b>15,158</b>
<b>Operating loss</b>	<b>(14,420)</b>	<b>(20,757)</b>	<b>(13,904)</b>
Dividend income	557,104	337,833	463,279
Interest income	255,244	168,809	164,002
Reversals of impairment provisions for long-term receivables and other	24	359	1,553
<b>Financial income</b>	<b>812,372</b>	<b>507,001</b>	<b>628,834</b>
Interest expense	133,504	82,661	68,425
Provision expense	1,099	1,764	3,220
<b>Financial expenses</b>	<b>134,603</b>	<b>84,425</b>	<b>71,645</b>
<b>Net financial income</b> <i>(note 14)</i>	<b>677,769</b>	<b>422,576</b>	<b>557,189</b>
Proceeds from fixed asset disposals	243,585	53,639	25,251
Provision reversals and expense transfers	2,830	6,076	2,125
Other	6,699	5,788	9,376
<b>Non-recurring income</b>	<b>253,114</b>	<b>65,503</b>	<b>36,752</b>
Carrying value of fixed asset disposals	232,719	50,701	31,992
Provisions, depreciation and amortization	4,042	32,762	6,875
Other	910	1,146	2,831
<b>Non-recurring expenses</b>	<b>237,671</b>	<b>84,609</b>	<b>41,698</b>
<b>Net non-recurring income/(expense)</b> <i>(note 15)</i>	<b>15,443</b>	<b>(19,106)</b>	<b>(4,946)</b>
<b>Net income tax benefit</b> <i>(note 16)</i>	<b>209,033</b>	<b>68,080</b>	<b>20,429</b>
<b>Net income</b>	<b>887,825</b>	<b>450,793</b>	<b>558,768</b>

*The notes form an integral part of these financial statements.*

# 3. Notes to the financial statements of Schneider Electric SA

(All amounts in thousands of euros unless otherwise specified)

## Significant events of the year

In 2006, Schneider Electric SA issued bonds worth €1.0 billion in two tranches, due 2011 and 2014.

During the year, the Company sold the companies acquired in 2005—Elau and six companies comprising Invensys' Advanced Building Systems business in Europe and the Middle East—to two Schneider Electric subsidiaries for a total €142.3 million.

Lastly, Schneider Electric SA implemented a €40 million liquidity contract to maintain a liquid market for its shares.

## Accounting principles

The financial statements for the year ended December 31, 2006 have been prepared in accordance with the 1999 Plan Comptable Général and French generally accepted accounting principles.

### Non-current assets

Non-current assets are stated at cost.

### Intangible assets

Intangible rights are amortized over a maximum of five years.

### Property, plant and equipment

Property, plant and equipment are depreciated by the straight-line method over their estimated useful lives, ranging from 3 to 10 years.

### Shares in subsidiaries and affiliates

Shares in subsidiaries and affiliates are stated at cost. Allowances for impairment in value are recorded if the

carrying value is higher than the estimated value in use at the end of the financial year. Value in use is estimated primarily on the basis of underlying net assets, earnings outlook and economic forecasts. For recently-acquired investments, account is also taken of the acquired business goodwill. For listed investments, value in use is also based on the average stock price over the last month. Unrealized gains on investments are not recognized.

### Treasury stock

Treasury stock is stated at cost. The unit cost of treasury stock removed from the portfolio is calculated according to the average weighted cost method.

In the case of treasury stock held for allocation on the exercise of stock options, a provision is recorded if the exercise price is lower than the carrying value of the related treasury shares.

### Pension obligations

The present value of pension obligations is determined using the projected unit credit method.

Supplementary pension benefits are accrued for based on the contractual terms of top-hat agreements.

The Company applies the corridor method to actuarial gains and losses arising from changes in estimates. Under this method, the portion of net cumulative actuarial gains and losses that exceeds 10% of the projected benefit obligation is gradually amortized.

### Currency risk

Unrealized exchange losses are reserved for when necessary. Where unrealized exchange gains and losses exist on investments and the related financing in the same currency and with the same maturity, the amount of the reserve is limited to the net loss.

### Bonds

Call premiums and issue costs are amortized over the life of the bonds.

## Note 1: Non-current assets

### 1a - Intangible assets

This item primarily comprises share issue and merger expenses, which are fully amortized.

### 1b - Property, plant and equipment

	Dec. 31, 2005	Additions	Disposals	Dec. 31, 2006
Cost	5,363	17	(197)	5,183
Depreciation	(716)	(1)	34	(683)
<b>Net</b>	<b>4,647</b>	<b>16</b>	<b>(163)</b>	<b>4,500</b>

## Note 2: Investments

### 2a - Shares in subsidiaries and affiliates

	Dec. 31, 2005	Additions	Disposals	Dec. 31, 2006
Cost	2,051,782	52,021	(284,320)	1,819,483
Provisions	(37,674)	(2,449)	-	(40,123)
<b>Net</b>	<b>2,014,108</b>	<b>49,572</b>	<b>(284,320)</b>	<b>1,779,360</b>

During the year, the Company sold companies acquired in 2005 to subsidiaries of the Schneider Electric Group. Six companies comprising Invensys' Advanced Building Systems business in Europe were sold to T.A.C. AB and Schneider Electric France for €109.4 million, while Schneider Electric SA's 49.05% interest in Elau, acquired in 2005 for €33.0 million, was sold to Schneider Electric Deutschland, which already held the remaining 50.95%.

In 2006, Schneider Electric SA participated in a share issue by AXA, acquiring €19.4 million worth of AXA shares and raising the value of its holding to €101.5 million. Because these shares do not fully meet the criteria for classification under "Shares in subsidiaries and affiliates", they were reclassified under "Other investment securities" at December 31, 2006.

Also in 2006, Schneider Electric SA acquired a non-material interest in Euronext for a total €8.0 million. It sold the entire interest during the year.

Other material movements in this item concerned the

purchase and re-sale of Legrand shares as part of the mechanism for exchanging Schneider Electric Shares for Legrand shares on the exercise of options (see note 17d). At December 31, 2006, Schneider Electric SA held €2.2 million worth of Legrand shares following the last exercise of options during the year. These shares were sold back in January 2007.

The principal investments at December 31, 2006 were as follows:

Shares in subsidiaries and affiliates	Carrying value
Schneider Electric Industries SAS	1,531,981
Cofibel	136,898
Cofimines	82,609
Digital Holdings Co Ltd	21,249
Other (less than €20 million)	6,623
<b>Total</b>	<b>1,779,360</b>

### 2b - Other investment securities

	Dec. 31, 2005	Increases	Decreases	Dec. 31, 2006
Schneider Electric SA	132,774	195,521	(235,175)	93,120
Other	16,493	101,458	(8)	117,943
Provisions for other shares	(16,432)	(65)	-	(16,497)
<b>Net</b>	<b>132,835</b>	<b>296,914</b>	<b>(235,183)</b>	<b>194,566</b>

Other investment securities primarily include Schneider Electric SA shares acquired for allocation on the exercise of certain stock options. Treasury stock listed under "Other investment securities" at December 31, 2004 was not reclassified at December 31, 2006. However, all Schneider Electric SA shares bought back since then for allocation on the exercise of stock options are recognized under "Marketable securities". Decreases correspond to shares removed on the exercise of stock options (€49.7 million in 2006 for this item).

Pursuant to the authorization granted by shareholders at the Annual Meeting of May 3, 2006, Schneider Electric SA implemented a liquidity contract during the year to maintain a liquid market for its shares. "Other

changes in treasury stock" correspond to share purchases and sales by the contract manager.

At December 31, 2006, 1,796,488 Schneider Electric SA shares were recorded under "Other investment securities" at a total cost of €93.1 million, of which 120,000 shares assigned to the liquidity contract in an amount of €10.0 million.

The increase in "Other" shares reflects the accounting transfer of AXA shares in an amount of €101.5 million from "Shares in subsidiaries and affiliates", as they did not fully meet the criteria for classification in that category. Provisions for impairment almost exclusively concern investments other than treasury stock and AXA shares classified under this item.

### 2c - Advances to subsidiaries and affiliates

	Dec. 31, 2005	Increases	Decreases	Dec. 31, 2006
Cost	2,972,934	111,611	(103,697)	2,980,848
Provisions	(173)	-	-	(173)
<b>Net</b>	<b>2,972,761</b>	<b>111,611</b>	<b>(103,697)</b>	<b>2,980,675</b>



At December 31, 2006, this item mainly comprised two loans granted to Schneider Electric SAS due 2007 and 2008, in an aggregate amount of €2,948.4 million, as

well as accrued interest of €29.7 million. All increases and decreases in 2006 concerned interest.

## 2d - Other

	Dec. 31, 2005	Increases	Decreases	Dec. 31, 2006
Cost	177,161	31,361	(178,322)	30,200
Provisions	-	-	-	-
<b>Net</b>	<b>177,161</b>	<b>31,361</b>	<b>(178,322)</b>	<b>30,200</b>

At December 31, 2005, this item mainly comprised a €176.2 million loan to Legrand. The loan was fully repaid in 2006.

At December 31, 2006, this item primarily comprised cash transferred to the manager of the liquidity contract (see note 2b) that had not yet been invested in Schneider Electric shares.

## Note 3: Other receivables

	Dec. 31, 2005	Dec. 31, 2006
Cost	260,325	350,714
Provisions	(45,699)	(46,297)
<b>Net</b>	<b>214,626</b>	<b>304,417</b>

This item primarily comprises receivables from other members of the Schneider Electric tax group in France and Schneider Electric's own tax receivables. At December 31, 2006, €129.4 million was receivable from the other members of the French tax group compared with €33.9 million at end-2005, primarily corresponding to group tax returns for 2006 (see note 16).

This item also included a €97.0 million carryback credit and the unrecovered balance of the exceptional 25%

exit tax on dividends distributed in 2005 that was paid in that year in an original amount of €76.0 million. The exit tax gave rise to a tax credit in the same amount that is utilizable or refundable in three equal installments over the three years following payment. In 2006, the first installment was refunded to Schneider Electric SA, bringing the balance of this receivable to €50.7 million.

As in prior years, this item included receivables related to the Pinglin contract (previously managed by former subsidiary Spie Batignolles and under dispute with a foreign third party), in an amount of €45.3 million. The receivables related to the Pinglin contract have been fully written off.

## Note 4: Marketable securities

	Dec. 31, 2005		Acquisitions Value	Disposals Value	Dec. 31, 2006	
	Number of shares	Value			Value	Number of shares
Plan 16	456,103	19,384	-	(13,250)	6,134	144,333
Plan 24	2,023,637	117,266	-	-	117,266	2,023,637
Plan 26	761,313	45,587	-	-	45,587	761,313
Total Schneider Electric SA shares	3,241,053	182,237	-	(13,250)	168,987	2,929,283
Other		25	-	-	25	
<b>Total</b>		<b>182,262</b>	<b>-</b>	<b>(13,250)</b>	<b>169,012</b>	

Marketable securities primarily include Schneider Electric SA shares held in treasury for allocation on the exercise of stock options.

## Note 5: Advances to the Group cash pool

This item corresponds to interest-bearing advances to the Group cash pool (Boissière Finance) that are recoverable on demand. The cash pool includes €55.0 million in commercial paper issued at end-2006.

## Note 6: Deferred charges

### 6a - Bond issue expenses

Bond issue expenses	Dec. 31, 2005	Increases	Decreases	Dec. 31, 2006
Oct. 19, 2000 due 2007 (€450 million)	376	-	(209)	167
Oct. 31, 2003 due 2008 (€750 million)	1,274	-	(450)	824
Aug. 11, 2005 due 2010 (€900 million)	1,523	-	(311)	1,212
Aug. 11, 2005 due 2017 (€600 million)	1,400	-	(96)	1,304
July 17, 2006 due 2011 (€500 million)	-	175	(22)	153
July 17, 2006 due Jan. 2014 (€500 million)	-	175	(9)	166
	<b>4,573</b>	<b>350</b>	<b>(1,097)</b>	<b>3,826</b>

### 6b - Call premiums

Call premiums	Dec. 31, 2005	Increases	Decreases	Dec. 31, 2006
Oct. 19, 2000 due 2007 (€450 million)	25	-	(14)	11
Oct. 31, 2003 due 2008 (€750 million)	1,516	-	(535)	981
Aug. 11, 2005 due 2010 (€900 million)	1,411	-	(289)	1,122
Aug. 11, 2005 due 2017 (€600 million)	4,533	-	(311)	4,222
July 17, 2006 due 2011 (€500 million)	-	930	(78)	852
July 17, 2006 due Jan. 2014 (€500 million)	-	3,200	(159)	3,041
	<b>7,485</b>	<b>4,130</b>	<b>(1,386)</b>	<b>10,229</b>

Increases in deferred charges concern bond issues carried out in 2006 in a total amount of €1.0 billion (see note 9).

## Note 7: Equity

### 7a - Capital

#### Share capital

The Company's share capital at December 31, 2006 amounted to €1,821,586,784, represented by 227,698,348 shares with a par value of 8 euros, all fully paid up.

#### Changes in share capital

During the year, 1,079,121 shares were issued on the exercise of 1,079,121 stock options, increasing the share capital by €8.6 million.

#### Schneider Electric SA shares

Schneider Electric SA did not buy back any of its own shares in 2006. However, various transactions were carried out during the year under the liquidity contract set up to maintain a liquid market in the Company's shares pursuant to the authorization granted by shareholders at the Annual Meeting of May 3, 2006. At December 31, 2006, 120,000 Schneider Electric SA shares were held under this contract (see note 2b).

The total number of shares held in treasury at year-end came to 4,725,771, with a cost of €262.1 million.

### 7b - Additional paid-in capital

Additional paid-in capital rose by €52.1 million following the issue of 1,079,121 shares on the exercise of 1,079,121 stock options.

### 7c - Retained earnings

Pursuant to the fourth resolution approved by shareholders at the Annual Meeting of May 3, 2006, part of the 2005 dividend paid in 2006 was deducted from retained earnings, in an amount of €59,101 thousand.

In addition, unpaid dividends on shares held in treasury as of the dividend payment date were allocated to retained earnings.

As a result of these movements, retained earnings totaled €275,145 thousand at December 31, 2006.

## Note 8: Provisions for contingencies and pension accruals

	Dec. 31, 2005	Increases	Decreases	Dec. 31, 2006
<b>Provisions for contingencies</b>				
Stock option plan no. 24	3,760	-	-	3,760
Other	2,853	15	(1,898)	970
	6,613	15	(1,898)	4,730
<b>Provisions for pension accruals</b>				
Pension accruals	30,395	2,192	(1,361)	31,226
	<b>37,008</b>	<b>2,207</b>	<b>(3,259)</b>	<b>35,956</b>

### 8a - Contingencies

A provision was set aside for stock option plan 24 because the exercise price is lower than the carrying value of the underlying treasury shares.

Other contingencies correspond to risks transferred to Schneider Electric in connection with divestments or mergers (Spie Batignolles) that have not yet entirely disappeared. One of these identified risks was eliminated in 2006.

Management is confident that balance sheet provisions for known disputes in which the Company is involved are sufficient to ensure that these disputes do not have a material impact on assets or income. In particular, sufficient provisions have been set aside to

cover the potential consequences of a current dispute in Belgium involving former senior executives and managers of the Company.

### 8b - Pension accruals

The Company has various obligations towards its current and retired senior executives and managers. Following an actuarial valuation performed in 2006, the provision for these obligations was increased to €31.2 million.

The Company applied the corridor method to actuarial gains and losses arising from this valuation (see Accounting Principles). At December 31, 2006, the amount to be recognized in the income statement over 10 years came to €6.0 million.

## Note 9: Bonds

	Amount		Interest rate*	Maturity
	Dec. 31, 2005	Dec. 31, 2006		
Schneider Electric SA 2007	450,000	450,000	6.125% F	Oct. 19, 2007
Schneider Electric SA 2008	750,000	750,000	3.875% F	Oct. 31, 2008
Schneider Electric SA 2010	900,000	900,000	3.125% F	Aug. 11, 2010
Schneider Electric SA 2011	-	500,000	Eur + 0.2% V	July 18, 2011
Schneider Electric SA 2014	-	500,000	4.500% F	Jan. 17, 2014
Schneider Electric SA 2017	600,000	600,000	4.000% F	Aug. 11, 2017
	<b>2,700,000</b>	<b>3,700,000</b>		

\*F: Fixed - V: Variable.

On July 17, 2006, Schneider Electric SA issued €1.0 billion worth of bonds. The issue comprises a €500 million five-year tranche at the Euribor 3-month rate + 0.20%, issued at a price corresponding to 99.814% of par, and a €500 million 7.5-year tranche at 4.5%, issued at a price corresponding to 99.36% of par. These bonds are traded on the Luxembourg stock exchange. The issue premium and issue costs are amortized according to the effective interest method.

Previous bond issues are as follows:

- In 2005, Schneider Electric SA issued €1.5 billion worth of bonds. The issue comprised a €900 million tranche at 3.125% due August 11, 2010 and a €600 million tranche at 4.0% due August 11, 2017.
- In 2003, Schneider Electric SA issued €750 million worth of 3.875% bonds due October 31, 2008.
- In 2000, Schneider Electric SA issued two tranches of 6.125% bonds due October 19, 2007, in principal amounts of €400 million and €50 million, respectively.

## Note 10: Other borrowings

Other borrowings at December 31, 2006 included accrued interest on bonds issued by the Company. Accrued interest rose to €44.8 million from €30.7 million at end-2005 following the issue of €1.0 billion worth of bonds in 2006.

At December 31, 2006, this item also included commercial paper issued on the market by Schneider Electric SA on behalf of the Group in the amount of €55 million.

## Note 11: Deferred income

This item includes income from a swap taken out on a €750 million bond issue (see note 9). The income is deferred over the life of the bonds.

## Note 12: Maturities of receivables and payables

	Total	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years
<b>Non-current assets</b>				
Advances to subsidiaries and affiliates	2,980,848	478,117	2,502,731	-
Other investments	30,200	30,200	-	-
<b>Current assets</b>				
Accounts receivable - trade	193	193	-	-
Other receivables	350,714	270,183	79,196	1,335
Marketable securities	169,012	6,134	162,853	25
Prepaid expenses	496	184	312	-
<b>Debt</b>				
Bonds	3,700,000	450,000	2,150,000	1,100,000
Other borrowings	99,806	99,806	-	-
Amounts payable to subsidiaries and affiliates	13	-	13	-
Short-term bank loans and overdrafts and other debts	3,221	52	3,169	-
Accounts payable - trade	52	52	-	-
Accrued taxes and payroll costs	3,972	3,972	-	-
Other liabilities	1,769	1,769	-	-

## Note 13: Related party transactions

(minimum 10% interest)

	Gross	Net
Shares in subsidiaries and affiliates	1,815,734	1,777,117
Advances to subsidiaries and affiliates	2,980,846	2,980,673
Accounts receivable	138,875	137,890
Cash and cash equivalents	5,666,443	5,666,443
Amounts payable to subsidiaries and affiliates	2,847	2,847
Accounts payable	10	10
Revenues:		
- Dividends		548,875
- Interest		253,406

## Note 14: Net financial income

	Dec. 31, 2006	Dec. 31, 2005
Dividends	557,104	337,833
Net interest income	121,740	86,148
Other	(1,075)	(1,405)
<b>Net financial income</b>	<b>677,769</b>	<b>422,576</b>

The main dividend received by Schneider Electric SA is paid by subsidiary Schneider Electric Industries SAS. This dividend totaled €537.9 million in 2006 versus €325.5 million in 2005.

## Note 15: Net non-recurring income/(expense)

	Dec. 31, 2006	Dec. 31, 2005
Net gains/(losses) on fixed and financial asset disposals	10,866	2,938
Provisions net of reversals	(1,212)	(26,686)
Other non-recurring income - net	5,789	4,642
<b>Net non-recurring income/(expense)</b>	<b>15,443</b>	<b>(19,106)</b>

As in 2005, capital gains stemmed primarily from the sale of Schneider Electric SA shares held under "Other investment securities" for allocation on exercise of stock options. Capital gains on the sale of Schneider Electric SA shares held under "Marketable securities" are recorded under "Other non-recurring income – net". Aggregate income from the sale of Schneider Electric SA shares amounted to €10.1 million in 2006 compared with €6.8 million in 2005.

The Company also recorded a material capital gain on the sale of Euronext shares in 2006 (see note 2a).

In 2005, net allocations to provisions included €22.9 million for impairment of receivables related to the Pinglin contract (see notes 3) and €3.8 million for contingencies related to stock option plan 24 (see note 8a).

## Note 16: Net income tax benefit

In 2006, this item primarily included group tax returns in France recorded by the tax group headed by Schneider Electric SA. They totaled €201.6 million, up sharply from €68.1 million the year before, reflecting non-recurring items in subsidiary Schneider Electric Industries SAS' income statement.

Schneider Electric SA is the parent company of the tax group comprising all French subsidiaries that are over 95%-owned. Tax loss carryforwards available to the Company in this capacity totaled €139.5 million at December 31, 2006.

## Note 17: Off-balance sheet commitments

### 17a - Partnership obligations

Share of the liabilities of "SC" non-trading companies attributable to Schneider Electric SA as partner of the companies concerned: not material.

Share of the liabilities of "SNC" flow-through entities attributable to Schneider Electric SA as partner of the entities concerned: not material.

### 17b - Guarantees given and received

Commitments given:

- Counterguarantees of bank guarantees: . . . . None
- Other guarantees given: . . . . . €6.7 million

Commitments received:

- Bank counterguarantees: . . . . . None

## 17c - Financial instruments

As a general practice, the Company does not purchase or sell any financial instruments. Hedging transactions are carried out by the manager of the Group cash pool, Boissière Finance, a wholly-owned subsidiary of Schneider Electric Industries SAS, which in turn is wholly-owned by Schneider Electric SA. However, in 2006, Schneider Electric SA set up three interest rate swaps to hedge one of the bond issues made during the year.

## 17d - Exchange of Legrand shares

As part of its public exchange offer for Legrand SA, Schneider Electric SA made a commitment to exchange shares held upon exercise of options granted by Legrand for Schneider Electric shares. When Legrand SA was sold to KKR/Wendel Investissement, Schneider Electric SA set up a call and put system for the Legrand shares created through the exercise of said options. These shares are re-sold to Legrand SAS (formerly known as FIMAF), an investment vehicle of the KKR/Wendel Investissement consortium.

The stock option plans in question are fully covered.

## Note 18: Other information

### 18a - Number of employees

At December 21, 2006, the Company had two employees.

### 18b - Consolidated financial statements

Schneider Electric SA is the parent company of the Group and therefore publishes the consolidated financial statements of the Schneider Electric Group.

## Note 19: Subsequent events

On October 30, 2006, Schneider Electric announced a friendly offer to purchase all outstanding shares of US-based American Power Conversion (APC), the world leader in critical power. The Group also announced its intention to finance the acquisition through borrowing and a share issue.

The anti-trust regulatory review in the United States ended on December 12, 2006 when the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act expired.

APC's shareholders approved the proposed merger in Extraordinary Meeting on January 16, 2007 and the European Commission's competition authorities granted final clearance on February 8, 2007 pending certain divestments.

On February 14, 2007, Schneider Electric announced that the acquisition had been finalized for around \$6.1 billion.

## 4. Auditors' report on the financial statements

This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the financial statements. This information includes explanatory paragraphs discussing the auditors' assessment of certain significant accounting matters. These assessments were made for the purpose of issuing an opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. The report also includes information relating to the specific verification of information in the group management report. This report should be read in conjunction with, and is construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your shareholders' annual general meeting, we hereby report to you, for the year ended December 31, 2006, on:

- The audit of the accompanying financial statements of Schneider Electric SA.
- The justification of our assessments.
- The specific verifications and information required by law.

These financial statements have been approved by the Management Board. Our role is to express an opinion on these financial statements based on our audit.

### I - Opinion on the financial statements

We conducted our audit in accordance with the professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company at December 31, 2006, and the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

### II - Justification of assessments

In accordance with the requirements of article L. 823-9 of French Commercial Code (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

As part of our assessment of the accounting principles and methods used by your company, we verified the appropriateness of the principles and methods used to value shares in subsidiaries and affiliates, described in the section on accounting principles and in note 2 to the financial statements, and obtained assurance that they were correctly applied.

The assessments were thus made in the context of the performance of our audit of the financial statements, taken as a whole, and therefore contributed to the formation of our audit opinion expressed in the first part of this report.

### III - Specific verifications and information

We have also performed the specific verifications required by law in accordance with professional standards applicable in France.

We have no matters to report regarding:

- The fair presentation and the conformity with the financial statements of the information given in the Management Board's report, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.
- The fair information given in the Management Board's report relating to the compensation and benefits paid to the Corporate Officers concerned and the engagement granted to them on the occasion of the arrival, suspension or change of duties or subsequently to it.

In accordance with French Law, we have ensured that the required information concerning the purchase of investments and controlling interests and the names of the principal shareholders has been properly disclosed in the Management Board's report.

Courbevoie and Neuilly sur Seine, February 20, 2007

The Statutory Auditors

Mazars & Guérard	Ernst & Young et Autres
Pierre Sardet	Christian Chochon
Jean-Louis Simon	Pierre Jouanne

## 5. List of securities at December 31, 2006

(€ thousands)

Number of shares	Company	Carrying value
<b>A. Investments with a carrying value of more than €15,000</b>		
27,582,141	Schneider Electric Industries SAS	1,531,981
9,796,300	AXA	101,458
44,271	S.E.L.F.	2,683
14,079	LEGRAND SAS	2,244
1,300	Vigéo SAS	53
5,000	SE 5W SAS	45
5,000	SE 7A SAS	45
5,000	SE 7E SAS	45
5,000	SE 2006 A	45
5,000	SE 2006 B	45
1,796,488	Schneider Electric SA treasury stock	93,054
		<b>1,731,698</b>
<b>B. Investments with a carrying value of less than €15,000</b>		
		1,042
<b>C. Investments in real estate companies</b>		
		-
<b>D. Investments in foreign companies</b>		
		241,186
<b>Total</b>		<b>1,973,926</b>
<b>Marketable securities</b>		
10,080	Geodis	25
2,929,283	Schneider Electric SA shares (stock option plans no. 16, 24 and 26)	168,987
<b>Total</b>		<b>169,012</b>

## 6. Subsidiaries and affiliates

(€ thousands)

Company	Capital	Reserves and retained earnings before appropriation of income for the year*	% interest
<b>I. Subsidiaries and affiliates whose carrying value exceeds 1% of Schneider Electric SA's capital</b>			
<b>A. Subsidiaries (at least 50%-owned)</b>			
Schneider Electric Industries SAS 89, boulevard Franklin Roosevelt – 92500 Rueil-Malmaison	441,314	1,628,969	100.00
Cofibel 18/20, avenue Winston Churchill - 1180 Brussels	55,362	47,831	99.62
Cofimines 18/20, avenue Winston Churchill - 1180 Brussels	41,522	33,838	99.80
<b>B. Affiliates (10 to 50% owned)</b>			
Digital Holdings Co Ltd 8-2-52 Nanko-Higashi - 559 0031 Suminoe Osaka - Japan	2,479	193,241	16.07
<b>II. Other subsidiaries and affiliates</b>			
<b>A. Other subsidiaries (at least 50% owned)</b>			
a) French subsidiaries (aggregate)			
b) International subsidiaries (aggregate)			
<b>B. Other affiliates (at least 50% owned)</b>			
a) French companies (aggregate)			
b) International companies (aggregate)			
*Including prior-year income or loss.			



	Book value of shares		Outstanding loans and advances	Guarantees	Net sales for the year	Income or loss for the year	Dividends received
	Cost	Net					
	1,531,981	1,531,981	2,948,439	-	3,028,402	863,161	537,852
	136,898	136,898	-	-	Holding company	4,830	5,705
	82,609	82,609	-	-	Holding company	1,561	0
	21,249	21,249	-	-	-	35,804	4,656
	33,255	1,266	-	-	-	-	-
	-	-	-	-	-	-	-
	131,004	106,438	-	-	-	-	7,930
	431	431	-	-	-	-	-

## 7. Five-year financial summary


	2002	2003	2004	2005	2006
<b>Capital and potential capital at December 31</b>					
Capital stock (in thousands of euros)	1,926,503	1,854,737	1,809,553	1,812,954	1,821,587
Shares in issue	240,812,905	231,842,170	226,194,177	226,619,227	227,698,348
Convertible bonds in issue (in thousands)	-	-	-	-	-
Maximum number of shares to be created (in thousands):					
- Through conversion of bonds	-	-	-	-	-
- Through exercise of rights	5,744	5,707	7,140	10,126	10,174
<b>Results of operations (in thousands of euros)</b>					
Sales net of VAT	1,980	1,896	1,208	2,868	1,735
Investment revenue, interest income and other revenue	676,938	640,884	627,389	507,001	812,373
Income before tax, depreciation, amortization and provisions	156,103	395,143	547,381	411,950	683,335
Income tax	-	5,835	4,156	278	4,304
Net income	221,139	474,732	558,768	450,793	887,825
Dividends paid <sup>(1)</sup> excluding <i>précompte</i> equalization tax and tax credit	228,813 <sup>(2)</sup>	255,026	407,150 <sup>(3)</sup>	509,893	683,095 <sup>(4)</sup>
<b>Per share data (in euros)</b>					
Net income before depreciation, amortization and provisions	1.30	1.79	2.51	2.12	3.92
Earnings per share	0.92	2.05	2.47	1.99	3.90
Dividend per share, net of tax credit	1.00	1.10	1.80	2.25	3.00 <sup>(4)</sup>
<b>Employees</b>					
Average number of employees during the year	3	3	3	3	2
Total payroll for the year (in thousands of euros)	3,823	2,213	2,443	4,446	3,648
Total employee benefits paid over the year (payroll taxes, other benefits) (in thousands of euros)	668	416	534	690	1,194

(1) Dividends on shares held in treasury on the dividend payment date and the associated *précompte* tax are credited to retained earnings.

(2) After cancellation of 12 million shares.

(3) In conjunction with the elimination of the *avoir fiscal* tax credit and *précompte* equalization tax, an exceptional 25% exit tax was due on dividends paid out in 2005. The exit tax gave rise to a tax credit in the same amount that is utilizable or refundable in three equal installments over the three years following the payment.

(4) Pending approval by shareholders at the Annual Meeting of April 26, 2007.



# Unaudited pro forma information related to the 2006 consolidated financial statements

- |                                   |          |   |          |
|-----------------------------------|----------|---|----------|
| 1. Presentation                   | → p. 169 | 3. Comparison of Schneider Electric and APC accounting principles | → p. 172 |
| 2. Pro forma financial statements | → p. 170 | 4. Auditors' report on the pro forma financial statements         | → p. 174 |

## 1. Presentation

The pro forma income statement and balance sheet data presented below have been prepared as if the business combination between Schneider Electric and APC had taken place as of January 1, 2006.

The pro forma data are provided for information only; they do not purport to be an accurate reflection of the results that would have been obtained if the transaction had been carried out on January 1, 2006 or to provide any indication of future results. They should be read in conjunction with the consolidated financial statements of Schneider Electric and APC. The pro forma data were prepared by the Schneider Electric Finance Department on the basis of reported information and the unaudited financial statements of APC for the year ended December 31, 2006 provided by APC and available at the time of preparation, using criteria that were considered as reasonable. The description of differences between the accounting policies used to prepare APC's financial statements and IFRS consists of a summary of the main identified and applicable dif-

ferences. The available information has not lead to identify any other adjustment that could significantly impact the pro forma income statement and balance sheet data. No assurance is given that a detailed reconciliation of the two groups' accounting policies would not reveal any other material reconciling items or adjustment.

At the time when the pro forma data were prepared, the Group did not have sufficient information to assess the effects of the business combination between the two groups. As a result, the pro forma information does not take into account the effects of applying IFRS 3 "*Business Combinations*", particularly the effect of amortizing intangible assets recognized on the business combination.

## 2. Pro forma financial statements

### 2.1 - Unaudited combined income statement

Year ended December 31, 2006

<i>(in millions of euros)</i>	<b>Schneider Electric IFRS</b>	<b>APC US GAAP unaudited</b>	<b>APC adjustments US GAAP to IFRS unaudited</b>	<b>APC IFRS unaudited</b>	<b>Schneider Electric + APC IFRS unaudited</b>
<b>Revenue</b>	<b>13,729.7</b>	<b>1,897.3</b>	-	<b>1,897.3</b>	<b>15,627.0</b>
Cost of sales	(8,050.6)	(1,285.0)	-	(1,285.0)	(9,335.6)
<b>Gross profit</b>	<b>5,679.1</b>	<b>612.3</b>	-	<b>612.3</b>	<b>6,291.4</b>
Research and development expenses	(327.6)	(81.6)	-	(81.6)	(409.2)
Selling, general and administrative expenses	(3,234.8)	(451.3)	-	(451.3)	(3,686.1)
Other operating income and expenses	(116.0)	-	-	-	(116.0)
<b>Operating profit</b>	<b>2,000.7</b>	<b>79.4</b>	-	<b>79.4</b>	<b>2,080.1</b>
Finance costs, net	(104.0)	-	-	-	(104.0)
Other financial income and expenses	(16.9)	15.5	-	15.5	(1.4)
<b>Finance costs and other financial income and expenses, net</b>	<b>(120.9)</b>	<b>15.5</b>	-	<b>15.5</b>	<b>(105.4)</b>
Share of profit /(losses) of associates	1.9	-	-	-	1.9
<b>Profit before tax</b>	<b>1,881.7</b>	<b>94.9</b>	-	<b>94.9</b>	<b>1,976.6</b>
Income tax expense	(535.1)	(5.3)	-	(5.3)	(540.4)
<b>Profit of continuing operations</b>	<b>1,346.6</b>	<b>89.6</b>	-	<b>89.6</b>	<b>1,436.2</b>
Discontinued operations	-	-	-	-	-
<b>Profit for the period</b>	<b>1,346.6</b>	<b>89.6</b>	-	<b>89.6</b>	<b>1,436.2</b>
- Attributable to equity holders of the parent	1,309.4	89.6	-	89.6	1,399.0
- Attributable to minority interests	37.2	-	-	-	37.2

## 2.2 - Unaudited condensed combined balance sheet

Year ended December 31, 2006

<b>ASSETS</b>	<b>Schneider Electric IFRS</b>	<b>APC US GAAP unaudited</b>	<b>APC adjustments US GAAP to IFRS unaudited</b>	<b>APC IFRS unaudited</b>	<b>Schneider Electric + APC IFRS unaudited</b>
<i>(in millions of euros)</i>					
<b>Non-current assets:</b>					
Goodwill, net	6,185.7	14.0	-	14.0	6,199.7
Intangible assets, net	1,493.1	15.6	-	15.6	1,508.7
Property, plant and equipment, net	1,615.1	157.9	-	157.9	1,773.0
Assets held for sale	6.4	-	-	-	6.4
<b>Total tangible and intangible assets</b>	<b>3,114.6</b>	<b>173.5</b>	<b>-</b>	<b>173.5</b>	<b>3,288.1</b>
Investments in associates	10.2	-	-	-	10.2
Available-for-sale financial assets	315.7	0.2	-	0.2	315.9
Other financial assets	114.2	3.7	-	3.7	117.9
<b>Total non-current financial assets</b>	<b>429.9</b>	<b>3.9</b>	<b>-</b>	<b>3.9</b>	<b>433.8</b>
Deferred tax assets	672.8	87.9	-	87.9	760.7
<b>Total non-current assets</b>	<b>10,413.2</b>	<b>279.3</b>	<b>-</b>	<b>279.3</b>	<b>10,692.5</b>
<b>Current assets:</b>					
Inventories and work in process	2,055.9	451.0	-	451.0	2,506.9
Trade accounts receivable	2,882.8	326.9	-	326.9	3,209.7
Other receivables and prepaid expenses	994.8	85.4	-	85.4	1,080.2
Current financial assets	73.5	270.2	-	270.2	343.7
Cash and cash equivalents	2,544.1	183.7	-	183.7	2,727.8
<b>Total current assets</b>	<b>8,551.1</b>	<b>1,317.2</b>	<b>-</b>	<b>1,317.2</b>	<b>9,868.3</b>
<b>Total assets</b>	<b>18,964.3</b>	<b>1,596.5</b>	<b>-</b>	<b>1,596.5</b>	<b>20,560.8</b>

## Unaudited pro forma information related to the 2006 consolidated financial statements

LIABILITIES AND EQUITY	Schneider Electric IFRS	APC US GAAP unaudited	APC adjustments US GAAP to IFRS unaudited	APC IFRS unaudited	Schneider Electric + APC IFRS unaudited
<i>(in millions of euros)</i>					
<b>Equity</b>					
Share capital	1,821.6	1.4	-	1.4	1,823.0
Share premium account	4,121.0	76.9	-	76.9	4,197.9
Retained earnings	2,773.9	1,168.0	-	1,168.0	3,941.9
<b>Equity attributable to equity holders of the parent</b>	<b>8,716.5</b>	<b>1,246.3</b>	<b>-</b>	<b>1,246.3</b>	<b>9,962.8</b>
Minority interests	121.6	-	-	-	121.6
<b>Total equity</b>	<b>8,838.1</b>	<b>1,246.3</b>	<b>-</b>	<b>1,246.3</b>	<b>10,084.4</b>
<b>Long-term provisions</b>					
Provisions for pensions and other post-employment benefits	1,159.0	-	-	-	1,159.0
Provisions for contingencies	283.1	-	-	-	283.1
Total long-term provisions	1,442.1	-	-	-	1,442.1
<b>Non-current liabilities</b>					
Ordinary and convertible bonds	3,237.9	-	-	-	3,237.9
Perpetual bonds	-	-	-	-	-
Other long-term debt	219.2	-	-	-	219.2
Total non-current financial liabilities	3,457.1	-	-	-	3,457.1
Deferred tax liabilities	305.3	7.7	-	7.7	313.0
Other non-current liabilities	90.2	-	-	-	90.2
<b>Total non-current liabilities</b>	<b>5,294.6</b>	<b>7.7</b>	<b>-</b>	<b>7.7</b>	<b>5,302.3</b>
<b>Current liabilities</b>					
Current operating liabilities	3,947.0	342.5	-	342.5	4,289.5
Short-term debt	884.6	-	-	-	884.6
<b>Total current liabilities</b>	<b>4,831.6</b>	<b>342.5</b>	<b>-</b>	<b>342.5</b>	<b>5,174.1</b>
<b>Total equity and liabilities</b>	<b>18,964.3</b>	<b>1,596.5</b>	<b>-</b>	<b>1,596.5</b>	<b>20,560.8</b>

### 3. Comparison of Schneider Electric and APC accounting principles

As explained in note 1 of consolidated financial statements, Schneider Electric's consolidated financial statements have been prepared in compliance with the international accounting standards adopted by the European Union as of December 31, 2006. These include International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs) and the related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

APC's consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (US GAAP). The adjustments made to APC's US GAAP accounts to prepare the pro forma financial information under IFRS were estimated by Schneider Electric's Finance Department based on the description of accounting policies contained in APC's annual financial statements.

#### 3.1 Financial statement presentation and foreign currency translation

The main income statement and balance sheet captions in the APC Group's financial statements have been reclassified to permit their combination with the main captions in the Schneider Electric Group's financial statements.

In particular, deferred taxes have been reclassified from current assets and liabilities to non-current assets and liabilities, to comply with IAS 12 - *Income Taxes*. Other reclassifications may also be made when APC is included for the first time in the Schneider Electric Group's published consolidated financial statements.

APC's financial statements have been translated from US dollars, corresponding to the company's functional currency, into euros, representing the Schneider Electric Group's presentation currency, as follows: Assets and liabilities have been translated at the exchange rate on the balance sheet date and income and expenses have been translated at the average rate for the year. The exchange rates applied are as follows:

Dollar/euro exchange rate	2006
Exchange rate on December 31	0.759301
Average rate	0.797780

In addition, the operating profit of APC includes non recurrent costs for an amount of \$51 million (€41 million) that have not been separated in the combined financial statements presentation.

### 3.2 Share-based payments

Stock options have been granted to the management and certain employees of APC.

Schneider Electric applies IFRS 2 – *Share-Based Payment*. Accounting policies for the application of this standard are described in note 1 of consolidated financial statements.

Effective from January 1, 2006, APC has applied SFAS 123 R - *Accounting for Stock-Based Compensation (Revised)*, which requires companies to recognize in their income statement the compensation cost relating to share-based payment transactions such as stock options at fair value. This method is consistent with IFRS 2 and therefore no adjustment is required in the pro forma financial statements for share-based payments.

APC uses the Black & Scholes option pricing model to measure the fair value of stock options, while Schneider Electric uses the binomial model. Although no estimate has been made of the difference between the values obtained using these two models, it is not expected to be material.

### 3.3 Provisions for pensions and other post-retirement benefit obligations

Depending on local laws and practices, the subsidiaries of Schneider Electric and APC may have obligations under pension and other post-retirement benefit plans and long-term benefit plans.

Schneider Electric applies IAS 19 - *Employee Benefits* and recognizes actuarial gains and losses immediately in the amount of the benefit obligation, by adjusting equity (see note 1 of consolidated financial statements for further details).

APC accounts for its pension and post-employment healthcare obligations in accordance with SFAS 87 - *Employers' Accounting for Pensions*, which requires actuarial gains and losses to be recognized in profit by the corridor method.

As APC's reported defined benefit obligations are not material, no adjustment has been recorded in the pro forma financial statements for the effects of this difference in method.

Further analyses will be performed when APC is consolidated for the first time

### 3.4 Restructuring provisions

Under IFRS, restructuring provisions may be recognized when the Group has prepared a detailed formal plan for the restructuring and has either announced or started to implement the plan at year-end.

Under US GAAP (SFAS 146 - *Accounting for Costs Associated with Exit or Disposal Activities* and SFAS 88 - *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*), provisions for employee termination costs may be recorded if, and only if, the affected employees have accepted a termination offer and the termination costs can be reliably estimated.

No material restructuring provisions were recorded in APC's balance sheet at December 31, 2006 and therefore, no adjustment was recorded in the pro forma financial statements.

### 3.5 Research and development costs

Schneider Electric applies IAS 38 - *Intangible Assets*. In accordance with this standard, development costs for new projects are capitalized when:

- The project is clearly identified and the related costs are separately identified and reliably tracked.
- The project's technical feasibility has been demonstrated and the Group has the intention and financial resources to complete the project and to use or sell the related products.
- It is probable that the project will generate future economic benefits for the Group.

Research and development costs may not be capitalized under US GAAP.

The information available about the APC Group is not sufficiently detailed to determine whether any of its development projects fulfill the criteria for capitalizing development costs under IAS 38.

As a result, the pro forma financial statements have not been adjusted for the effects of capitalizing development costs. Research and development costs recognized in APC's 2006 income statement amount to €81.6 million. It is probable that part of these costs will be capitalized in the future.

### 3.6 Inventories

SFAS 151 - *Inventory Costs*, which has been applicable since January 1, 2006, is not materially different from IAS 2 - *Inventory*.

From the disclosures contained in APC's financial statements, the group's adoption of SFAS 151 as of January 1, 2006 did not lead to any adjustments to the amounts reported under the previous standard (ARB 43).

Consequently, no adjustments have been made to APC inventories in the pro forma financial statements under IFRS.

### 3.7 Provisions

Schneider Electric applies IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets*. This standard requires provisions to be discounted to the present value of the expenditure required to extinguish the obligation if the effects of discounting are material at the balance sheet date.

APC does not record any long-term provisions and therefore no adjustment was made in the pro forma financial statements.

### 3.8 Items subject to the same treatment under IFRS and US GAAP

No differences were identified between APC's accounting policies and the following IASs and IFRSs: IAS 16 - *Property, Plant and Equipment*; IAS 17 - *Leases*; IAS 18 - *Revenue*; IAS 36 - *Impairment of Assets*; and IAS 32 and 39 - *Financial Instruments*.

Application of the other IASs and IFRSs not mentioned above is not expected to have a material impact on the financial statements of APC.

## 4. Auditors' report on the pro forma financial statements

Free translation of the original report in French.

To the Shareholders,

In our capacity as Statutory Auditors of Schneider Electric SA, and as required by regulation 809/2004/EC, we present below our report on the combined condensed pro forma financial information under IFRS for 2006 (hereafter referred to as "the pro forma information") prepared by Schneider Electric SA in connection with the share issue intended to finance part of the planned acquisition of APC in the United States. This information is presented in section 11.7 of the Offering Memorandum dated March 7, 2007.

The pro forma information was prepared under the supervision of the Schneider Electric SA Management Board in accordance with regulation 809/2004/EC on the basis of Schneider Electric SA's audited consolidated financial statements for the year ended December 31, 2006 and APC's unpublished, unaudited consolidated financial statements for the same period.

The pro forma information was prepared solely to illustrate how the acquisition of APC shares might have affected Schneider Electric SA's assets and liabilities and earnings for the year ended December 31, 2006 had the transaction been undertaken on January 1, 2006. Because of its nature, this information addresses a hypothetical situation and, therefore, does not represent the Company's actual financial position or results.

It is our responsibility to report our conclusions, based on our review, on the manner in which the pro forma information was compiled, as required by regulation 809/2004/EC, Annex II, Point 7.

We performed our work in accordance with professional standards in France. Our review, which did not include an examination of the underlying financial information used to establish the pro forma information, primarily consisted of (i) ensuring that the basis on which the pro forma information was compiled corresponded to the source documents described in the notes to the pro forma financial statements; (ii) examining evidence supporting the absence of pro forma adjustments; and (iii) interviewing Schneider Electric SA's senior management to obtain the information and explanations we deemed necessary.

In our opinion:

■ The pro forma information has been properly compiled on the basis stated in note 11.7.1 of the Offering Memorandum dated March 7, 2007.

■ The basis is consistent with (i) the accounting policies used by Schneider Electric to prepare its consolidated financial statements for the year ended December 31, 2006 in compliance with the IFRSs adopted by the European Union, and (ii) the accounting policies used by APC to prepare its consolidated financial statements for the year ended December 31, 2006 in accordance with US GAAP. As explained in note 11.7.3 of the Offering Memorandum dated March 7, 2007, no adjustments have been made at this stage with respect to differences between IFRS and US GAAP.

Without qualifying our opinion, we draw attention to note 11.7.1 of the Offering Memorandum dated March 7, 2007 which states that APC's financial statements for the year ended December 31, 2006 are unaudited and unpublished and that no assurance is given that a detailed reconciliation of the two groups' accounting policies would not reveal any other material reconciling items or adjustment.

This report is issued solely in connection with the offering made to the public in France and other countries of the European Union in which the prospectus approved by Autorité des Marchés Financiers (AMF) may be distributed.

Courbevoie and Neuilly-sur-Seine, March 7, 2007

The Statutory Auditors

Mazars & Guérard Ernst & Young et Autres

Pierre Sardet Christian Chochon

Jean-Louis Simon Pierre Jouanne



# Annual and Extraordinary Shareholders' Meeting of April 26, 2007

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## 1. Management Board's report to the Annual and Extraordinary Shareholders' Meeting

### Resolutions to be voted on in Annual Meeting

#### Approval of the annual financial statements - first resolution -

We ask you to approve the transactions and financial statements for the year, as presented, which show net profit of €887.8 million.

#### Approval of the consolidated financial statements - second resolution -

We ask you to approve the consolidated financial statements for the year, as presented, which show net profit attributable to equity holders of the parent of €1,309 million, an increase of 32% from 2005.

#### Profit appropriation and payment of a dividend of €3 per share - third resolution -

We recommend that profit available for distribution, consisting of net profit for the year of €887.8 million and retained earnings of €275.1, should be appropriated as follows:

Dividends	€683,095,044.00
Retained earnings	€479,875,074.94
Total	€1,162,970,118.94

If these appropriations are approved, the net dividend paid on each of the shares carrying rights to the 2006 dividend will amount to €3.00

#### The dividend will be paid as from May 2, 2007.

Shareholders should note that France's 2004 Finance Act eliminated the avoir fiscal tax credit and précompte equalization tax. However, for individual shareholders who pay income tax in France, only 60% of the dividend will be included in their taxable income. In addition, they will be entitled to a tax credit on their total dividend income from all sources, capped at €115 for a single, divorced or widowed person and €230 for couples who file a joint tax return.

The full dividend will be eligible for the 40% deduction for individuals resident in France. No amounts eligible or not eligible for the 40% deduction provided for in Article 158-3-2 of the French Tax Code will be distributed, other than the dividend described above.

We remind you that dividends paid by Schneider Electric SA for the last three years were as follows:

	<b>Dividend</b>	<b>Avoir fiscal tax credit</b>	<b>Total revenue</b>
2003	€1.1	€0.55 <sup>(1)</sup> €0.11 <sup>(2)</sup>	€1.65 €1.21
2004	€1.8	-	€1.8 <sup>(3)</sup>
2005	€2.25	-	€2.25 <sup>(4)</sup>

(1) 50% tax credit.

(2) 10% tax credit.

(3) Full dividend eligible for a 50% deduction for individuals resident in France as of January 1, 2004. No non-eligible dividends were distributed for 2004.

(4) Full dividend eligible for a 40% deduction for individuals resident in France as of January 1, 2005. No non-eligible dividends were distributed for 2005.

### Agreements governed by article L.225-38 and L.225-86 of the French Commercial Code - fourth and fifth resolutions -

We ask you to approve the regulated agreements presented in the Auditors' special report in accordance with articles L.225-38 and L.225-86 of the French Commercial Code. They include:

- The shareholders' agreement with AXA concerning cross-shareholdings between AXA and Schneider Electric authorized by the Board of Directors on January 6, 2006.
- Measures decided by the Supervisory Board at its meeting on May 3, 2006 to ensure that Jean-Pascal Tricoire would continue to be entitled to all the pension and other benefits provided for in his service contract with Schneider Electric Industries SAS, which was suspended on his appointment to the Management Board as Chairman.
- An addendum to Mr. Tricoire's service contract defining the terms under which it will resume or be terminated.

### Share buybacks - sixth resolution -

We ask you to renew the authorization given to the Company by shareholders at the Annual Meeting of May 3, 2006 to buy back its shares by any appropriate method, including through the use of derivatives, in accordance with the provisions of article L.225-209 of the Commercial Code.

The shares could be bought back to reduce the issued capital, or in connection with stock option plans, or plans to grant shares without consideration, or to permit the conversion of convertible debt securities, or to finance an acquisition, or for the purpose of market-making under a liquidity agreement.

Shares bought back under this authorization may be canceled in accordance with the twenty-third resolution approved by shareholders at the Annual Meeting of May 3, 2006.

Our report on the use of the authorization given by the Annual Meeting of May 3, 2006, prepared in accordance with article L.225-209 of the Commercial Code, is presented on page 179.

You are asked to authorize the Company to buy back shares representing at most 10% of the issued capital as of the date of this Meeting (representing 22,769,834 shares on the basis of the number of shares outstanding at the last official count on December 31, 2006). The maximum purchase price is set at €130.

## Resolutions to be voted on in Extraordinary Meeting

### Amendment to the bylaws to provide for the representation of employee shareholders on the Supervisory Board, in accordance with french law - seventh and eighth resolutions -

Since 2001, the Board of Directors, and then the Supervisory Board, has included a member representing employee shareholders who is elected at the Annual Meeting in accordance with procedures set by the Board.

Under the French Act of December 30, 2006 on the development of employee stock ownership, listed companies in which more than 3% of the issued capital as of December 31, 2006 is held directly or indirectly through corporate mutual funds by employees of the company and its French and foreign subsidiaries must amend their bylaws to provide for the representation of employee shareholders on the Supervisory Board. This member must be elected by the shareholders in General Meeting.

As Schneider Electric employees held more than 3.09% of the issued capital on December 31, 2006, Schneider Electric must amend its bylaws to define the procedure under which employee shareholders may designate candidates for election to the Supervisory Board in General Meeting.

The amendment submitted for your approval stipulates that the Supervisory Board shall include one member representing employee shareholders, who shall be elected by the shareholders in General Meeting according to a process determined by the Supervisory Board. However, if employees hold more than 3% of the issued capital on December 31, said Supervisory Board member shall be replaced by a member elected for a four-year term by the General Meeting on the basis defined below.

The General Meeting shall vote on a list of candidates presented by employee shareholders. The supervisory boards of mutual funds invested in the Company's shares shall designate one or two candidates, selected at their discretion. Employees who hold their shares directly will be asked to designate a candidate as well, even though they represent a very small percentage of employee shareholders. To keep the number of candi-

dates at a manageable level, the Company's Management Board may decide to require two or more supervisory boards to consult together and to jointly designate one or two candidates.

Candidates for election as the representative of employee shareholders on the Supervisory Board must be employed under a contract that qualifies them to sit on the Supervisory Board for a four-year term and must hold at least 25 Schneider Electric SA shares or an equivalent number of units in a mutual fund invested in the Company's shares.

The representative of employee shareholders' term shall end and he or she will be considered as having resigned if he or she is no longer (i) an employee of the Group, (ii) a shareholder or holder of units in a mutual fund invested in the Company's shares, or (iii) a member of the supervisory board of the mutual fund that proposed him or her as a candidate. The representative's term shall also end if employees hold less than 3% of the issued capital at the end of the financial year.

A representative of employee shareholders will be elected to the Supervisory Board for the first time in accordance with this amendment to the bylaws at the Annual General Meeting to be held to approve the 2007 financial statements, if applicable.

We are also submitting an amendment to the bylaws providing for the direct election of a member of the Supervisory Board by the employees of the Company and its direct or indirect subsidiaries that have their registered office in France.

We ask you to vote against this resolution, which has not been approved by the Management Board but that must be submitted to the General Meeting in accordance with the French Commercial Code. Under the French Commercial Code, if the General Meeting is asked to amend the bylaws to provide for the representation of employee shareholders on the Supervisory Board, as in the seventh resolution, it must also vote on a resolution providing for the direct election of a Supervisory Board member by employees of the Company and its subsidiaries in France.

### Authorizations to increase the capital with or without pre-emptive subscription rights - ninth, tenth, eleventh and twelfth resolutions -

We are tabling resolutions to renew authorizations granted to the Management Board to increase the capital.

You have authorized the Management Board to issue shares, shares with equity warrants, convertible bonds, stand-alone equity warrants and other share equivalents, with or without pre-emptive subscription rights.

Acting on this authorization, the Management Board has announced that it will carry out a €1 billion share issue with pre-emptive subscription rights to finance part of the acquisition of US-based APC. This acquisition, which was finalized on February 14, 2007, has made Schneider Electric the global leader in critical power.

Because the authorizations will expire during the year, we ask you to renew authorizations to increase the capital with or without pre-emptive subscription rights

for a period of **26 months**, as provided for in Article L.225-192-2 of the French Commercial Code.

In the ninth resolution, you are asked to authorize the Management Board to issue, in France or abroad, common shares or legally recognized securities that are convertible, redeemable, exchangeable or otherwise exercisable for shares, in all cases with pre-emptive subscription rights. This authorization would also cover the raising of the par value of existing shares, to be paid up by capitalizing reserves, earnings, or additional paid-in capital.

The aggregate par value of the issued securities may not exceed **€1.5 billion**. The issued share capital may be increased during the period by a maximum aggregate amount of **€500 million**, or 62.5 million shares. This ceiling does not include an increase in the par value of existing shares paid up by capitalizing reserves, earnings or additional paid-in capital, nor does it include the par value of any shares to be issued to prevent dilution of the rights of holders of share equivalents.

The €500 million ceiling takes into account authorized capital increases without pre-emptive subscription rights.

In the tenth resolution, you are asked to authorize the Management Board to issue the above shares and share equivalents without pre-emptive subscription rights for existing shareholders on the French or international market.

This authorization may be used to issue shares of the Company on conversion, redemption, exchange or exercise of share equivalents issued by Schneider Electric SA's direct or indirect subsidiaries with the Management Board's agreement.

The aggregate par value of securities issued in accordance with this resolution may not exceed €1.5 billion. The issued share capital may be increased during the period by a maximum aggregate amount of €300 million, or 37.5 million shares. The ceilings set in this resolution and the ninth resolution would not be cumulative.

The eleventh resolution authorizes the Management Board to increase the number shares to be issued in application of the ninth or tenth resolutions if the issues are oversubscribed. The supplementary capital increase that may be made within 30 days after the initial subscription period closes may not exceed 15% of the original increase and must be carried out at the same price.

The twelfth resolution authorizes the Management Board to issue shares or share equivalents within the ceilings set in the preceding resolutions in payment of shares of another company tendered to a public exchange offer initiated by Schneider Electric. In accordance with the new measures in the Commercial Code, the Management Board may also issue shares or share equivalents representing, in the aggregate, a maximum of 10% of the Company's issued capital, in payment for shares or share equivalents contributed to the Company.

The purpose of these authorizations is to give the Management Board of Directors greater flexibility when it comes to selecting the type of issues to be carried out, depending on demand and the conditions prevailing in the French, foreign or international financial markets.

The authorization to issue shares and share equivalents without pre-emptive subscription rights is designed to allow the Board to carry out issues quickly, in order to take immediate advantage of opportunities before they disappear, and to expand the shareholder base by placing the issues on foreign or international markets.

In the case of issues without pre-emptive subscription rights, the Board of Directors may offer shareholders a non-transferable priority subscription right. In accordance with Decree 2005-112 of February 10, 2005, the resulting share issues would be carried out at a price at least equal to the average weighted price for the Company's shares over the three trading days preceding the date on which the share or share equivalent issues were decided by the Management Board. They may be issued with a maximum discount of 5%.

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### Authorization to be given to the Management Board to grant shares without consideration to officers and employees of the company and its subsidiaries and affiliates - thirteenth resolution -

The General Meeting held on May 3, 2006 authorized the Management Board to grant shares without consideration to the officers and employees Schneider Electric SA and its subsidiaries and affiliates, as defined in article L.225-197-2 of the Commercial Code.

Acting on this authorization, the Management Board granted 52,006 shares on December 21, 2006, half of which are contingent on the achievement of performance criteria. The shares, which will vest after a period of three years, are subject to a lock-up period of two years. For tax reasons, share grants were restricted to grantees who have France as their tax home, with the exception of impatriates.

We ask you to renew this authorization early, before it expires in 2009, so that the Management Board may modulate the minimum vesting and lock-up periods in accordance with the new measures introduced by the French Act of December 30, 2006 on the development of employee stock ownership. This would allow the Management Board to set a vesting period of no less than four years with no lock-up period for employees who do not have France as their tax home and facilitate share grants to said employees.

In addition, the shares would vest and be available for sale immediately if the grantee is declared disabled.

The other conditions remain unchanged. Part of the grants will be conditional on the achievement of certain performance targets. The total number of shares granted without consideration may not represent more than 0.5% of the Company's issued capital; furthermore, the sum of the shares that may be subscribed or purchased on exercise of options granted under the twenty-fourth resolution approved by the General Meeting of May 3, 2006 and the shares that may be granted without consideration under this resolution may not represent more than 3% of the Company's capital.

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### Issuance of shares to employees - fourteenth and fifteenth resolutions -

The General Meeting of May 3, 2006 authorized the Management Board to issue shares to employees who are members of an Employee Stock Purchase Plan. In addition, the same General Meeting authorized the Management Board to issue shares to entities set up to purchase shares of the Company under programs to promote employee stock ownership in certain foreign countries whose local legislation is not wholly compatible with the rules governing the Company's existing plans.

In accordance with these authorizations, the Supervisory Board authorized the Management Board to issue new shares to members of the Employee Stock Purchase Plan during 2007, within a limit of 1% of the Company's issued capital. The issue(s) should take place before the end of May 2007.

Under the "NRE" Act, if a company asks shareholders for an authorization to issue shares, a separate resolution must be tabled at the meeting covering the issuance of shares to employees who are members of an employee stock purchase plan. Since the ninth and tenth resolutions concern the renewal of authorizations to issue shares, a resolution must be tabled seeking an authorization to issue shares to employees. We are therefore asking for the early renewal of the authorization given in May 2006.

The Management Board would have full powers to carry out employee share issues up to the equivalent of 5% of the Company's capital. Under the new authorization, the maximum discount at which the shares could be offered is set at 20%.

This authorization, which will cancel and replace the unused portion of the existing authorization, is being sought for a period of five years.

In addition, as the authorization to issue shares to entities set up to purchase share of the Company will expire in 2007, we ask you to renew it under the following conditions. The shares issued under the authorization will not exceed 0.5% of the capital. They will be deducted from the ceiling of 5% of the capital set for the issuance of shares to employees who are members of the Employee Stock Purchase Plan. At the discretion of the Management Board, the issue price will be equal to either (i) the closing price of the Company's shares quoted on the trading day preceding the decision of the Management Board setting the issue price, or (ii) the average of the opening prices quoted for the Company's shares over the twenty trading days preceding the decision of the Management Board setting the issue price. The Management Board may apply a maximum discount of 20% to the reference price. The discount will be determined by the Management Board taking into consideration any specific foreign legal, regulatory or tax provisions that may apply to any beneficiary governed by foreign law.

This authorization, which will cancel and replace the unused portion of the existing authorization effective June 30, 2007, is being sought for a period of eighteen months.

Lastly, the sixteenth resolution concerns powers to carry out formalities.

## Report of the Management Board to the Annual Shareholders' Meeting of April 26, 2007 in accordance with Article L.225-209 of the French Commercial Code concerning share buyback programs

The Annual Shareholders' Meeting of May 12, 2005 authorized the Company to buy back shares on the open market. No shares were bought back under this authorization in 2006.

The Annual Shareholders' Meeting of May 3, 2006 also authorized the Company to buy back shares on the open market. Pursuant to this authorization, the Company set up a liquidity contract.

Details of the share buyback program submitted for approval at the Annual and Extraordinary Shareholders' Meeting of April 26, 2007 are as follows:

- Number of shares and percentage of share capital held directly and indirectly by Schneider Electric SA:

Treasury stock:	4,546,182 shares or 2% of the capital
Schneider Electric shares held via Cofibel/Cofimines:	2,150,352 shares or 0.94% of the capital
Total :	6,696,534 shares or 2.94% of the capital

- Purpose: The 4,366,082 shares held in treasury stock (excluding the liquidity contract) are intended to serve stock option plans.

- Buyback plan objectives:

- Reduce the capital by canceling shares.
- Serve stock option plans or plans to grant shares without consideration or permit the conversion of convertible debt securities.

- Finance a future acquisition (rather than issue new shares at the time of the acquisition).

- Market making under a liquidity agreement.

- Maximum number of shares that may be acquired: 10% of the issued share capital, representing, on the basis of the issued share capital at December 31, 2006, 22,769,834 shares with a par value of €8. Share purchases may not exceed an aggregate maximum amount of €2,960,078,420.

- Duration: 18 months maximum, expiring on October 25, 2008.

- Transactions carried out under the share buyback program approved by shareholders at the Annual and Extraordinary Meeting of May 3, 2006:

- Transactions carried out under the liquidity contract:

Number of shares acquired: 3,050,617

Number of shares sold: 2,870,517

- Number of shares transferred since the beginning of the program: 672,016

## Supervisory Board Report

Pursuant to Article L.225-68 of the French Commercial Code, the Supervisory Board has no comments to make on the Management Board's business review or on the financial statements for the year ended Decem-

ber 31, 2006. In consequence, it encourages shareholders to follow all the Management Board's recommendations concerning the resolutions tabled for approval.

## 2. Auditors' special reports

### Auditors' special report on regulated agreements

Free translation of the original report in French.

To the Shareholders,

In our capacity as Statutory Auditors of Schneider Electric SA, we present below our report on regulated agreements that have been disclosed to us.

#### Agreements signed during the year

In accordance with Article L.225-40 and L.225-88 of the French Commercial Code, agreements that received the prior authorization of your Board of Directors or Supervisory Board have been disclosed to us.

Our responsibility does not include identifying any undisclosed agreements. We are required to report to shareholders, based on the information provided, about the main terms and conditions of agreements that have been disclosed to us, without commenting on their relevance or substance. Under the provisions of Articles 92 and 117 of the Decree of March 23, 1967, it is the responsibility of shareholders to determine whether the agreements are appropriate and should be approved.

We carried out our work in accordance with French professional standards. Those standards require that we perform procedures to verify that the information given to us agrees with the underlying documents.

■ Shareholders' agreement between AXA and Schneider Electric SA. The agreement calls for the continuation of stable cross-shareholdings between the two groups. Each group also holds a call option that may be exercised in the event of hostile takeover.

The one-year agreement, which is automatically renewed each year unless it is expressly terminated, was authorized by the Board of Directors on January 6, 2006 and signed on April 4, 2006.

Directors involved: Henri Lachmann and Claude Bébéar.

■ Decision to allow Jean-Pascal Tricoire to be covered by the Schneider Electric SA employee benefit plan, with the same supplementary coverage for death and disability provided for in his service contract with Schneider Electric Industries SAS.

The Supervisory Board made this decision on May 3, 2006.

■ Addendum to Mr. Tricoire's service contract with Schneider Electric SAS suspending the said contract and specifying that:

- His period as an officer (mandataire social) of Schneider Electric SA will be taken into account for the calculation of his rights – pursuant to his service contract – under the Schneider Electric top hat pension plan for senior executives, as well as for the calculation of the termination benefit payable under his service contract.

- His service contract will resume when he ceases to be an officer (mandataire social) of Schneider Electric SA and Schneider Electric Industries SAS.

The addendum, which was signed on May 2, 2006 contingent on Supervisory Board approval, was authorized by the Supervisory Board on May 3, 2006. It took effect on May 4, 2006.

#### Agreements entered into in prior years that remained in force during the year

In application of the Decree of March 23, 1967, we were advised of the following agreement entered into in prior years, which remained in force during the year.

With the authorization of the Board of Directors given on June 27, 1995, a management agreement was signed between your Company and Spie Batignolles (renamed Amec Spie SA) covering the administrative and legal management of contract disputes that remained at the level of Schneider Electric SA at the time of the merger.

No payments were made in 2006 as the agreement was terminated during the year.

Courbevoie and Neuilly-sur-Seine, February 20, 2007

The Statutory Auditors

Mazars & Guérard	Ernst & Young et Autres
Pierre Sardet	Christian Chocho
Jean-Louis Simon	Pierre Jouanne

## Auditors' special report on the authorization to increase the capital and to issue share equivalents with pre-emptive subscription rights

Free translation of the original report in French.

To the Shareholders,

In our capacity as Statutory Auditors of Schneider Electric SA and pursuant to Article L.228-92 et seq., L.225-135-1 and L.225-148 of the Commercial Code, we present below our report on the authorizations sought by the Management Board to increase the Company's capital by issuing, on one or several occasions, shares or share equivalents with pre-emptive subscription rights in an aggregate maximum amount of €500 million. Within this ceiling, the number of common shares or share equivalents to be issued may be increased by a maximum amount of 15% for each issue (eleventh resolution).

The issued share capital may be increased pursuant to the ninth resolution by a maximum aggregate amount of €500 million; the ceilings set in this resolution and the tenth resolution are not cumulative. The aggregate par value of the issued securities may not exceed €1.5 billion.

You are asked to authorize the Management Board, on the basis described in its report, to increase the Company's issued share capital directly or through a representative on one or several occasions by issuing common shares or share equivalents with pre-emptive subscription rights, for a period of 26 months. If the resolution is adopted, the Management Board will set the terms and conditions of these transactions.

The Management Board is responsible for reporting to shareholders on the proposed share issue in accordance with Articles 154 and 155 of the Decree of March 23, 1967. Our responsibility is to express an opinion on the fairness of figures taken from the financial statements and of certain other information included in this report.

We carried out our work in accordance with French professional standards. Those standards require that we perform procedures to check the content of the report drawn up by the competent management body concerning these transactions and the method used to determine the share issue price.

We have no matters to report concerning the method for determining the issue price as described in the Management Board's Report, contingent upon our final review of the terms of the proposed capital increase.

Since the issue price has not yet been set, we cannot formulate an opinion on the final conditions under which the share issue(s) will be carried out.

Should this resolution be approved and as required by Article 155-2 of the Decree of March 23, 1967, we will prepare an additional report at the time the capital increase(s) is (are) carried out by the Management Board.

Courbevoie and Neuilly-sur-Seine, February 20, 2007

The Statutory Auditors

Ernst & Young et Autres	Mazars & Guérard
Christian Chochon	Pierre Sardet
Pierre Jouanne	Jean-Louis Simon

## Auditors' special report on the authorization to increase the capital and to issue share equivalents without pre-emptive subscription rights

Free translation of the original report in French.

To the Shareholders,

In our capacity as Statutory Auditors of Schneider Electric SA and pursuant to Article L.225-135 et seq., L.225-148 and L.228-92 et seq. of the Commercial Code, we present below our report on the authorizations sought by the Management Board to increase the Company's capital by issuing, on one or several occasions, shares or share equivalents without pre-emptive subscription rights in an aggregate maximum amount of €300 million. Within this ceiling, the number of common shares or share equivalents to be issued may be increased by a maximum amount of 15% for each issue (eleventh resolution).

The issued share capital may be increased pursuant to the tenth resolution by a maximum aggregate amount of €500 million; the ceilings set in this resolution and the ninth resolution are not cumulative. The aggregate par value of the issued securities may not exceed €1.5 billion, as stipulated in the ninth resolution.

You are asked to authorize the Management Board, on the basis described in its report, to increase the Company's issued share capital directly or through a representative on one or several occasions by issuing common shares or share equivalents without pre-emptive subscription rights, for a period of 26 months. If the resolution is adopted, the Management Board will set the terms and conditions of these transactions.

The Management Board is responsible for reporting to shareholders on the proposed share issue in accordance with Articles 154 and 155 of the Decree of March 23, 1967. Our responsibility is to express an opinion on the fairness of figures taken from the financial statements, on the proposal to cancel shareholders' pre-emptive subscription right, and on certain other information included in this report.

We performed our work in accordance with French professional standards. Those standards require that we perform procedures to check the content of the report drawn up by the competent management body concerning this operation and the method used to determine the share issue price.

We have no matters to report concerning the method for determining the issue price as described in the Management Board Report, contingent upon our final review of the terms of the proposed capital increase.

Since the issue price has not yet been set, we cannot formulate an opinion on the final conditions under which the share issue will be carried out, and consequently have no opinion on the proposal to cancel shareholders' pre-emptive subscription right,

Should this resolution be approved and as required by Article 155-2 of the Decree of March 23, 1967, we will prepare an additional report at the time the capital increase(s) is (are) carried out by the Management Board.

Courbevoie and Neuilly-sur-Seine, February 20, 2007

The Statutory Auditors

Ernst & Young et Autres      Mazars & Guérard

Christian Chochon              Pierre Sardet

Pierre Jouanne                 Jean-Louis Simon



## Auditors' report on the proposal to grant existing or new shares without consideration to officers and employees of the company

Free translation of the original report in French.

To the Shareholders,

In our capacity as Statutory Auditors of Schneider Electric SA and pursuant to Article L.225-197-1 of the Commercial Code, we present below our report on the proposal to grant existing or new shares without consideration to officers and employees of Schneider Electric SA and its subsidiaries and affiliates, as defined in article L.225-197-2.

The Management Board is seeking authorization to grant existing or new shares without consideration. It is the Board's responsibility to draw up a report on the grant that it wishes to carry out. It is our responsibility to comment, if necessary, on the information given to you about the grant.

Because no professional standard applies to this type of operation, which was approved by law on December

30, 2004, we have performed the procedures we deemed necessary to ensure that the methods being considered are in accordance with the law.

We have no matters to report concerning the information provided about the grant in the Management Board Report.

Courbevoie and Neuilly-sur-Seine, February 20, 2007

The Statutory Auditors

Ernst & Young et Autres Mazars & Guérard

Christian Chochon Pierre Sardet

Pierre Jouanne Jean-Louis Simon

## Auditors' report on the proposed employee share issue with cancellation of shareholders' pre-emptive subscription right

Free translation of the original report in French.

To the Shareholders,

In our capacity as Statutory Auditors of Schneider Electric SA and pursuant to Article L.225-135 et seq. of the Commercial Code, we present below our report on the proposal to authorize the Management Board to issue shares, share equivalents or debt securities, on one or several occasions, to employees who are members of an Employee Stock Purchase Plan set up by French or foreign related companies, with cancellation of shareholders' pre-emptive subscription right. The maximum nominal amount by which the capital may be increased may not exceed 5% of the issued capital as of the date on which this authorization is used. The maximum discount at which shares may be offered is set at 20% of the share price.

These authorizations are submitted for your approval in accordance with Article L.225-129-6 of the Commercial Code and Article L.443-5 of the Labor Code.

You are asked to authorize the Management Board, on the basis described in its report, to increase the Company's issued share capital directly or through a representative on one or several occasions by issuing common shares or share equivalents without pre-emptive subscription rights, for a period of five years as from the date of this Meeting. If the resolution is adopted, the Management Board will set the terms and conditions of these transactions.

The Management Board is responsible for reporting to shareholders on the proposed share issue in accordance with Articles 154 and 155 of the Decree of March 23, 1967. Our responsibility is to express an opinion on the fairness of figures taken from the financial statements, on the proposal to cancel shareholders'

pre-emptive subscription right and on certain other information included in this report.

We performed our work in accordance with French professional standards. Those standards require that we perform procedures to check the content of the report drawn up by the competent management body concerning this operation and the method used to determine the share issue price.

We have no matters to report concerning the method for determining the issue price as described in the Management Board Report, contingent upon our final review of the terms of the proposed capital increase.

Since the issue price has not yet been set, we cannot formulate an opinion on the final conditions under which the share issue will be carried out, and consequently have no opinion on the proposal to cancel shareholders' pre-emptive subscription right,

Should this resolution be approved and as required by Article 155-2 of the Decree of March 23, 1967, we will prepare an additional report at the time the capital increase(s) is (are) carried out by the Management Board.

Courbevoie and Neuilly-sur-Seine, February 20, 2007

The Statutory Auditors

Ernst & Young et Autres Mazars & Guérard

Christian Chochon Pierre Sardet

Pierre Jouanne Jean-Louis Simon

## Auditors' report on the proposal to issue shares to entities set up to hold shares on behalf of employees with cancellation of shareholders' pre-emptive subscription right

Free translation of the original report in French.

To the Shareholders,

In our capacity as Statutory Auditors of Schneider Electric SA and pursuant to Article L.225-135 et seq. of the Commercial Code, we present below our report on the proposal to issue shares to entities set up to hold shares on behalf of employees. Shareholders will be asked to waive their pre-emptive right to subscribe the issue(s). This authorization would be granted to the Management Board. The maximum nominal amount by which the capital may be increased may not exceed 0.5% of the issued capital as of the date of this Meeting. The amount of any capital increase carried out under this authorization would be deducted from the aggregate amount by which the capital may be increased under the fourteenth resolution tabled at this Meeting.

You are asked to authorize the Management Board, on the basis described in its report, to increase the Company's issued share capital directly or through a representative on one or several occasions by issuing common shares or share equivalents without pre-emptive subscription rights, for a period of 18 months. If the resolution is adopted, the Management Board will set the terms and conditions of these transactions.

The Management Board is responsible for reporting to shareholders on the proposed share issue in accordance with Articles 154 and 155 of the Decree of March 23, 1967. Our responsibility is to express an opinion on the fairness of figures taken from the financial statements, on the proposal to cancel shareholders' pre-emptive subscription right and on certain other information included in this report.

We performed our work in accordance with French professional standards. Those standards require that we perform procedures to check the content of the report drawn up by the competent management body concerning this operation and the method used to determine the share issue price.

We have no matters to report concerning the method for determining the issue price as described in the Management Board Report, contingent upon our final review of the terms of the proposed capital increase.

Since the issue price has not yet been set, we cannot formulate an opinion on the final conditions under which the share issue will be carried out, and consequently have no opinion on the proposal to cancel shareholders' pre-emptive subscription right,

Should this resolution be approved and as required by Article 155-2 of the Decree of March 23, 1967, we will prepare an additional report at the time the capital increase(s) is (are) carried out by the Management Board.

Courbevoie and Neuilly-sur-Seine, February 20, 2007

The Statutory Auditors

Ernst & Young et Autres Mazars & Guérard

Christian Chochon Pierre Sardet

Pierre Jouanne Jean-Louis Simon

# 3. Resolutions

## Resolutions to be voted on in Annual Meeting

### First resolution

#### (2006 parent company financial statements)

The General Meeting, acting with the quorum and majority required for ordinary General Meetings, having heard the reports of the Management Board and the Auditors, and noting that the Supervisory Board had no comments on the Management Board's report or on the parent company financial statements, approves the transactions and parent company financial statements for the year ended December 31, 2006, as presented by the Management Board. These financial statements show a net profit for the year of €887,824,631.27 euros.

### Second resolution

#### (2006 consolidated financial statements)

The General Meeting, acting with the quorum and majority required for ordinary General Meetings, having heard the reports of the Management Board and the Auditors, and noting that the Supervisory Board had no comments on the Management Board's report or on the consolidated financial statements, approves the transactions and consolidated financial statements for the year ended December 31, 2006, as presented by the Management Board.

### Third resolution

#### (Appropriation of profit and dividend payment)

The General Meeting, acting with the quorum and majority required for ordinary General Meetings, approves the Management Board's recommendations and resolves accordingly to appropriate profit available for distribution in the amount of €1,162,970,118.94, corresponding to profit for the year of €887,824,631.27 plus retained earnings of €275,145,487.67 as follows:

Dividends	€ 683,095,044.00
Retained earnings	€ 479,875,074.94
Total	€ 1,162,970,118.94

The dividend will amount to €3.00 for the 227,698,348 €8 par value shares cum dividend January 1, 2006 that were outstanding on December 31, 2006.

The full dividend will be eligible for the 40% deduction for individuals resident in France as of January 1, 2007, provided for in article 153-8-2 of the French Tax Code.

Unpaid dividends on shares held in treasury as of the dividend payment date will be allocated to retained earnings.

No amounts eligible or not eligible for the 40% deduc-

tion provided for in article 158-3-2 of the French Tax Code will be distributed, other than the dividend described above.

Dividend payments and any corresponding tax credits for the last three years were as follows:

	Dividend	Avoir fiscal tax credit	Total revenue
2003	€1.1	€0,55 <sup>(1)</sup> €0.11 <sup>(2)</sup>	€1.65 €1.21
2004	€1.8	-	€1.8 <sup>(3)</sup>
2005	€2.25	-	€2.25 <sup>(4)</sup>

(1) 50% tax credit.

(2) 10% tax credit.

(3) Full dividend eligible for a 50% deduction for individuals resident in France as of January 1, 2004. No non-eligible dividends were distributed for 2004.

(4) Full dividend eligible for a 40% deduction for individuals resident in France as of January 1, 2005. No non-eligible dividends were distributed for 2005.

### Fourth resolution

#### (Agreements governed by article L.225-38 of the French Commercial Code)

The General Meeting, acting with the quorum and majority required for ordinary General Meetings and having heard the Auditors' Special Report on agreements governed by article L.225-38 of the French Commercial Code, presented in accordance with article L.225-40 of said Code, approves the agreement concerning a memorandum of understanding between Schneider Electric SA and AXA, as presented in this report, and notes the information concerning the agreement signed in a previous year.

### Fifth resolution

#### (Agreements governed by article L.225-86 of the French Commercial Code)

The General Meeting, acting with the quorum and majority required for ordinary General Meetings and having heard the Auditors' Special Report on agreements governed by articles L.225-86, L.225-90-1 and L.225-79-1 of the French Commercial Code, presented in accordance with article L.225-88 of said Code, approves the commitments and agreement concerning Jean-Pascal Tricoire, as presented in this report.

### Sixth resolution

#### (Authorization to trade in the Company's shares – maximum purchase price: €130)

The General Meeting, acting with the quorum and majority required for ordinary General Meetings, having heard the report of the Management Board drawn up in accordance with article L.225-209 of the French Commercial Code, authorizes the Management Board, in accordance with article L.225-209 of the French Commercial Code, to buy back Company shares in order to reduce the capital, or in connection with stock option plans, or plans to grant shares without consideration, or to permit the conversion of convertible debt securities, or to finance an acquisition, or for the purpose of market making under a liquidity agreement.

■ The maximum number of shares that may be acquired pursuant to this authorization may not exceed 10 percent of the issued share capital as of the date of this Meeting (representing 22,769,834 shares on the basis of the number of shares outstanding at the last official count on December 31, 2006).

■ The maximum purchase price is set at €130. However, if all or some of the shares acquired pursuant to this authorization are intended to be allotted on exercise of stock options, in application of articles L.225-177 et seq. of the French Commercial Code, the selling price of the shares in question will be determined in accordance with the provisions of the law governing stock options.

■ Share purchases may not exceed an aggregate maximum amount of €2,960,078,420.

■ The shares may be acquired, sold or otherwise transferred by any appropriate method, and in compliance with current legislation, on the market or over the counter, including through block purchases or sales, the use of all forms of derivatives traded on a regulated market or over the counter, or the use of put or call options including combined puts and calls.

■ Shares acquired may also be canceled, subject to compliance with the provisions of articles L.225-204 and L.225-205 of the French Commercial Code and in accordance with the twenty-third resolution approved by shareholders at the Annual Meeting of May 3, 2006.

■ The Management Board may adjust the maximum and/or minimum prices set above in the following cases: 1) an issue of bonus shares or increase in the par value of existing shares paid up by capitalizing reserves or earnings, 2) a stock split or reverse stock split, or 3) more generally, any transaction affecting equity, to account for the impact of such transactions on the share price. The adjustment will be determined by multiplying the price by the ratio between the number of shares outstanding before and after the transaction.

■ This authorization will expire at the end of a period of eighteen months from the date of this Meeting.

## Resolutions to be voted on in Extraordinary Meeting

### Seventh resolution

*(Amendment of the bylaws to provide for the election to the Supervisory Board of a representative of employee shareholders, in accordance with article L.225-71 of the French Commercial Code)*

The General Meeting, acting with the quorum and majority required for extraordinary General Meetings, having heard the report of the Management Board, resolves to amend the Company's bylaws as follows, in accordance with article 32 of the French Act of December 30, 2006 on the development of employee stock ownership. Addition of the following provisions to article 11:

« c) The Supervisory Board shall include one member representing employee shareholders, who shall be elected by the shareholders in General Meeting according to a process determined by the Supervisory Board.

If, however, employees of the Company and of related companies (within the meaning of article L.225-180 of the French Commercial Code) hold over 3% of the Company's capital – as evidenced by the disclosures made in the annual report drawn up by the Management Board in application of article L.225-102 of the French Commercial Code – said Supervisory Board member shall be elected for a four-year term by the General Meeting voting on a motion tabled by the shareholders referred to in article L.225-102 of the French Commercial Code on the basis defined in paragraphs (i) to (iii) below.

(i) The Supervisory Board member representing employee shareholders shall take up his or her seat on the Supervisory Board on the date of his or her election by the General Meeting. Where applicable, he or she shall replace the incumbent member elected on the basis decided by the Supervisory Board, whose term shall be considered as having expired. His or her term shall end at the close of the annual General Meeting called during the final year of the period for which he or she was elected. However, his or her term shall end ipso jure and he or she will be considered as having resigned in the following cases:

- If he or she is no longer i) an employee of the Company or a related company within the meaning of article L.225-180 of the French Commercial Code, ii) a shareholder or a holder of units in a mutual fund invested in the Company's shares, iii) a member of the supervisory board of the mutual fund that proposed him or her as a candidate, or

- If employees of the Company and of related companies within the meaning of article L.225-180 of the French Commercial Code hold less than 3% of the Company's capital – as evidenced by the disclosures made in the annual report drawn up by the Management Board in application of article L.225-102 of the French Commercial Code.

(ii) The General Meeting shall vote on the list of candidates presented by employee shareholders, selected as follows:

a) When the voting rights attached to shares held by the employees and former employees referred to in article L.225-102 of the French Commercial Code are exercised by the supervisory boards of mutual funds invested in the Company's shares, each of these supervisory boards shall designate one or two candidates, selected at their discretion, The Company's Management Board may, however, decide to require two or more supervisory boards to consult together and to jointly designate one or two candidates.

b) When the voting rights attached to shares held directly by employees or indirectly by employees or former employees through mutual funds invested in the Company's shares, are exercised directly by said employees or former employees, the candidates shall be designated through a written consultation process initiated by the Chairman of the Management Board. Only candidates endorsed by a group of employee shareholders together representing at least 5% of the shares held by employees who exercise their voting rights directly shall be eligible for election.

c) Candidates for election as the representative of employee shareholders on the Supervisory Board must be employed under a contract that qualifies them to sit on the Supervisory Board for a four-year term and must hold at least 25 Schneider Electric SA shares or an equivalent number of units in a mutual fund invested in the Company's shares.

d) The conditions and procedures for the designation of candidates not specified by the applicable laws and regulations and these bylaws shall be determined by the Management Board, particularly as regards the timeline for the selection of candidates.

e) The list of duly designated candidates shall be drawn up by the Chairman of the Management Board and appended to the notice of meeting for the General Meeting during which the Supervisory Board member representing employee shareholders is to be elected.

(iii) The candidate who receives the greatest number of votes cast by the shareholders present and represented at the General Meeting shall be elected to the Supervisory Board.

If the seat on the Supervisory Board reserved for a representative of employee shareholders falls vacant, a new representative shall be appointed on the same basis prior to the next General Meeting, or at the next General Meeting if it is held within three months of the seat falling vacant. The Supervisory Board may meet and validly conduct business pending the appointment or election of a new member representing employee shareholders.»

The General Meeting notes that a representative of employee shareholders will be elected to the Supervisory Board for the first time in accordance with this amendment to the bylaws at the Annual General Meeting to be held to approve the 2007 financial statements, if applicable.

## Eighth resolution

### *(Amendment to the bylaws to permit the employees of the French companies in the Group to be represented on the Supervisory Board)*

The General Meeting, acting with the quorum and majority required for extraordinary General Meetings, having heard the report of the Management Board, resolves to amend the Company's bylaws as follows, in accordance with article L.225-71 of the French Commercial Code:

Addition of the following provisions to article 11:

« d) One member of the Supervisory Board shall be elected by the employees of the Company and its direct or indirect subsidiaries that have their registered office in France. Said member shall be elected according to the process specified in articles L.225-27 to L.225-34 of the French Commercial Code and these bylaws, for a four-year term. However, if the member no longer fulfils the conditions of eligibility set out in article L.225-28 of the French Commercial Code or his or her employment contract is terminated in the circumstances set out in article L.225-32 of the Code, he or she will be considered as having resigned from the Supervisory Board ipso jure.

All employees of the Company and its French subsidiaries, as defined above, shall be eligible to stand as candidates and to take part in the vote. Each ballot paper shall include the name of the candidate and of a substitute who can be called upon to replace the elected member if he or she becomes unable to serve on the Supervisory Board for any reason.

Candidates other than those presented by a representative trade union within the meaning of article L.423-2 of the French Labor Code, must submit a document containing the names and signatures of the one hundred employees endorsing the candidate and his or her substitute.

The election shall comprise two rounds of voting. The successful candidate shall be the one who receives an absolute majority of the votes cast in the first round or a relative majority in the second round.

Elections shall be held every four years. They shall be timed so that the second round of voting, if any, takes place no later than fifteen days prior to the end of the normal term of the incumbent Supervisory Board member representing employees.

In all cases where a new election is necessary to ensure the continued representation of employees on the Supervisory Board, as provided for in these bylaws, said election shall be organized without delay. The new Supervisory Board member shall take up his or her seat on the Board on the date when the results of the election are announced. The Supervisory Board may meet and validly conduct business in the intervening period.

The election schedule and the aspects of the election process not dealt with in the French Commercial Code or these bylaws shall be determined by the Chairman of the Management Board or by any person duly empowered by the Chairman.»

## Ninth resolution

*(Authorization to increase the capital by a maximum of €500 million by issuing common shares or other share equivalents, in all cases with pre-emptive subscription rights)*

The General Meeting, acting with the quorum and majority required for extraordinary General Meetings and having heard the report of the Management Board and the Auditors' special report, resolves, in accordance with articles L.225-129-2 and L.228-92 of the Commercial Code:

- To authorize the Management Board, directly or through a representative, to increase the Company's issued share capital on one or several occasions by issuing, in France or abroad, common shares or legally recognized securities that are convertible, redeemable, exchangeable or otherwise exercisable for shares, at any time or on fixed dates. The securities may be denominated in euros or in any other currency or any monetary unit determined by reference to a basket of currencies. This authorization is given for a period of twenty-six months from the date of this Meeting.
- That the issued share capital may be increased during the period by a maximum aggregate amount of €500 million, taking into account the increases authorized in the 10th and 12th resolutions. The €500 million ceiling will not include the par value of any shares to be issued to prevent dilution of the rights of holders of share equivalents.
- That the aggregate par value of debt securities that are convertible, redeemable, exchangeable or otherwise exercisable for shares may not exceed €1.5 billion.
- That holders of existing shares will have a pre-emptive right to subscribe any securities to be issued pro rata to their existing holdings.
- That if all the securities offered are not taken up by shareholders exercising their pre-emptive rights, as provided for above, the Management Board may offer all or some of the remaining securities for subscription by the public, in accordance with article L.225-134 of the French Commercial Code.
- That this authorization automatically entails the waiver by shareholders of their pre-emptive right to subscribe any common shares issued on redemption, conversion, exchange or exercise of share equivalents issued in application of this resolution.
- To authorize the Management Board to increase the Company's issued share capital on one or several occasions over a period of twenty-six months by issuing bonus shares or raising the par value of existing shares to be paid up by capitalizing reserves, earnings, additional paid-in capital or other legally acceptable items in accordance with the bylaws.
- That the aggregate capital increases that may be carried out by issuing bonus shares or raising the par value of existing shares, combined with any additional increases to protect the rights of holders of share equivalents in accordance with the law, may not exceed the sum of retained earnings, additional paid-in capital and earnings before the capital increase.

■ That the Management Board has full powers to implement this authorization.

■ That this authorization cancels and replaces the unused portion of all similar authorizations given at previous General Meetings.

## Tenth resolution

*(Authorization to increase the capital by a maximum of €300 million by issuing common shares or other share equivalents, in all cases without pre-emptive subscription rights)*

The General Meeting, acting with the quorum and majority required for extraordinary General Meetings and having heard the report of the Management Board and the Auditors' special report, resolves, in accordance with articles L.225-129-2, L.225-135, L.225-136, L.228-92 and L.228-93 of the Commercial Code:

- To authorize the Management Board, directly or through a representative, to increase the Company's issued share capital on one or several occasions by issuing, in France or abroad, common shares or legally recognized securities that are convertible, redeemable, exchangeable or otherwise exercisable for common shares in the Company or in any other company in which it holds more than half of the issued capital either directly or indirectly, at any time or on fixed dates. The securities may be denominated in euros or in any other currency or any monetary unit determined by reference to a basket of currencies. In accordance with article L.228-93 of the French Commercial Code, this authorization may be used to issue shares of the Company on conversion, redemption, exchange or exercise of share equivalents issued by companies in which the Company holds more than half of the issued capital either directly or indirectly.

This authorization is given for a period of twenty-six months from the date of this Meeting.

■ That the issued share capital may be increased during the period by a maximum aggregate amount of €300 million and that the ceilings set in this resolution and the ninth resolution are not cumulative.

■ The €300 million ceiling will not include the par value of any shares to be issued to prevent dilution of the rights of holders of share equivalents.

■ That the aggregate par value of debt securities that are convertible, redeemable, exchangeable or otherwise exercisable for shares may not exceed €1.5 billion and that the ceilings set in this resolution and the ninth resolution are not cumulative.

■ That holders of existing shares will not have a pre-emptive right to subscribe any securities issued, as allowed under current legislation; however, the Management Board may grant shareholders a non-transferable priority subscription right in accordance with article L.225-135 of the Commercial Code.

■ That the amount received by the Company for each share issued – including where applicable the issue price of any stand-alone warrants – shall be at least equal to the minimum price called for by the laws and/or regulations applicable on the date of issue,

regardless of whether the shares or share equivalents rank *pari passu* with existing shares or share equivalents.

- That this authorization entails the waiver by shareholders of their pre-emptive right to subscribe any common shares issued on redemption, conversion, exchange or exercise of share equivalents issued in application of this resolution.
- That the Management Board has full powers to implement this authorization.
- That this authorization cancels and replaces all similar authorizations given at previous General Meetings.

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## Eleventh resolution

*(Authorization to increase the number of shares to be issued, with or without pre-emptive subscription rights, if any issue decided in application of the ninth or tenth resolutions is oversubscribed)*

The General Meeting, acting with the quorum and majority required for extraordinary General Meetings and having heard the report of the Management Board and the Auditors' special report, resolves, in accordance with article L.225-135-1 of the Commercial Code:

- To authorize the Management Board, directly or through a representative, to increase, for each issue, the number of common shares or securities to be issued in application of the ninth or tenth resolutions as provided for by law and within the ceilings set out in the ninth and tenth resolutions.
- That the Management Board has full powers to implement this authorization.

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## Twelfth resolution

*(Authorization to issue shares without pre-emptive subscription rights in payment for shares tendered to a public exchange offer or for contributed assets)*

The General Meeting, acting with the quorum and majority required for extraordinary General Meetings and having heard the report of the Management Board and the Auditors' special report, resolves that the authorization given in the tenth resolution may be used to issue shares in payment for shares of another company tendered to a public exchange offer governed by article L.225-148 of the Commercial Code.

The General Meeting also gives the Management Board a 26-month authorization to use the authorization given in the tenth resolution to carry out one or several share issues representing, in the aggregate, a maximum of 10% of the Company's issued capital, in payment for shares or share equivalents contributed to the Company in transactions not governed by article L.225-148, based on the values specified in the merger auditors' report.

In all cases, the amounts of any capital increases carried out pursuant to this resolution and the ceilings set in the ninth and tenth resolutions are not cumulative

The General Meeting notes that the Management Board, directly or through a representative, has full powers to carry out the transactions described in this resolution and, in consequence, to increase the capital and place the increase on record.

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## Thirteenth resolution

*(Authorization given to the Management Board to grant shares without consideration to officers and employees of the Company and its subsidiaries and affiliates)*

The General Meeting, acting with the quorum and majority required for extraordinary General Meetings, and having heard the report of the Management Board and the Auditors' special report, resolves, in accordance with articles L.225-197-1 et seq. of the French Commercial Code:

- To authorize the Management Board to grant to officers and employees of the Company, as defined in article L.225-197-1 of the French Commercial Code, and its subsidiaries and affiliates, as defined in article L.225-197-2 of said Code, on one or several occasions, existing or new shares of the Company without consideration.
- That the Management Board shall draw up the list of recipients of the grants, as well as the conditions and criteria for making said grants.
- That the total number of shares granted without consideration under this resolution may not represent more than 0.5% of the Company's issued capital as of the date of this Meeting; furthermore, that the sum of the shares that may be subscribed or purchased on exercise of options granted under the twenty-fourth resolution approved by the General Meeting of May 3, 2006 and the shares that may be granted without consideration under this resolution may not represent more than 3% of the Company's capital.

■ That rights to said shares shall vest after a period set by the Management Board, conditional on the achievement of the operating margin and revenue targets set by the Management Board. The Management Board shall set the vesting and lock-up periods for the shares granted without consideration in accordance with article L.225-197-1 of the French Commercial Code. This may include, for all or some of the shares granted, a vesting period of no less than four years with no lock-up period, or, for the remaining shares, a vesting period of no less than two years with a lock up period of two years.

■ That notwithstanding the foregoing, the said shares shall vest and be available for sale immediately if the grantee is declared disabled, as defined in article L.225-197-1 of the French Commercial Code.

■ To authorize the Management Board to adjust the number of shares in the case of any corporate actions, in order to prevent any dilution of beneficiaries' rights.

■ That holders of existing shares shall waive their pre-emptive right to subscribe the shares issued for the purpose of being granted without consideration. Such a share issue would be carried out solely when the said shares vest.

■ That this authorization is given for a period of thirty-eight months from the date of this Meeting. This authorization cancels and replaces the unused portion of the authorization given in the twenty-fifth resolution at the General Meeting of May 3, 2006.

Shareholders give full powers to the Management Board to carry out, directly or through a representative, any and all formalities required to use this authorization, and, where necessary, to adjust the number of shares to take into account the effects of any corporate actions, to place on record the capital increase or increases undertaken pursuant to this authorization, amend the bylaws to reflect the new capital and generally do everything necessary.

### Fourteenth resolution

#### *(Issuance of shares to employees who are members of an Employee Stock Purchase Plan)*

The General Meeting, acting with the quorum and majority required for extraordinary General Meetings, having considered the report of the Management Board and the Auditors' special report, resolves, pursuant to articles L.443-1 et seq. of the French Labor Code and L.225.129-6 and L.225-138-1 of the French Commercial Code, and in accordance with said Commercial Code:

■ To give the Management Board a five-year authorization from the date of this Meeting to increase the share capital on one or several occasions, at its discretion, by issuing shares and share equivalents to the members of an Employee Stock Purchase Plan set up by French or foreign related companies, in accordance with article L.225-180 of the French Commercial Code and article L.444-3 of the French Labor Code. The maximum nominal amount by which the capital may be increased may not exceed 5% of the issued capital as of the date on which this authorization is used.

■ To set the maximum discount at which shares may be offered under the Employee Stock Purchase Plan at 20% of the average of the opening prices quoted for Schneider Electric shares on Euronext Paris over the twenty trading days preceding the date on which the decision is made to launch the employee share issue. However, the General Meeting specifically authorizes the Management Board to reduce the above discount, within legal and regulatory limits.

■ That in the case of an issue of share equivalents, the characteristics of these securities will be determined in accordance with the applicable regulations by the Management Board.

■ That shareholders shall waive their pre-emptive right to subscribe the shares and share equivalents to be issued under this authorization.

■ That shareholders shall waive their pre-emptive right to subscribe the shares issued on redemption, conversion, exchange or exercise of share equivalents attributed in application of this resolution.

■ That, effective June 30, 2007, this authorization shall cancel and replace the unused portion of the authorization given in the twenty-sixth resolution at the General Meeting of May 3, 2006.

■ That the Management Board shall have full powers to use this authorization, including the powers of delegation provided for by law, subject to the limits and conditions described above. In particular, the Board shall have full powers to:

- decide the characteristics of the securities to be issued, the amounts of the issues, the issue price, the subscription date or period, the terms and conditions of subscription, payment and delivery of the securities, as well as the cum-dividend or cum-interest date, subject to compliance with the applicable laws and regulations;

- place on record the capital increases corresponding to the aggregate par value of the shares subscribed directly or on redemption, conversion, exchange or exercise of share equivalents;

- where appropriate, charge the share issue costs to the related premiums and credit all or part of the remaining premiums to the legal reserve as needed in order to raise this reserve to one-tenth of the new capital after each increase;

- enter into any and all agreements, carry out any and all operations and formalities, directly or through a representative, including the formalities related to the capital increase and the corresponding amendment of the bylaws, and generally do whatever is necessary;

- generally, enter into any and all underwriting or other agreements, take any and all measures and perform any and all formalities related to the issue, quotation and servicing of the securities issued under this authorization and the exercise of the related rights.

### Fifteenth resolution

#### *(Issuance of shares to entities set up to hold shares on behalf of employees)*

The General Meeting, acting with the quorum and majority required for extraordinary General Meetings and having heard the report of the Management Board and the Auditors' special report, resolves, in accordance with articles L.225-129 to L. 225-129-2 and L. 225-138-1 of the French Commercial Code:

1. To authorize the Management Board, directly or through a representative, to increase the share capital on one or several occasions, at its discretion, by issuing shares or share equivalents to the persons falling into the category defined below. Said shares or share equivalents will rank *pari passu* with existing shares. The maximum nominal amount by which the capital may be increased may not exceed 0.5% of the issued capital as of the date of this Meeting. The amount of any capital increase carried out under this authorization shall be deducted from the aggregate amount by which the capital may be increased under the tenth and fourteenth resolutions of this Meeting.

2. To waive shareholders' pre-emptive right to subscribe shares or share equivalents issued under this resolution to the following category of beneficiaries: all incorporated and unincorporated entities governed by French or foreign law created at the request of a company belonging to the Schneider Electric Group, in



order to enable said entities to subscribe Schneider Electric shares or share equivalents as permitted under any applicable foreign law, for the purpose of a stock purchase plan set up for employees of the Schneider Electric Group.

3. That the issue price of shares issued under this resolution will be set by the Management Board based on the price quoted for the Company's shares on the Eurolist market of Euronext Paris. At the discretion of the Management Board, said price will be equal to either (i) the closing price of the Company's shares quoted on the trading day preceding the decision of the Management Board setting the issue price, or (ii) the average of the opening prices quoted for the Company's shares over the twenty trading days preceding the decision of the Management Board setting the issue price. When setting the issue price for these shares, the Management Board may apply a maximum discount of 20% to the quoted price of Schneider Electric shares as determined in accordance with either (i) or (ii) above. The discount will be determined by the Management Board taking into consideration any specific foreign legal, regulatory or tax provisions that may apply to any beneficiary governed by foreign law.

4. That the Management Board shall have full powers to use this authorization as provided for by law, including the powers of delegation, subject to the limits and conditions described above. The Management Board shall have full powers to draw up the list of beneficiaries within the categories defined in this resolution and set the number of shares to be offered to each beneficiary. It may decide to limit the issue to the number of shares subscribed, providing that no less than 75% of the shares or share equivalents offered have been subscribed. In particular, the Management Board shall have full powers to:

- decide the characteristics of the securities to be issued, the issue price, the subscription date or period, the terms and conditions of subscription, payment and delivery of the securities, as well as the cum-dividend or cum-interest date, subject to compliance with the applicable laws and regulations;
- place the share issue on record, issue shares and share equivalents and amend the bylaws to reflect the new capital;
- generally, enter into any and all underwriting or other agreements, take any and all measures and perform any and all formalities related to the issue, quotation and servicing of the securities issued under this authorization and the exercise of the related rights.

5. That, effective June 30, 2007, this authorization shall cancel and replace the unused portion of the authorization given in the twenty-sixth resolution at the General Meeting of May 3, 2006.

This authorization is given for a period of eighteen months from the date of this Meeting.

The Management Board shall report to the General Meeting called to approve the financial statements for the year ended December 31, 2007 on its use of this authorization, as provided for by law.

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## Sixteenth resolution

### (Powers)

The General Meeting gives full powers to the bearer of a copy or extract of the minutes of the meeting to carry out all legal filing and other formalities.

## Attestation

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### Person responsible for the registration document

Jean-Pascal Tricoire, Chairman of the Management Board and CEO

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### Attestation by the person responsible for the registration document

I hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in the registration document is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its import.

I obtained a statement from the Statutory Auditors at the end of their engagement affirming that they have read the whole of the registration document and examined the information about the financial position and the historical accounts contained therein.

The Statutory Auditors' reports on the historical data presented in the registration document are provided on pages 152 and 164 of the said document. The auditors did not have any matters to report concerning this information and did not qualify their opinion.

The Statutory Auditors' report on pro forma financial information presented in the registration document is provided on page 174. In this report, the Statutory Auditors draw attention to the fact that APC's financial statements for the year ended December 31, 2006 are unaudited and unpublished and that no assurance is given that a detailed reconciliation of the two groups' accounting policies would not reveal any other material reconciling items or adjustment.

Rueil-Malmaison, March 26, 2007

Chairman of the Management Board

Jean-Pascal Tricoire



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