

# business and sustainable development



2006/2007 the year in review



Merlin Gerin  
Square D  
Telemecanique

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

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Because sustainable development is an integral part of Schneider Electric's strategy, we have decided to publish a combined Business and Sustainable Development document this year.

### Cross-references

> As a UN Global Compact signatory, we have aligned our improvement targets with the Compact's approach.

The targets are flagged in this report with the following symbol: 

> Global Reporting Initiative (GRI) indicators are listed for each section in the table of contents.

**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, we offer integrated, intelligent and networked solutions that allow customers to use electricity in complete safety, develop automation everywhere, improve energy efficiency, ensure a high-quality power supply and manage building utilities and communication networks. By leveraging the strong 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.



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

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**€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%**  
of revenue  
devoted to 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 1.2 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 target.

## **What has fuelled 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 have 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 is 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 have made quality and customer satisfaction our number one priority and we are developing ambitious, innovative programs to meet this priority. At the same time, we are engaged on four paths to greater efficiency. First, we are moving closer to our customers by re-balancing our manufacturing and supply chain base, so that we can be more competitive and provide quality service. Second, we are simplifying our organization to be more nimble and proactive. Third, we are rationalizing our supply chain. And fourth, we are 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 have 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 are 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 are 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 are 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 have made good progress on eight of the ten objectives set out in our Planet & Society Barometer. First of all, I am 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 are 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 are also as involved as ever in programs to train young people and help them into 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 are 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.



**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



**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 are also participating in the consolidation of an industry that is still quite fragmented at the global level. We are able to do this because of the financing power generated by our carefully managed existing operations.

**American Power Conversion 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 services, 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 have 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 are 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 are now aiming for organic growth of more than 6% instead of 5%, which is twice the global economic growth estimate of 3%. And we are 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.

\*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, five 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.

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

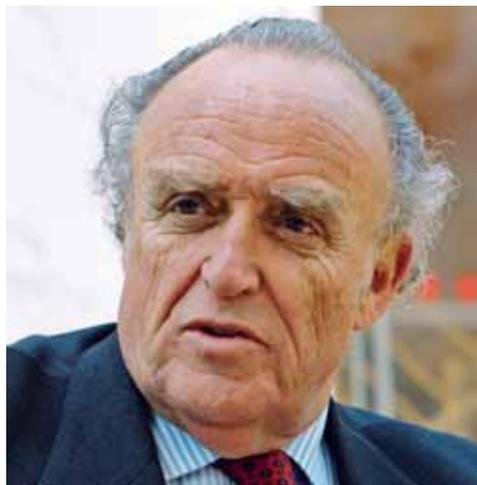
Over the past two years, Schneider Electric has acquired some twenty companies for a total €2.3 billion (excluding APC). The Supervisory Board, and the Board of Directors before it, has been extremely active and vigilant during all these transactions.

First of all, the Supervisory Board must approve all acquisitions, partnerships or joint ventures worth more than €250 million. What is 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 it 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 that 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.



**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.

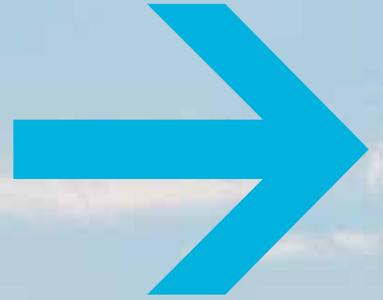
Henri Lachmann

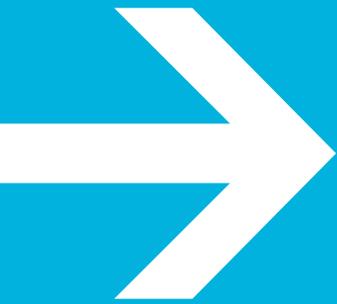
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- **p. 18** A new governance structure in 2006
- **p. 20** Record performance

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# **The challenges of the New Electric World**





# Meeting very strong demand while managing environmental impact



**Renewable energies**  
Solar and wind power production should rise tenfold between now and 2030, with the goal of reducing the percentage of electricity generated from coal. Coal is the largest energy source today, but also the greatest producer of CO<sub>2</sub>.

Around the world, development, quality of life and electricity consumption go hand in hand. At present, some 1.6 billion people do not have access to electricity. Yet demand for electricity should double between now and 2030 as a result of economic and population growth. The main challenges in the coming decades will be to bring electricity to everyone and to satisfy extremely high demand while managing the impact on our environment. Both companies and individuals will have to use electricity more effectively and efficiently. We will all have to reduce waste by changing our habits and by better managing our production and consumption methods. Although business performance cannot be compromised, we must act responsibly at our own level and anticipate the consequences of growth. This means making buildings, homes and production processes more energy efficient and developing renewable sources of electricity.

**+100%**

Anticipated growth in global electricity consumption between now and 2030.

**1.6 billion**

The number of people worldwide without access to electricity.

**50%**

The amount by which CO<sub>2</sub> emissions must be reduced to stabilize the greenhouse effect by 2050.



**Arab Hoballah**  
Head of the Sustainable  
Consumption and Production  
Branch, United Nations  
Environment Programme



Buildings represent up to 40% of energy use in society, much of which is produced using fossil fuels that generate greenhouse gases. At the same time, buildings stand to be one of the most vulnerable sectors for impact from climate change, notably from natural disasters.

For this reason, the United Nations Environment Programme (UNEP) and building sector stakeholders have launched the Sustainable Building and Construction Initiative (SBCI) to promote sustainable buildings at a global scale. The objective of SBCI is to reduce CO<sub>2</sub> emissions throughout the building and construction process.

The First Strategic SBCI report shows that energy use in buildings can be reduced by 50% or more by applying proven and commercially available technologies as well as innovative ones. This is where UNEP and SBCI members, like Schneider Electric, can jointly make an impact, by providing decision makers in governments and the private sector with guidance and support for actions that can overcome the barriers to adopting more appropriate technologies for energy efficiency improvement.



Although developed nations consume two-thirds of the world's electricity today, demand in emerging markets is rising strongly. By 2015, China will have reached the same level as the United States. To meet this extremely strong growth in global demand, an average \$370 billion is being invested each year to build new generation capacity and to renovate and develop transmission and distribution networks. No other industry in the world invests as much.

Yet it is important to develop greener, more efficient production solutions to preserve our limited oil and gas resources and keep a lid on the greenhouse gas emissions that threaten our environment.

### Improving energy efficiency

The energy that costs and pollutes the least is the energy we save. As prices skyrocket, consumers, businesses and communities are looking for ways to consume less and make their facilities more energy efficient. This is driving growing demand for systems and services that improve energy management and optimize manufacturing processes.

Energy efficiency, which entails using less energy to get the same result (or the same amount to get a better result), will play an increasingly important role in balancing supply and demand and in preserving the environment. According to the International Energy Agency, global energy demand in 2050 could be reduced to nearly half the level of today's consumption if efficiency gains are accelerated (June 2006 projection).

### Developing automation everywhere

More than 60% of primary energy is not transformed into useful energy. Yet solutions exist. Harnessing the powerful combination of automation and the Internet, building management and home automation solutions open new horizons in energy savings. In industry, certain solutions are already producing savings of 10% to 20%. Smart metering and reliable supply systems help manufacturers reduce their energy bills by optimizing consumption and limiting machine downtime—thereby reducing losses and scrap.

→ **Energy efficiency:** €1 billion in revenue for Schneider Electric in 2006, with a growth target of 50% by 2008.

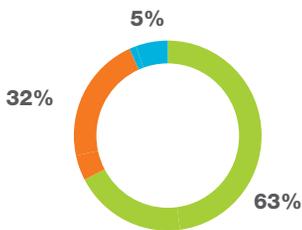
# Comprehensive, high- performance, cost-effective solutions

The world leader in electricity and automation management, Schneider Electric leverages its expertise to provide customers with end-to-end solutions that save energy, boost industrial performance, enhance comfort and safety, deliver uninterrupted service and take responsible care of our planet. Compliant with all of the world's major standards—IEC, NEMA, UL, ANSI, BS, CCC and JIS—our lineup features products that are easy to install and operate in compatible, flexible and open-ended ranges.

## Electrical Distribution

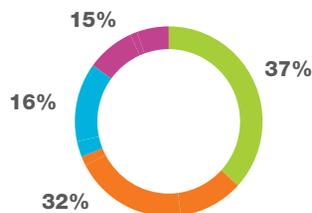
### Making electricity available and effective

To serve customers' horizontal needs, Schneider Electric offers integrated solutions to transform electricity and distribute it intelligently, to provide a reliable, uninterrupted power supply, and to give electrical wiring Voice-Data-Image (VDI) network capabilities. We are the world leader in low and medium voltage electrical distribution and rank second worldwide in installation systems and control with a full range of sockets, switches and other electrical equipment.



### 2006 revenue by business

- Electrical Distribution
- Automation & Control
- Critical Power & cooling services



### 2006 revenue by market

- Energy & Infrastructure
- Industry
- Buildings
- Residential



## Automation & Control

### Monitoring equipment and protecting people and assets

Schneider Electric offers a broad array of intelligent, networked automation architectures and supervision systems for all types of infrastructure. With devices that can detect colors or shapes, turn machines on and off, regulate a building's temperature and more, our solutions make it possible to manage a plant, building or home remotely or on site in the most effective way possible.

We rank first in industrial control and third in automation devices and enjoy recognized leadership in web automation solutions.

Our lineup also includes custom sensors for specific applications. Lastly, we have staked out a major position in the fast-growing market for building automation and security systems.



## Energy efficiency: savings of up to 30%

Energy efficiency means guaranteeing performance and comfort while taking environmental issues into account. With our products, systems and services, customers can produce the same amount or more while consuming less at each link in the energy chain, achieving savings of 10% to 30%.

### Critical Power & Cooling Services

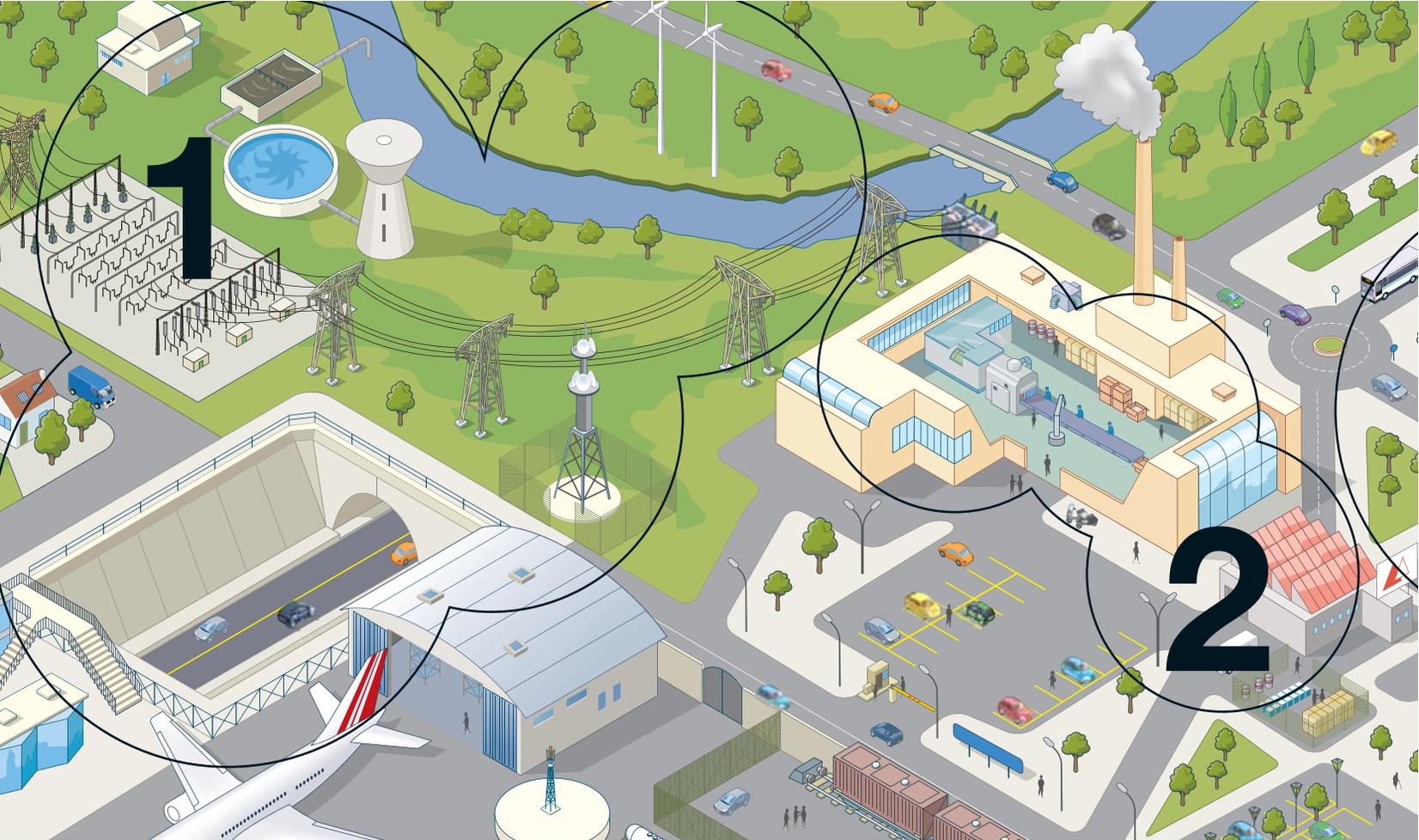
#### Ensuring a reliable, uninterrupted power supply

For an increasing number of sensitive applications, such as in hospitals and data centers, the slightest disturbance, overvoltage or variation in amperage can have devastating consequences. Critical power and cooling solutions provide an effective response for customers who need a reliable, uninterrupted power supply. Following the acquisition of US-based APC, we are now the world leader in critical power.



### Environment Principle 9

Businesses should encourage the development and diffusion of environmentally friendly technologies.



# 1 Energy & Infrastructure

➔ Key sectors: electric power generation, transmission and distribution; gas, oil and water infrastructure; airports, ports, tunnels and subways; telecommunication and data processing infrastructure. Our mission: provide high-quality electricity, ensure reliable transmission and distribution, guarantee infrastructure availability and safety, optimize installation management.

- **Greener electricity**  
Our distribution, metering and grid connection systems contribute to the efficient development of electricity generated by solar or wind energy.
- **Secure infrastructure**  
Critical power supply, supervision and monitoring systems, lighting, ventilation, fire alarm and electronic data all play a role in infrastructure security and performance.

# 2 Industry

➔ Key sectors: consumer and capital goods, electronic components, automobiles, pharmaceuticals, etc. Our mission: distribute electricity and optimize its use; improve productivity; ensure safety, quality and traceability on production lines and sites.

- **More effective plants**  
Our automation solutions enhance the performance of conveying, packaging, bottling, motor control and other applications by constantly improving productivity and service continuity.
- **Safer, smarter cars**  
Thanks to onboard sensors and detectors, headlights and windshield wipers turn themselves on automatically. What's more, motorists are immediately warned of obstacles, black ice and other road hazards.

Performance, safety and re



## 3 Buildings

→ Key sectors: office buildings, shopping centers and stadiums; service, commercial and industrial buildings.

Our mission: supply and distribute electricity; control and manage lighting, ventilation, elevators and access; harness electrical networks for data exchange; enable remote multi-site management; guarantee energy efficiency and uninterrupted power supply.

- **More energy efficient buildings**

Our solutions can reduce a hypermarket's energy consumption by 15% while improving customer comfort.

- **Critical applications**

From hospitals to data centers to trading floors, more and more applications require a completely reliable power supply, even in the event of a blackout.

## 4 Residential

→ Key sectors: the market varies widely, with an emphasis on housing developments, apartment buildings or single family homes depending on the region.

Our mission: leverage local expertise and brands to deliver easy-to-install solutions for electrical distribution and home automation that comply with local standards and habits.

- **More comfortable homes**

With our new home automation solutions, it is easier than ever to control doors and shutters, manage thermostats and lighting and schedule garden sprinklers.

- **More networked homes**

Voice-Data-Image (VDI) and Power Line Carrier (PLC) technologies turn the electrical wiring into a communication network, offering telephone, television and Internet access in every room through an ordinary electric socket.

# liability in four core markets

# Right next door, around the world

**47%**

of total revenue

## Europe

**48,500** employees

● Headquarters in Paris, France and  
Barcelona, Spain

**126** associations supported  
(2006 Luli campaign)

**8%**

of total revenue

## Rest of the World

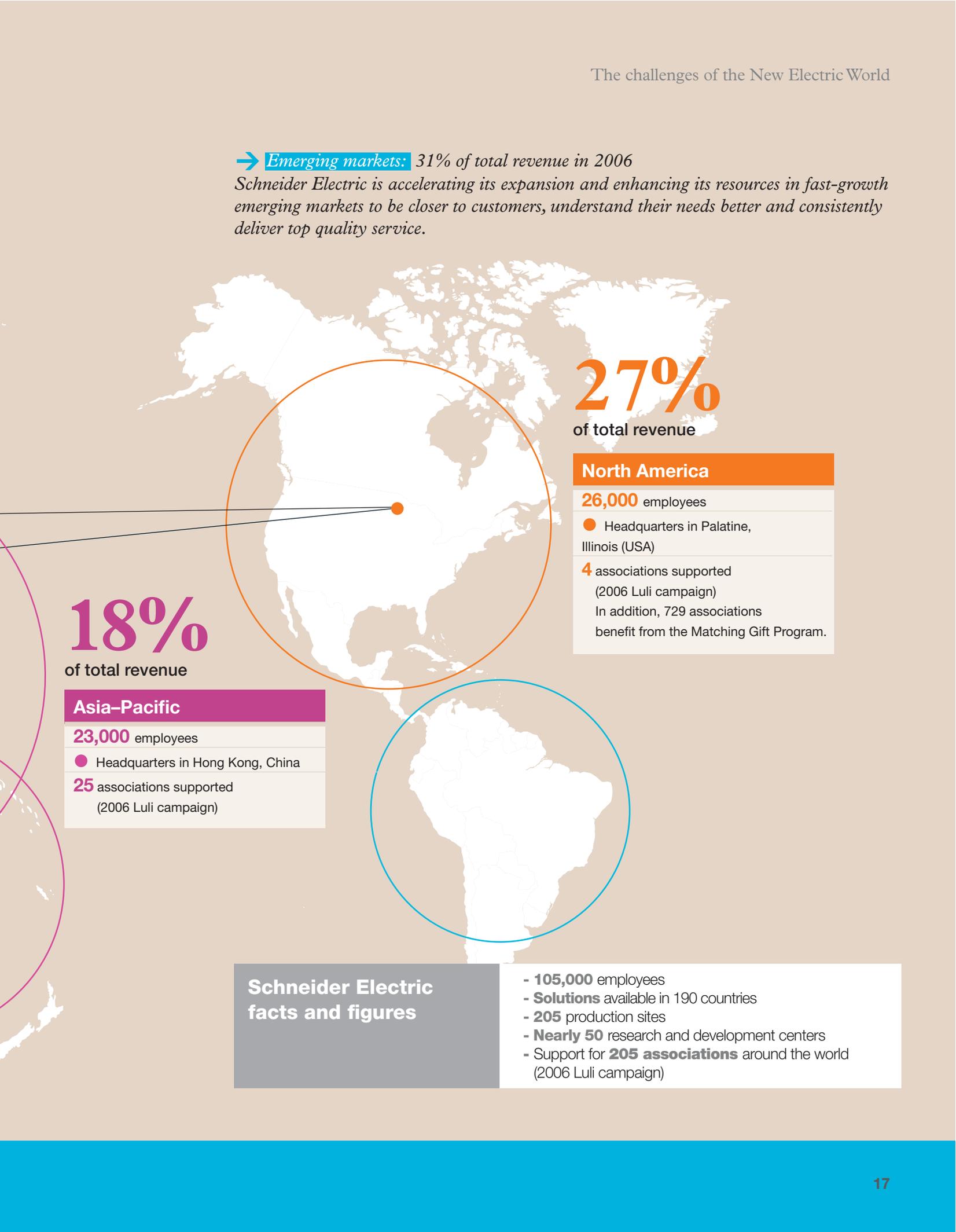
**7,500** employees

● Headquarters in Barcelona,  
Spain and Paris, France

**50** associations supported  
(2006 Luli campaign)

→ **Emerging markets:** 31% of total revenue in 2006

*Schneider Electric is accelerating its expansion and enhancing its resources in fast-growth emerging markets to be closer to customers, understand their needs better and consistently deliver top quality service.*



27%

of total revenue

### North America

**26,000** employees

● Headquarters in Palatine, Illinois (USA)

**4** associations supported (2006 Luli campaign)

In addition, 729 associations benefit from the Matching Gift Program.

18%

of total revenue

### Asia-Pacific

**23,000** employees

● Headquarters in Hong Kong, China

**25** associations supported (2006 Luli campaign)

## Schneider Electric facts and figures

- **105,000** employees
- **Solutions** available in 190 countries
- **205** production sites
- **Nearly 50** research and development centers
- Support for **205 associations** around the world (2006 Luli campaign)

# A new governance structure in 2006

Schneider Electric implemented a new corporate governance\* system in 2006 to ensure a seamless succession for its Chairman and a smooth continuation of its growth strategy. The Group is now headed by a Supervisory Board, chaired by Henri Lachmann, and a Management Board, chaired by Jean-Pascal Tricoire. One of Mr. Tricoire's first decisions was to form a new team to be more responsive and customer focused.

\* To find out more, turn to page 66.

## Supervisory Board

(February 20, 2007)

**Henri Lachmann**  
Chairman of  
the Supervisory Board

**Serge Weinberg\***  
Vice Chairman  
Chairman of  
the Supervisory Board  
of Accor

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

**Noël Forgeard\***  
Corporate Director

**Jérôme Gallot\***  
Chairman of CDC  
Entreprises

**Willy R. Kissling\***  
Corporate Director

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

**René Barbier  
de La Serre\***  
Corporate Director

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

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



## Management Board (February 20, 2007)

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

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

### Non-voting Director

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

### Board Secretary

**Philippe Bougon**

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

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

**Pierre Bouchut**  
Member of the Management Board

## Executive Committee (February 20, 2007)

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

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

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

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

**5 Dave Petrat**  
Executive Vice President North American Operating Division

**6 Jean-François Pilliard**  
Executive Vice President Human Resources and Managerial Communication

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

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

**9 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

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

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



# Record performance and a profitable growth dynamic

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

20

## Operating profit (€ million and as a % of revenue)



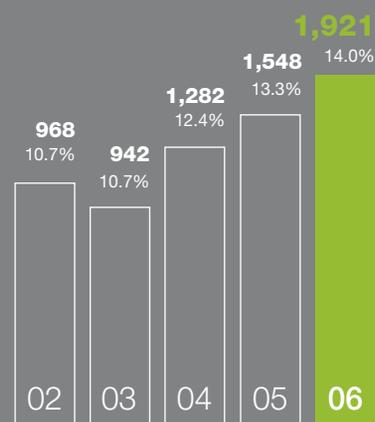
**up 27.8%**

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 point from the previous year to a record 14.6%. All regions and operations showed a significant increase in operating profit.

**€2,001**

million

## 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.

**€1,921**

million

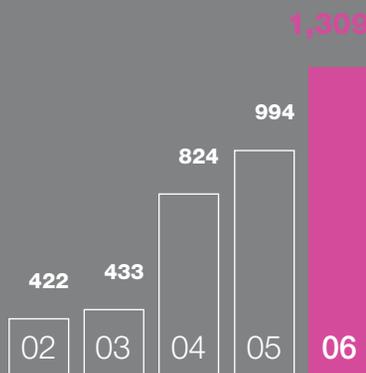


## 2006: a historic year for Schneider Electric

In 2006, Schneider Electric actively pursued a strategy designed 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, fed through to significantly higher profits and an attractive return on investment for shareholders.

### Profit attributable to equity holders of the parent

(€ million)



**up 32%**

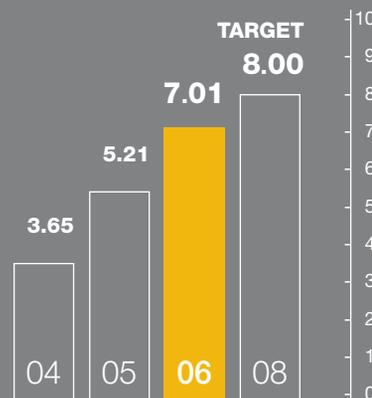
Profit attributable to equity holders of the parent increased by a strong 32%, reflecting good interest expense management during a sharp increase in net debt and a 0.6-point decrease in the effective tax rate to 28.5% from 29.1%.

Earnings per share rose 31%, in tandem with attributable profit, to €5.95.

**€1,309**

million

### Planet & Society Barometer



**up 18%**

The Planet & Society Barometer showed an 18% increase from 2005. Gains were seen in eight of the ten indicators covering employees, the environment, society and corporate governance. Performance data is updated quarterly and posted at [www.barometer.schneider-electric.com](http://www.barometer.schneider-electric.com)

**7.01/10**



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**p. 24** Better, faster and further

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**p. 26** Unparalleled lineup and global coverage

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**p. 28** Becoming more efficient and competitive every day

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**p. 30** A committed, responsible enterprise

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**Aligning  
growth and  
responsibility** 



# Better, faster and further



**Electropole (France)**  
Inaugurated in October 2006 near Grenoble, France, Electropole is the world's largest R&D center devoted to power protection and control. More than 1,000 people, including 600 engineers, work in the 35,000 square-meter site's offices and laboratories.

As part of the new<sup>2</sup> company program for 2005-2008, Schneider Electric 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. Actively committing to growth, aiming for efficiency each and every day and cultivating our people's enthusiasm are new<sup>2</sup>'s three priorities. Our sustainable development approach is an integral part of this program. We are using this approach to drive growth with our customers—who can also draw on our expertise for their own programs—and to instill an atmosphere of continuous improvement across the enterprise.

Close to **5%**

of revenue devoted to R&D in 2006.

**42%**

of revenue generated by new activities in 2006.

**7.01/10**

Planet & Society Barometer performance in 2006.



## Passport to customers

When product developers meet customers, they find out how their products are used in real life. This is the idea behind the “Passport to customers” training program launched in 2006 to stimulate creativity and innovation among product developers by sharpening their customer focus. As part of the program, engineers spend a day and half listening to and talking with contractors, panelbuilders, end users and design and engineering firms. Thanks to these partners’ openness and availability, the program’s first participants collected a wealth of ideas and got a better picture of customer needs.

Fully focused on customer expectations, Schneider Electric invests heavily in innovation and technology to deliver solutions that provide ever greater value to users; speed time to market for products, software and services; and improve production processes. Our innovations emphasize safety, ease of installation and capacity to evolve. We involve our country organizations in devising the lineup and increasingly co-develop with major customers.

### High-level, internationalized R&D

We have worldclass research centers in high-technology countries (France, Germany, United States and Japan), as well as facilities in Mexico, India and China that offer high-quality brainpower to devise solutions attuned to demand in emerging markets.

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.

We cooperate with some fifty university and private laboratories and have forged several technological partnerships with such industry leaders as Microsoft, IBM, Tata Elxsi, Toshiba and Fuji Electric. In each case, we benefit from these partners’ synergistic expertise.



### Promising innovations paths

Areas of innovation include digital electronics, software, Internet-based control and monitoring, advanced diagnostics, predictive maintenance, wireless links, miniaturization, Voice-Data-Image (VDI) transmission via electrical wiring, Power Line Carrier (PLC) technology, energy metering and management, LED lighting and distribution systems for new electricity generation processes. A new Innovation Department was created in 2006 to optimize the innovation process and expand our scientific partnerships so that customers can benefit from our discoveries more quickly. To motivate our researchers, part of their compensation is now linked to patent application and use.

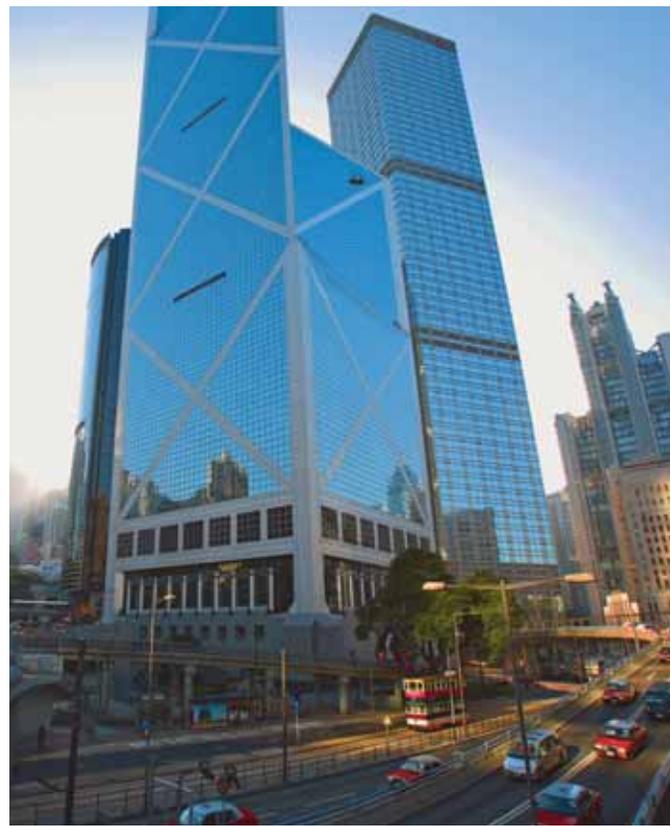


## Innovation facts and figures

- Around 5% of revenue devoted to R&D
- 6,500 R&D team members
- Nearly 50 product development centers in 25 countries
- Schneider Electric Ventures, a €50 million venture capital fund that invests in advanced technologies

→ **Schneider Electric** heads several major European R&D programs on intelligent electricity management, home automation, energy savings in the residential sector and renewable energies.

# Unparalleled lineup and global coverage



## Adapting our business to differentiate our proposition

We are developing new activities that complement our core businesses through both organic growth and acquisitions. These activities, which accounted for 42% of total revenue in 2006, offer excellent growth prospects and give us an unparalleled lineup in electricity management and automation. This strategy focuses on four key areas: critical power, installation systems and control, custom sensors for applications such as automobiles, which are offering more and more automated functions, and building automation.

## A targeted acquisitions strategy

We continued to expand geographically and add new activities in 2006. We strengthened our positions in installation systems and control with five acquisitions in Europe and Asia and broadened our presence in building automation by acquiring Invensys' Building Systems business in North America and Asia. We also extended our industrial automation lineup by bringing in companies involved in speed drives and human-machine interface.

Lastly, we made a major strategic move into critical power by launching a friendly bid for world leader American Power Conversion (APC).

2006 in brief



## APC-MGE: birth of a world leader in critical power

APC offers a strong fit with Schneider Electric subsidiary MGE UPS Systems in terms of products and services, geographic coverage and sales channels, plus the possibility of capitalizing on powerful innovation capabilities.



**Electrical distribution:  
new developments in China**

In medium voltage, we announced the creation of a 70%-30% joint venture called SSBEA to produce vacuum circuit breakers and the acquisition of a 40% interest in SBVE, a leading Chinese vacuum switch manufacturer. In low voltage, we announced 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. Operations in China generated around €800 million in revenue in 2006. We now have 8,500 people, 18 plants, 4 logistics centers and 32 agencies in the country.

**A recognized position in installation systems and control**

In less than ten years, Schneider Electric has become the global no. 2 in the €30 billion installation systems and control market, with a recognized technological advance in home automation and unrivalled international coverage. We added to our competencies with five acquisitions in 2006: Merten in Germany, a leader in home automation that ranks fourth in its domestic market; OVA Bargellini in Italy, domestic market leader in emergency lighting; AEM in Spain, a cable tray manufacturer; GET in the United Kingdom; and Clipsal Asia, which operates in 14 Asian countries.



**Critical power & cooling services:  
critically important  
for sensitive applications**



More than 40% of the time, data is lost due to problems with the electrical supply. What is more, an increasing number of applications in hospitals, data centers, the semi-conductor industry and other sectors have zero tolerance for power interruptions or voltage variations. An integral part of the electrical distribution business, critical power and cooling solutions protect electrical installations from under and over-voltages, cut outs and micro-cuts, frequency variations and harmonic distortions. Schneider Electric now ranks first worldwide in this area, following the acquisition of APC.



**Critical power & cooling services facts and figures**

- A market worth €7 billion
- A market growing by 7%-8% a year
- €6.5 million: the cost of a one-hour power failure at a stock exchange
- Schneider Electric ranks first worldwide following the acquisition of APC

**Specialist skills in automation**

During the year, we expanded our industrial automation skills with the acquisition of Citect, an Australian manufacturer of Supervision Control and Data Acquisition (SCADA) solutions and Manufacturing Execution Systems (MES). We also extended our lineup of high power speed drives with the acquisition of Austria's VA TECH ELIN EBG Elektronik.

**Among the top three in India**

Thanks to our innovative technological approach, dedicated application center, active strategy with specifiers and newly created critical power subsidiary, we rank among the top three players in India.

**42%**

of revenue generated by new activities in 2006 (excluding APC).

# Becoming more efficient and competitive every day



## Speeding the Group's worldwide deployment

Schneider Electric is accelerating its expansion in fast-growth regions to be closer to customers, understand their needs better and consistently deliver top quality service. Between 2001 and 2006, the percentage of revenue generated in emerging markets (including Eastern Europe) rose from 18% to 31%. We enjoy leadership positions and double-digit growth in China, India, Southeast Asia, the Middle East, Africa and Latin America.

## Getting right next to our customers

We are re-balancing our manufacturing and logistics base and globalizing our resources to become more efficient and competitive over the long term. We source increasingly from suppliers in emerging markets and manufacture as close to customers as possible to improve our service quality and responsiveness, shorten the supply chain and reduce costs, and generally be more competitive. Our target for 2008 is to localize 40% of costs in emerging markets, which should account for 40% of sales.

Another improvement avenue involves achieving a lasting balance between production costs and revenue within each currency zone. The idea is to reduce the impact of currency fluctuations on invoice prices and on earnings. Plans are being carried out in Western Europe and the United States to rightsize our manufacturing and supply chain base. At the same time, we are expanding our capacity in Eastern Europe, Mexico, India, China and other Asian countries and investing in future growth by deploying new resources in emerging markets and fast-growth activities.



## Human rights Principle 2

Businesses should make sure that they are not complicit in human rights abuses.

→ **Global Compact:** *Our target is to make 60% of purchases from suppliers who have signed the Global Compact.*

## 2006 in brief



### Two of our US plants ranked among North America's best

In its 2006 Best Plants competition, *Industry Week* magazine recognized our manufacturing facility in Peru, Indiana for its track record in the areas of productivity and working conditions. The plant has reduced work accidents by 47%, increased productivity by 30% and achieved an on-time delivery rate of 97%.

Our major circuit breaker manufacturing plant in Lincoln, Nebraska won *Plant Engineering* magazine's Top Plant award for its exceptional results in industrial management and logistics.



## Where is my order?

### Keeping customers informed in real time

In Germany, Belgium and the Netherlands, Schneider Electric customers can track their shipments 24-hours a day thanks to a new door-to-door shipping management system. All the necessary information on the shipping company, which has been on board since the beginning of the project, is integrated in the zone's SAP system.

The results speak for themselves: customer satisfaction is high, the on-time delivery rate has jumped to 98%, the automation of administrative tasks has lowered shipping costs, and the time needed to locate a missing shipment has declined from 3.5 days to 24 hours. The next step will be to give customers access to this information over the Internet.

## Committed to operating excellence

Our supply chain organization has been simplified and improved. We have also implemented an ambitious quality and productivity strategy to bring all our plants up to the same level of operating performance. Deployed worldwide, our Manufacturing Excellence program combines Lean Manufacturing, Six Sigma and Quality & Value Analysis. Our goal is to reduce costs by 20% at 100 major manufacturing sites while improving quality. A single global IT system based on an SAP solution has been introduced to make our IT systems more efficient and less expensive. It is being deployed at several pilot sites in 2007.



## Hong Kong center certified ISO 9001

The international distribution center in Hong Kong earned ISO 9001 certification in 2006. It is our largest distribution center worldwide, with an annual merchandise export capacity of 3,000 metric tons.



## More than 98%

Our operations in Thailand have maintained an order fill rate of more than 98% over the past two years while optimizing and reorganizing the supply chain.

# A committed, responsible enterprise



## Helping to bring electricity to everyone

At Schneider Electric, we take a responsible outlook to growth and see sustainable development as a growth driver. Finding solutions to major sustainable development challenges is a fantastic source of growth, as we help customers consume less, produce more effectively, improve energy efficiency, protect the environment and contribute to the development of renewable energy sources. Bringing electricity and drinking water to people in emerging markets is another major mission. At present, 1.6 billion people worldwide have no electricity and 1.2 billion have no access to drinking water. We are contributing to the development of local power production, notably through micro-generation. In addition, our pre-payment solutions encourage water and electricity companies to develop their networks and hook up disadvantaged customers.

## Improvement targets for each stakeholder

We are continuously improving the environmental performance of our sites and products and helping our customers do the same. Relationships with leading suppliers are governed by the principles of the Global Compact\* and a global product evaluation process. In all our host countries, we make a strong commitment to employees and to business and community partners. We promote diversity and develop our employees' talent and potential while continuously improving workplace health and safety. Schneider Electric encourages solidarity with host communities, stepping in during emergencies and supporting youth education. To guide our actions with stakeholders, we have drawn up a document entitled Our Principles of Responsibility, which all new team members agree to embrace when they sign their employment contracts.

\*[www.unglobalcompact.org](http://www.unglobalcompact.org)

## Ten indicators to track progress

The new<sup>2</sup> company program contains many targets related to sustainable development issues and instills a Company-wide dynamic of continuous improvement.

Ten of its indicators directly concern sustainable development and make up the quarterly Planet & Society Barometer. Created in 2005, it allows us to track and measure results in the area of sustainable development and keep all stakeholders informed. Designed for the purpose of training, educating and informing, the Barometer comprises indicators that correspond to new<sup>2</sup>'s strategic areas for improvement. Our goal is to achieve a total Barometer performance of 8 out of 10 by the end of 2008.

## 2006 in brief

**50,000**  
metric tons of CO<sub>2</sub>

That is how much will not be released each year as part of the 20-year contracts managed by our Swedish building management subsidiary TAC.

**86%**

Increase in the number of women participating in Schneider Electric University training seminars.



Indicators	Performance (out of 10)
	2006
<b>People</b>	
• Reduce the number of lost days from work accidents by 20% per employee and per year	8.60
• Ensure that all employees have basic health insurance	10
• Ensure that 20% of the participants in annual international mobility programs are women	14.5
<b>Environment</b>	
• Ensure that all manufacturing and logistic sites are certified ISO 14001	6.86
• Provide an environmental profile for 120 products representing more than 50% of total product revenue	5.4
• Reduce energy consumption per production site employee by 10% (in MWh/year)	7.5
<b>Societal</b>	
• Donate €1 million worth of Schneider Electric equipment	10
• Ensure that 90% of our sites have a lasting commitment with the Schneider Electric Foundations in the area of youth opportunities	7
<b>Corporate governance</b>	
• Make 60% of total purchases from suppliers who support the Global Compact	2.6
• Ensure that Schneider Electric is included in the four major socially responsible investment index families	7.5
<b>Performance</b>	<b>7.01</b>



**Gilles Vermot Desroches**  
Senior Vice President,  
Sustainable Development,  
Schneider Electric

**Testimonial**



Our ambition with the Planet & Society Barometer is to communicate meaningful results and provide a simple, immediately understandable scorecard for both internal and external stakeholders. The overall rating rose noticeably in 2006, to 7.01 from 5.21 (out of 10) in 2005. We made substantial progress in health and safety, with a 38% decline in the number of lost days from work accidents (per year and per employee). While we still have room to improve, notably in encouraging suppliers to join the Global Compact, we are solidly on track to achieve our goal of an 8 out of 10 rating by end-2008.



To find out more:  
Planet & Society Barometer



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

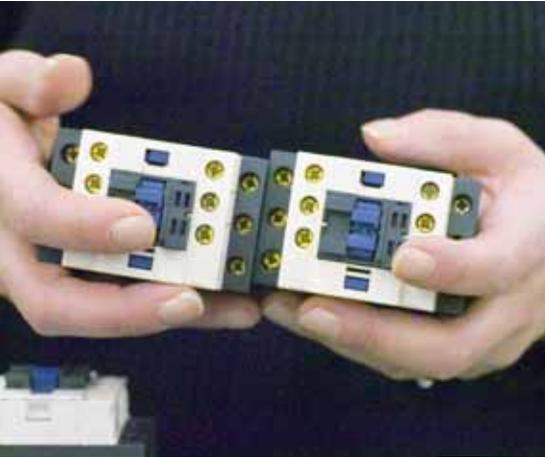
**38 PEPS**

Product Environment Profiles were published in 2006, of which five for the new Harmony range of human-machine interface solutions.



**SRI Socially responsible investing**

Our sustainable development commitment is recognized in three major SRI index families: Dow Jones Sustainability World (SAM), Ethibel Investment Register (Ethibel) and ASPI Eurozone® (Vigeo).



**Environment**



**Society**



**Employees**



# What did

**p. 34** Customers: leveraging all our skills to enhance performance

**p. 44** Environment: an integral part of design and production

**p. 50** Employees: health and diversity

**p. 56** Society: helping local populations

**p. 62** Shareholders: a new value-creating growth profile

**p. 68** Stakeholders: how we generate and use our revenue



**Customers**

**Shareholders**



**Schneider Electric  
do for you  
in 2006?**



# Leveraging all our skills to enhance customers' performance



Senside helps Original Equipment Manufacturers (OEMs) track their installed bases around the world via a secure Internet network.



With our e-catalog of 60,000 references, users have all the information they need at their fingertips, from product literature to calculations to suggested substitutes. They can check out a product's price and availability data in just a few clicks of the mouse.

All our customers, be they water or energy suppliers, infrastructure managers, manufacturers, distributors, contractors, OEMs, global strategic accounts, building operators or end users, are looking for comprehensive responses to their electricity and automation management needs. Customer satisfaction is an integral part of our strategy to grow a loyal customer base. Through partnerships, dialogue and local presence, each of our team members has what it takes to be a partner in our customers' performance. More than half of the Six Sigma improvement projects initiated in 2006 were designed to improve customer satisfaction. Quarterly surveys measure our progress in this area, as we work towards our goal of raising the percentage of very satisfied customers by 30% by 2008.

## 30%

Target increase in the percentage of very satisfied customers by 2008.

## 68

call centers to serve our customers.

## 90%

Percentage of orders filled within 48 hours around the world.



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We draw on a complete portfolio of energy management know-how and solutions to give customers peace of mind so they can focus on their core businesses. With our electric network analyses, building utility monitoring systems, power management and metering software and high availability critical power solutions, energy efficiency goes hand in hand with performance and profitability.

### **Comprehensive solutions that are easy to deploy**

To get a handle on users' expectations, we have re-created their daily environment in the laboratory. Thanks to these innovation platforms, we are able to respond much faster



with effective solutions based on observation. We also share our industrial expertise through Preferred Architectures, which combine products and systems from our lineup to serve typical customer requirements with turnkey solutions. Examples include optimized automation and monitoring devices for machines in the textile or automobile industries, critical power solutions for hospitals, and electrical distribution and VDI networks for office buildings.

### **The right service in the right place**

Our customers have access to call centers, online diagnostics and support services, a global e-catalog, downloadable software, and online information and training. In each country, we offer training to meet the specific needs of our different customer profiles, including electricians, engineering and design firms, contractors, operators and maintenance technicians. As always, our goal is to help customers become even more effective in their daily work.

### **Specialists talking to specialists**

We understood long ago that customers like to talk to someone who understands what they do. That is why we have set up dedicated organizations and services, such as Customer International Support, which offers OEMs spare parts delivery worldwide and after-sales service at user sites.

Schneider Electric also has an organization dedicated to global strategic accounts, including manufacturers, distributors and service providers. This organization shortens the decision-making process and leverages all the necessary resources from Schneider Electric's worldwide operations to serve these customers' needs.



## **Remotely managing facilities in real time**

Schneider Electric has chosen to tap into the simplicity of the Internet with open, standard systems. Our Transparent Ready™ solutions allow users to manage their facilities in real time from any location. We are continuing to broaden our lineup with a focus on systems that are easy to install and use.

# Energy savings, comfort and high performance for everyone

## A mall with a view of Mount Etna

Etnapolis is the largest shopping center in the Mediterranean rim, with 110 shops and supermarkets, 10 restaurants and 14 movie theaters. Schneider Electric provided the electrical installation for the common areas and the Castorama DIY superstore. A TAC Vista® remote supervision system and numerous actuators and sensors optimize ventilation, lighting and heating management.



## → Green building in India

Located in West Bengal, Technopolis is a green building remarkable for its energy performance, comfort and safety. It features a comprehensive building management system with a TAC Vista® solution that continuously monitors water treatment, heating, air conditioning, elevators and other key functions. This solution optimizes energy management, anticipates maintenance and factors in the owners' and operators' changing needs, for an energy savings target of 30%.



## Danone's Dream

Danone has launched a project with Nobel Peace Prize winner Muhammad Yunus to provide affordable food products to the two-thirds of the world's population that lives on less than \$2 a day. Known as "Dream", this project is designed to improve health through nutrition while creating a favorable environment for developing local business and reducing poverty. Because "Dream" fits in perfectly with our vision of sustainable development, we were proud to partner Danone for the opening of the first plant in Bogra, Bangladesh. Schneider Electric donated the low voltage distribution switchboard and its installation by a local partner.

## 2006 in brief

### TAC Vista® 5

With its intuitive, clear and modular graphic user interface TAC Vista® 5 guarantees simple and efficient building utilities management.



### Scottish wind power

Schneider Electric is participating in the construction of Europe's largest windfarm, which will help reduce CO<sub>2</sub> emissions by 170,000 metric tons a year.



## → High quality energy for tastier kisses

The Hershey Company, world famous for its chocolate kisses, has installed Powerlogic monitoring and control solutions to manage the electrical network at its Virginia plant, with the goal of improving service continuity and keeping a lid on costs. Hershey has been using Powerlogic systems since the 1990s. With this new solution, it can monitor consumption and amperage, manage the quality of electricity distributed throughout the plant, continuously track system status and take remote action if necessary. The bottom line? Considerable savings for the plant and even tastier candies.



**Testimonial**

**Lorin Droppa**  
Senior Designer,  
The Hershey Company,  
United States



In my job, I need to have a detailed view of our plant's electrical system at all times. Powerlogic helps me enormously. Because our workload is changing all the time, it's crucial for us to know very quickly if our electrical infrastructure can handle a new process. The data provided by the Powerlogic system help us make well-informed decisions. Powerlogic really plays a critical role in telling us whether a project is feasible or not.



### Environment Principle 9

Businesses should encourage the development and diffusion of environmentally friendly technologies.

### Altivar 21

Designed for motors rated 0.18 to 80 kW, Altivar 21 is perfectly suited for HVAC applications.



### In Egypt, the Cairo International Airport

has chosen Schneider Electric to provide a comprehensive, secure electrical distribution system for Terminal 3. The contract includes transformers, wiring, uninterruptible power supplies and an energy management system.

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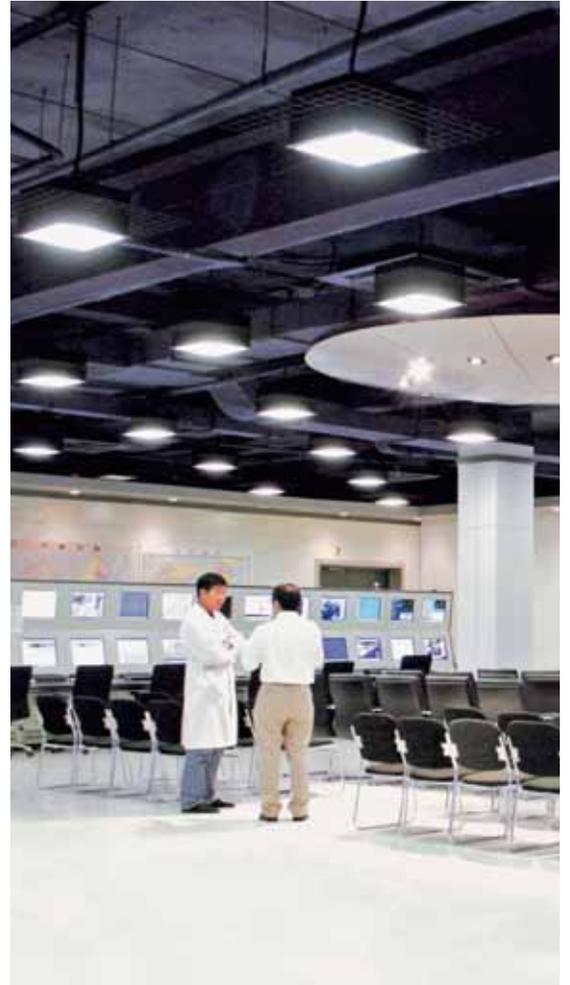
# Uninterrupted, reliable, secure service

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## High-quality, uninterrupted power in China

China's national weather service has selected Schneider Electric and subsidiary MGE UPS Systems to design and install a critical power network for its data center. Meteorologists constantly receive fresh satellite data to update their national weather forecasts at the more than 1,200-square-meter site, and the slightest outage or overheating can seriously disrupt operations. For this reason, the center tapped into our expertise for a comprehensive solution combining electrical distribution, ventilation, air conditioning and critical power.

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### 2006 in brief

#### **Replace first, ask later**

This policy for product returns deployed throughout the Asia-Pacific zone has lifted the percentage of very satisfied customer far above expectations. It will gradually be applied across the entire company.

#### **Enhanced safety and uninterrupted service**

Our new Okken low voltage switchboards withstand shocks and corrosion even better than before and offer enhanced internal arc resistance.



# Critical power solutions to save lives



In a hospital, a power outage can put lives in danger. Doctors and administrators at Saint-Joseph Hospital in Marseille, France, are more than aware of the importance of critical power. That's why they chose Schneider Electric to guarantee uninterrupted service. The flexible installation can handle Saint-Joseph's ever-changing needs in terms of quality, availability, protection and monitoring. In this way, the hospital can focus on achieving its objective of uninterrupted care.



### Testimonial

**Florent Rovello**  
Assistant General Director,  
Saint-Joseph hospital, Marseille, France



As France's largest private hospital, with 800 beds, we know that energy quality and availability are mission critical. That's why we turned to Schneider Electric's teams to modernize our electrical installations and bring them into compliance with the latest standards. The goal is to find the perfect balance between the electrical network's architecture, the products and equipment installed in the hospital and the operating and maintenance departments to ensure impeccable service for our patients, now and in the future.



## New soccer stadiums sport Schneider Electric equipment in Morocco

The two 45,000-seat stadiums under construction in Marrakech and Tangiers are equipped with low voltage equipment and UPS systems from Schneider Electric and MGE UPS Systems for the floodlighting, directional lighting and building management system. Soon, the sites will be ready for uninterrupted play.

### Award

Belgium's chamber of electrical equipment wholesalers recognized Schneider Electric Belgium with its 2006 Vendor Rating award for best supplier, all categories combined.

### FIP'clic

The FIP'clic range delivers significant energy savings by making it easy to program residential electrical heating devices.



## Monitored networks

Hydro-Québec, a large North American power utility involved in electricity generation, transmission and distribution, has opted for Schneider Electric grid automation solutions to help it quickly identify any power line dysfunctions. The fault detection project will equip load break switches installed on the overhead 25 kV network with control units that will allow operation from the existing remote control center using a wireless communication system.

## → Fast and safe subways, from Beijing to Guangzhou

In preparation for the 2008 Summer Olympic Games, Beijing is building a new subway line with 22 stations. Schneider Electric China is supplying the electrical distribution system. In Guangzhou, host to the 2010 Asian Games, we will supply low voltage equipment for subway lines 4 and 5.



## → Acrobats take flight with Schneider Electric

At the closing ceremonies of the 2006 Winter Olympics in Turin, acrobats flew 20 meters above the ground in a vertical wind tunnel. To make this amazing performance possible, Schneider Electric Latvia provided the local systems integrator with a 630 kW speed drive and other equipment to control the wind tunnel's massive motor.



### 2006 in brief

#### A bacteria-fighting light switch

The Alvais range of light switches is made of an antibacterial composite material that meets the most demanding cleanliness standards.



#### Plug-in broadband

Ilevo, Schneider Electric's Power Line Carrier subsidiary, has launched an "in-home" lineup that puts broadband Internet access into every electrical socket of your home. Available at [www.ilevo-shop.com](http://www.ilevo-shop.com).



## → Data hosting in complete safety

Telehouse Europe has chosen Schneider Electric to provide the low and medium voltage infrastructure for its new data center in Paris, as well as system supervision. The solution offers almost instant switching to back-up power in the event of an outage or during maintenance. In addition, a cooling system keeps the constantly running servers from overheating. This success story has made Schneider Electric a preferred partner for Telehouse's medium-term projects.



### A watchful eye at Colombia's central bank

In the banking industry, it is crucial to have an overall view of all branches at all times. Colombia's Banco de la República selected building automation systems from Schneider Electric subsidiary Integral to remotely monitor the 500 cameras installed in five cities across the nation. The high-definition images are continuously recorded so that nothing goes unseen.



**Olivier Caron**  
Operational Head of Telehouse France

Telehouse Europe, a subsidiary of Asia's KDDI, provides state-of-the-art data center and colocation facilities for the housing of telecommunications and IT infrastructure.

#### Testimonial



Telehouse guarantees availability of 99.99%, which corresponds to five minutes of downtime per year. This level of excellence in terms of service, hosting and critical applications depends on faultless electrical, climate control and security infrastructure. That's why we called in Schneider Electric experts during the design, development, installation, operating and maintenance stages for the new data center's critical power supply.



#### Best supplier in the Gulf

Schneider Electric Gulf States was voted Best Supplier for its contribution to the development of the Civil Aviation Department and Dubai's international airport.

#### Welcome to the New Electric World

The New Electric World Center presents the very best of the New Electric World. Voted Best Showroom 2006, the center showcases such exciting technologies as communicating LEDs.



# Productivity gains and controlled costs for our customers

## → A cleaner aluminum plant in South Africa

BHP Billiton's Hillside smelter selected the Schneider Electric-Areva consortium to fully renovate its electrolytic cell control system. The contract involves engineering studies, delivery, installation supervision and commissioning for the new system that will control the plant's 576 cells. 80% of the new aluminum plants built in the past ten years are equipped with this system, which helps reduce greenhouse gas emissions.

## → Two new refineries choose Schneider Electric

Thanks to its experience in the oil and gas industry, Schneider Electric was chosen for two major projects in the Middle East and Asia. Qatargas asked us to supply medium and low voltage equipment, as well as digital control and monitoring systems, for Ras Laffan, one of the largest refineries in the world. We also installed equipment and provided after-sales service for Vietnam's first refinery, which will help the country reduce its petroleum product imports.



## Shiny as new in a quarter of the time

National Car Wash's new automatic Tunnel Commander™ system can wash twice as many cars in an hour as a standard system, while delivering energy savings of more than 33%. Tunnel Commander™ leverages a Schneider Electric solution that combines Altivar speed drives, Modicon Premium PLCs, TeSys U-Line motor starters, a Phaseo electrical distribution system and Zelio relays.



## 2006 in brief

### Even more open

Our Lexium 05 (0.4-6 kW) and Lexium 15 (0.9-42.5 kW) motion controllers function with Ethernet, CANopen and other standard networks, making them easy to integrate in all automation architectures.



### Simpler and faster processes

The new Modicon M340 programmable logic controller facilitates the design and production of mid-range machines and considerably shortens programming time.





**Testimonial**

**Arturo Ferrer Ariño**  
Sales Director,  
Girasolar, Spain

“ Girasolar is specialized in the development of environmentally friendly heating. In particular, we make boilers that run on olive pits, grains and other green fuels. These boilers require highly accurate temperature management, achieved by regulating the fuel supply. Thanks to Schneider Electric’s Zelio Logic solution, we can monitor and configure this process remotely. Zelio Logic simplifies our installations and allows us to view and transmit data to customers so we can act more quickly. And that helps everyone save both time and energy!

## → Turnkey solution for a Japanese customer in Hungary

When Japan’s Ibiden decided to locate its new diesel particulate filter plant in Hungary, its local subsidiary turned to Schneider Electric teams and partners for an end-to-end solution covering delivery, installation, and commissioning of medium and low voltage networks.

Pleased with the results, Ibiden has demonstrated its confidence by awarding us a new contract for its second plant.

## Entire cities reduce their lighting bill

Lighting consumes 19% of the electricity generated worldwide. Our public lighting management systems adjust lighting levels to local needs and lengthen bulb lifespan, thereby reducing replacement and maintenance costs and cutting electricity consumption by up to 40%. The cities of Amiens, France and Delhi, India have chosen these solutions, which also allow them to manage programming and network incidents remotely, via GSM.



### Customer recognition

Rexel, the world’s leading electrical products distributor, bestowed its Exceptional Supplier award on Schneider Electric U.S. and North American market leader Square D.

### Meeting customers

In 2006, we took our private Initi@tive roadshow to China, Australia and the United States. In all, more than 7,000 customers were invited to discover solutions from Schneider Electric and its partners.

### Environment Principle 9

Businesses should encourage the development and diffusion of environmentally friendly technologies.





# Making the environment an integral part of design and production



**The International and Iberian**  
Operating Division's new  
headquarters in Barcelona,  
Spain is equipped with  
a photovoltaic system  
and a centralized HVAC  
solution that reduces  
energy costs by 15%.

From the drawing board and at all production sites, we take into account the need to manage electricity consumption, conserve natural resources and facilitate product recycling. In our commitment to the environment, we have developed the use of eco-design practices, made our sites more energy efficient, involved our employees and suppliers in our approach and helped our customers improve their environmental performance.

Schneider Electric has set ambitious targets as part of the new<sup>2</sup> company program to earn ISO 14001 certification for all our manufacturing and logistics sites, publish 120 Product Environmental Profiles and reduce energy use by 10% in our already efficient plants.

The results achieved in 2006 are encouraging, notably for eco-design. We have also brought our lineup into compliance with the European Restriction of Hazardous Substances (RoHS) Directive, which took effect on July 1, 2006. The measures taken go beyond the Directive's requirements.

## 90.6%

Percentage of  
our manufacturing  
and logistics sites certified  
to ISO 14001 in 2006.

## 65

Number of Product  
Environmental  
Profiles published  
in 2006.

## 6%

Decline in energy  
use at our production  
sites over the past  
two years.

When we develop our global products, we keep two things in mind: efficiency and reducing environmental impact throughout the product's lifecycle.

**Energy efficient, recyclable products**

We are making our products more compact to conserve natural resources and reduce their electrical consumption in operation. To facilitate end-of-life processing, we choose materials that are easy to recycle and clip-together systems that are easy to disassemble. Life cycle analyses and recyclability assessments help us identify areas for improvement. We have also published an internal product development guide based on eco-design principles. What is more, we train designers, marketing staff and production and purchasing managers in eco-design each year.

**Well-informed customers**

We inform customers about our products' environmental impact and provide Product Environmental Profiles (PEPs) to assist them with disassembly and recycling. These profiles give a detailed description of a product's environmental impact throughout its lifecycle and the best solutions for end-of-life treatment. Our goal is to establish 120 PEPs for products representing 50% of product revenue by the end of 2008.

**Hazardous substances banned worldwide**

The European Restriction of Hazardous Substances (RoHS) Directive, which took effect on July 1, 2006, bans the use of lead, mercury, cadmium, hexavalent chromium and brominated flame retardants in certain electrical equipment sold in Europe. A detailed review of our lineup revealed that the Directive concerns only a limited portion of our products directly, but a much larger portion indirectly. In keeping with our commitment to the environment, we decided to go far beyond the Directive's requirements by completely eliminating these substances by 2008, including in the low voltage lineup.



**Testimonial**

**Clarence Chan**  
RoHS Manager, Environment, Standards & Certification, Schneider Electric Industrial Development Singapore



We have many OEM customers who export to Europe. Because they have to meet the RoHS Directive's requirements for their European customers, the products we supply must comply as well. Practically speaking, we have added a service to our website where customers can check their products for compliance. We have also taken measures to ensure that the products from our Batam, Indonesia plant comply with the Directive. This meant changing suppliers for certain components, either because we could not guarantee quality with the new production processes or because the supplier did not have an alternative to hexavalent chromium for surface treatment. Lastly, we have checked all our inventory to separate lead-containing products from lead-free ones.



**Improvement plans at all our sites**

Our goals for 2008 are to deploy the environmental management system across the Group, earn ISO 14001 certification for all our manufacturing and logistics sites and reduce energy consumption per manufacturing site employee by 10%. At the end of 2006, 192 of our sites were certified. In addition, several achieved significant energy savings during the year.

➔ **Target for end-2008:** 992 RoHS-compliant product ranges representing 80% of revenue.



**Environment**

**Principle 7**

Businesses should support a precautionary approach to environmental challenges.

**Principle 8**

Businesses should undertake initiatives to promote greater environmental responsibility.

**Principle 9**

Businesses should encourage the development and diffusion of environmentally friendly technologies.

# Compliant products for our customers and the environment

True to our word, we brought all products directly concerned by the RoHS Directive into compliance by the application date, as well as components that are frequently integrated in devices such as household appliance timers.

## 1999 – July 2006: promises kept

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 sold in Europe. Starting in 1999, we took action to help suppliers and sub-contractors find substitutes that could guarantee the same level of quality and performance. A great deal of development work was carried out to select components and production processes and make them reliable, notably in the areas of lead-free electronics and corrosion protection without hexavalent chromium.

We also participated actively in the publication of implementation guides and helped contractors, OEMs and distributors comply with the new regulations. During the transition period, our units worked very hard to provide compliant products on time that matched or surpassed the replaced products in terms of quality and reliability. Lastly, we set up a dedicated website to provide customers with all the information they need ([www.rohs.schneider-electric.com](http://www.rohs.schneider-electric.com)).

## Looking to 2008: expanded commitments and global deployment

To go a step further, Schneider Electric has decided to eliminate cadmium from its products as well, even though it could benefit from an EU exemption, and to remove the six substances banned under RoHS from its low voltage lineup. The project has begun and should be completed by end-2008. 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, we will be prepared for regulatory changes in other countries, such as China, where our products 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.



## 2006 in brief

### Corrosion protection

The ABR1 electronic relay's screw heads and connecting terminals are now treated with trivalent chromium instead of hexavalent chromium. The printed circuit board is bromine-free and the copper wires are attached with lead-free solder.



### C60 circuit breakers: no more lead

In addition, trivalent chromium has replaced hexavalent chromium and bromine-free materials have been introduced for the plastic parts.



### WEEE Directive

Taking end-of-life equipment off our customers' hands



Whereas the RoHS Directive addresses products at the design stage, the Waste from Electrical and Electronic Equipment (WEEE) Directive focuses on end-of-life equipment. WEEE, which came into effect in 2005, requires that equipment be sorted, treated and recycled. Even before the Directive was implemented, we offered to handle end-of-life products for customers in several countries, including France. Subsidiary MGE UPS Systems began offering the same type of service in 2006. Its "Swap Pac" saves customers the hassle of managing 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.



Testimonial

**Christiane Faure**  
Advanced Technology Engineer  
Solectron, Bordeaux, France

Solectron, a specialist in printed circuit board assembly, is one of Schneider Electric's leading suppliers. Schneider Electric began thinking about the transition to lead-free electronics several years ago and carried out a feasibility study on lead-free assembly in 1999. A few years later, a working group was set up to anticipate and resolve the problems raised by compliance with RoHS. The first was to find lead-free solders that met Schneider Electric's specifications, notably in relation to varnishing constraints. The main issue concerned the availability and management of RoHS-compliant components. We created an eight to ten person working group, half Schneider Electric and half Solectron. There was an excellent spirit of cooperation from the start. We all wanted to succeed and we all learned from this project.

### RoHS online

We have created a dedicated website to help customers understand and implement RoHS regulations and check the compliance of specific products. ([www.rohs.schneider-electric.com](http://www.rohs.schneider-electric.com)).



# Systematic environmental management

When the ISO 14001 environmental management standard was published in 1996, Schneider Electric immediately initiated a process to certify its sites. This comprehensive approach, initially applied at manufacturing and logistics sites, has been extended to a number of non-production sites. We also implemented an energy savings program in 2006 called Energy Action.

## ISO 14001 certification for all sites

Our policy is to obtain certification for all manufacturing and logistics sites within two years after their acquisition or construction. Another 18 units earned certification in 2006, including the new Florida plant in Argentina and distribution centers in Budapest, Hungary, Hong Kong and Singapore. Our sales agencies in Germany, as well as two agencies in Metz and Strasbourg, France, were also certified. We expect to complete the certification process for all our French agencies in 2007. In all, 192 manufacturing and logistics sites sported the ISO 14001 label at the end of 2006. For the first time in 2006, we implemented a process to measure CO<sub>2</sub> emissions from primary energy consumption and to estimate volatile organic compound emissions. We have defined a full set of environmental indicators, which covered 184 sites in 2006 versus 172 the year before.



## 2006 in brief

### Energy efficiency CD-Rom

The disc was sent to 600 Schneider Electric managers worldwide to make them more aware of energy issues and familiarize them with the Group's solutions for optimizing customers' energy use.



### Galaxy 6000

This new three-phase uninterruptible power supply from MGE UPS Systems saves 177,500 kWh over its lifetime.





**Energy savings: walking the talk**

As the marketplace's energy efficiency partner, we apply our solutions in our 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. As of December 31, 2006, more than 50 sites had deployed action plans and a dozen had rolled out a reduction/energy management program. Our goal is to extend Energy Action to all sites, including offices, by 2008. Besides saving us an estimated €9 to €18 million per year, the program will provide a real-world view of how our solutions can help customers.

**Eco-efficient plant in India**

The architectural brief for our new Hyderabad plant, inaugurated in 2006, was to reduce energy consumption to the minimum. The building is fully insulated and designed to make the best possible use of natural light. Proximity sensors turn the lights on and off automatically. Air is simply cooled in a large part of the plant, for energy savings of 60% in relation to air conditioning. A Schneider Electric building management system optimizes utility energy consumption, saving more than 3.4 million kWh a year.



Thanks to Energy Action, Schneider Electric's sites in Coventry, Leeds, Scarborough, Swindon and Telford reduced their consumption by 20% by using energy management solutions and training employees to use less energy both at work and at home. Disciplined tracking at the five sites is helping us to identify best practices that can be later extended across the Company. These efforts helped Schneider Electric UK earn the Carbon Trust's coveted Energy Efficiency Accreditation. A government-funded, independent company that is leading the UK's drive to reduce CO<sub>2</sub> emissions, the Carbon Trust has accredited less than 250 companies in the past twelve years. This label will help promote our solutions in the British market, where electricity prices rose 29% to 38% in 2006. As the Energy Efficiency Accreditation Scheme Assessor for Schneider Electric, I was highly impressed by the company's plans and intention to provide a high level of customer support in the field of improving energy performance. It was refreshing to meet an organization that had such a clear intent to pass on not only its products to customers but also its energy management expertise. Its portfolio of evidence demonstrated a full commitment to reducing the environmental impact of all of its activities and relationships.



**Testimonial**

**Trevor Floyd C.**  
Eng-Principal Consultant  
Tenby Consultancy Group,  
Registered Low Carbon Consultant  
"A Carbon Neutral business",  
United Kingdom

**Green building standards**

The Group's future office under construction in Rueil-Malmaison will comply with France's HQE green building standards, notably as concerns energy consumption.



**Online environmental training**

A 28-module program lasting around 15 hours is available to all Schneider Electric employees with tests to evaluate understanding and progress.



# Commitment and progress in occupational health and diversity



**Australia:** Clipsal's health, safety and environmental management system has been certified to ISO 14001 and OHSAS (Occupational Health and Safety Assessment Series) 18001 standards since November 2006.

Our people and their commitment give us our competitive edge. As part of our strategy to attract and develop talent and unleash entrepreneurial spirit, we build high-quality local and international teams and develop their skills through medium-term plans. Because we see diversity as a strength and a source of creativity, we promote the creation of multidisciplinary, multicultural teams. We also encourage mobility and are working to make our leadership teams more international. We give employees a stake in achieving targets and in the Group's performance through profit-linked incentive plans and employee share ownership programs. This motivating policy helps us attract and lock-in the best people in all of our host countries. We have also deployed a global program to improve workplace health and safety. Our goals here are to ensure that all employees have health coverage, notably in emerging markets, and to reduce the number of lost days from work accidents by 20% a year over the period covered by the new<sup>2</sup> company program (2005-2008).

## 38%

Reduction in the number of lost days from work accidents (per employee and per year) in 2006.

## 100%

Percentage of employees with basic health insurance in 2006.

## 14.5%

Percentage of women participants in our international mobility program in 2006.



The diversity of the countries, markets and customers served by Schneider Electric is reflected in its workforce. This diversity is both cultivated and encouraged. By hiring and training people on all continents, we are sure of understanding our local customers and partners because our employees share the same culture.

### A multinational approach to human resources

Human resources evaluation and management resources are being harmonized worldwide so that all team members can fully express their potential and employability and help execute Group strategy. We have enhanced our management planning, deployed three-year competency plans aligned with our new needs, given employees the opportunity to talk with managers during individual competency reviews and increased our investments in training.

### Attracting and developing talent

Our Marco Polo international recruitment program and partnerships with 12 top schools and universities around the world help us develop and promote multicultural teams. Training is a key success factor at all levels of the organization. In 2006, Schneider Electric University considerably expanded its programs on customer focus, continuous change and leadership skills and attitudes through its specialized institutes. We have also made widespread use of e-learning to offer training to the widest possible audience in our corporate community and deployed programs developed by the Schneider Electric University's institutes locally.

### Improving workplace health and safety

Defined in 2005, the Group's occupational health 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.



### Labor standards

#### Principle 6

Businesses should uphold the elimination of discrimination in respect of employment and occupation.

➔ **In 2006, 1,126 employees** from 72 countries attended Schneider Electric University's seminars on managerial and global expertise.

# Our priority: each employee's physical, mental and social well-being



## Testimonial

### Dave Petratis

Executive Vice President of Schneider Electric's North American Division. In 2006, Safety + Health magazine ranked Mr. Petratis among the top seven CEOs for commitment to occupational health and safety.



Our employees are our most precious asset and even one accident is one too many. Our employees serve our customers. By reducing work accidents and lost time injuries, we can enhance employee satisfaction and customer service quality.



### Rich Widdowson

Vice President, Safety for Schneider Electric's North American Division



Our main objective was to prevent accidents and injuries, but the considerable improvements we achieved have also saved us several million dollars in workers' compensation. Thanks to our excellent results, we are clearly recognized as a leader in our industry—and that's a real competitive advantage.



In our policies, we have adopted 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". Our objective is to make good health a shared ambition with all our partners.

### Raised awareness

As part of a comprehensive action plan, Schneider Electric intends to drastically reduce the number of work accidents recorded at its sites each year. In the front lines, we want to raise managers' awareness of occupational health and safety issues and enhance their commitment to continuous improvement. Our commitment here has both a people and a business focus. The first has to do with our responsibility towards employees, while the second involves reducing the cost of work accidents. Our new health policy is built around the concept of the employee's well-being. Units with the poorest safety performance are now individually monitored by a member of the Executive Committee. Seventeen units in nine countries were tracked in 2006, and all improved their results. Another way to spur quick change is to make improving safety a criteria in managerial compensation. This has been the case in the United States for several years and in France since 2006. The policy will be extended to our other host countries.

## 2006 in brief

### Schneider Electric in Saudi Arabia

Our local unit has earned both ISO 14001 and OHSAS 18001 certification. What is more, it organizes health, safety and environment (HSE) training for customers to share its expertise.

### Health and nutrition information campaigns in Singapore

Our subsidiary in Singapore has introduced weekly games and exercise classes, yoga and cardio training to promote good health. The Singapore Health Promotion Board recognized these efforts with its Silver Award in 2006.



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## Towards a dedicated health management system



We encourage our units to implement an occupational health management system. Many have chosen to apply for Occupational Health and Safety Assessment Series (OHSAS) certification, which sets out rules for occupational health and safety. All our sites in Saudi Arabia and Schneider Beijing Low Voltage in China were certified in 2006, as was SAPEM in France, our first manufacturing facility to achieve triple certification (for quality, environmental management and occupational health and safety).

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## → 90% improvement on an assembly line

An in-depth analysis at Schneider Electric United Kingdom revealed that 70% of musculoskeletal (MSK) injuries stemmed from carrying loads and 30% were related to the use of compressed air tools in assembly.

A comprehensive review of tasks and posture plus new pre-programmed compressed air tools eliminated most risks. These measures also reduced injury frequency and severity—by more than 90% on the assembly line—and improved productivity and quality.



### Preventing risks

Training on preventive actions is available in several countries to improve road safety.



### Specially adapted work stations

The MGA plant in France has adapted two work stations so that disabled employees can return more quickly. In just four months, the number of lost days declined by 126.

# Making the most of diversity

Diversity underpins our history, culture and identity. That's why the first commitment in Our Principles of Responsibility states that: "Schneider Electric employees can all express their cultural diversity and are managed without discrimination."

## Diversity everywhere

We know that employees who feel respected are more motivated and effective. For this reason, we have taken measures to promote gender equality, jobs for the disabled and minority hiring. We take action at three levels: recruitment, job opportunities for young people and career development. Our goal is to make diversity a strength, an advantage and lever for developing creativity and competitiveness. Our diversity charter reflects this commitment.



## Testimonial

**Mariame Diakite-Bamba**  
Schneider Electric Country Manager  
for Côte d'Ivoire, Niger, Burkina Faso,  
Benin, Togo and Guinea-Conakry



### What made you want to work for Schneider Electric?

I wanted to discover new things and Schneider Electric offered the opportunity to work with very high level technical and management competencies.

I have learned a great deal in my work and I've taken several training courses that have prepared me to lead my team and that have supported my personal development.

### What advice would you give to women who want to follow a similar career path?

In a position of responsibility, a woman is expected not only to do her job, but also to justify her appointment by excelling. It is important to persevere. Although this type of position is demanding, it's motivating to have the chance to be a role model. A woman who succeeds in the executive suite breaks down barriers for others.



## 2006 in brief

### 10<sup>th</sup> anniversary

The Felix program, which develops high potential junior managers worldwide, celebrated its tenth anniversary in 2006. This year, 31 participants from 23 countries attended sessions in Beijing.



### Daycare solutions

Inter-company daycare centers in Eybens and Rueil-Malmaison, France, offer 70 spots for children of Schneider Electric employees. The centers, opened in September 2006 and February 2007, make life easier for parents and fun for kids.

## “Choose your life” 20 women sponsored in France

The “Choose your life” program 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 with personalized mentoring. The program will be offered every year.



## A different approach to hiring in Spain

In Spain, our Meliana site participated in a community program to encourage the hiring of disadvantaged individuals, including foreigners, single parents, victims of domestic violence and people with disabilities. The Meliana business development council selected and trained 40 candidates out of 200 applicants and Schneider Electric hired 20.

## → Attracting female graduates in Germany

Because less than 15% of the students working towards electro-technical degrees in Germany are women, Schneider Electric has a hard time recruiting female graduates. To enhance its attractiveness as a potential employer, the Group visits technical schools and universities and organizes a special “women day”.



## A world of possibilities

Schneider Electric’s active policy towards the disabled is illustrated in an awareness-raising film featuring interviews with disabled individuals, colleagues, social workers, professionals and recruiters.





# Helping local populations

respond to emergencies and prepare the future



**Talam Petai (India)**  
70 students attend this new two-classroom school, which is also used by village residents for meetings outside school hours.

Schneider Electric encourages solidarity with host communities in the 106 countries where it operates. We work side by side with our employees to provide emergency assistance to victims of natural disasters. We also support youth education and training to help young people prepare their future and find their place in society. All our team members have the opportunity to contribute to these actions, which are coordinated, supported and relayed by our foundations in France and the United States. Created in 1998, the Schneider Electric Youth Opportunities Foundation has 200 volunteer employee delegates in 74 countries.

**84%**

of our sites provided support for 205 associations around the world in 2006.

**€2.85 million**

was allocated to 50 tsunami-related projects.

**€2 million**

worth of equipment was donated in 2006.

### Giving young people a helping hand

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. Each year, 1,500 mentors train young people. A number of our customers lend a helping hand by offering stable job opportunities at the end of the training program.

Schneider Electric, its Foundation and its employees give their time and energy to help young people through educational, sponsorship and rebuilding programs. The programs leverage the Group's know-how and its team members' skills around the world.

### Pulling together to rebuild

When a natural disaster such as earthquake, flood, tsunami or hurricane hits, the Schneider Electric Foundation quickly relays local employees' efforts throughout the Group and uses its own expertise to help them cooperate effectively with non-governmental organizations, so that the people who need assistance get it as fast as possible. In 2006, the Group and its employees donated money and equipment to numerous disaster victims.



### Human rights Principle 1

Businesses should support and respect the protection of internationally proclaimed human rights.



### A network of 200 delegates

Created in 1998 under the aegis of Fondation de France, the Schneider Electric Foundation counts on a network of 200 employee volunteers to select and lead local partners in the areas of training and youth opportunities and to create motivational events aligned with the local culture. This network organization allows the Foundation to respond quickly on an international scale, instill common values and raise employee awareness about its programs.

→ **70% of the tsunami-related projects supported by the Foundation in India, Indonesia, Thailand and Sri Lanka were completed as of December 31, 2006.**

# Rebuilding after an emergency



## Tsunami drive facts and figures

- 71 country organizations involved
- €2.86 million donated, of which €658,821 from employees
- 50 projects supported, including 12 schools, two medical centers and an orphanage
- 4 countries targeted: India, Indonesia, Sri Lanka and Thailand

Schneider Electric and its team members took action immediately to help the victims of the December 2004 tsunami in Southeast Asia. We are still involved more than two years later. Similar responses were carried out in 2006, notably following Hurricane Katrina in the United States.

### Staying involved over the long haul

Schneider Electric's tsunami solidarity drive, launched in January 2005, includes three programs:

- Emergency response: purchase of ambulances, equipment for emergency housing and shelter and basic necessities and installation of mobile water treatment units.
- Donation of equipment and services to restore drinking water and electricity in cooperation with partners.
- Reconstruction, essentially of schools and an orphanage.

Thanks to the tenacity of the employee delegates tracking these programs locally, 70% of the projects were completed at end-2006 and 89% were finished in early 2007.



## → Ringing in the new school year in Indonesia and Thailand

More than 800 Indonesian children started the 2006 school year in four new schools in Meulaboh and Banda Aceh, leaving their temporary tent schools behind. The establishments—three primary and one nursery school—were part of Schneider Electric's reconstruction project. They were built in partnership with Indonesia's Ministry of Education and Cultural Affairs and the Nurani Dunia association.

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. The complex now has room for 646 students.

## 2006 in brief

**Four ambulances** were donated to the Indonesian Red Cross (Palang Merah, Indonesia) in the Banda Aceh region.



**70,000 circuit breakers** were donated to the PLN Aceh (Banda Aceh) electric company to help restore power in the region.

## Inexpensive, energy-efficient homes in the United States



In North America, the Group has for many years supported Habitat for Humanity, an association that has built more than 150,000 inexpensive, decent homes for low-income families worldwide. Our involvement includes donations of circuit breakers and electrical panelboards. Many of our employees participate in the actual building projects. In 2006, we took part in an innovative Habitat for Humanity initiative to build low-price, energy-efficient homes in Canada—a first for that country. Following Hurricane Katrina, Square D contributed to numerous restoration projects. These included New Orleans City Park, the largest city park in the United States, and the celebrated Audubon Society's aquarium and insectarium.



### Testimonial

**Abhimanyu Sahu**  
Competency Center Manager,  
Schneider Electric Foundation,  
volunteer delegate, India



Being confronted with the tsunami victims' harsh reality was an overwhelming experience for me. On the face of it, tracking construction of an orphanage 1,200 kilometers from where I live was not an easy task. But the exemplary involvement of the orphanage team and the local contractors, along with very disciplined monitoring, made it easier to coordinate construction, track spending and keep things on schedule. I am certain that this new environment will help the children overcome their tragedy.



### Three mobile drinking water treatment units

were donated to Lead International along with the fuel to operate them by the Schneider Electric Foundation. An operator has been seconded for a year to ensure the units work properly.



# Helping young people get off to a good start

With more than 4,000 work-study contracts in France over the past ten years and innovative partnership programs, our school-to-work system has been a resounding success. Very quickly, we extended this commitment towards high school non-completers to all our host countries, with support from the Schneider Electric Youth Opportunities Foundation.



## Supporting education for girls

Many young people would like to pursue their studies but do not have the resources to do so. Girls are often heavily disadvantaged in this respect, as is the case in Turkey. In response, Schneider Electric's employees decided to support 50 girls in Anatolia, one of the country's poorest regions, for four years. The girls are studying electricity and electronics at technical high schools in Istanbul. Thanks to our team members, they also have the opportunity to attend cultural events during the year. In Barcelona, Spain, employees are helping young immigrant women from northern Africa.

## 2006 in brief

### Young people

supported on the path to employment by team members at our Electropole research center in France repair bicycles that are then sent to Mali and Burkina Faso.

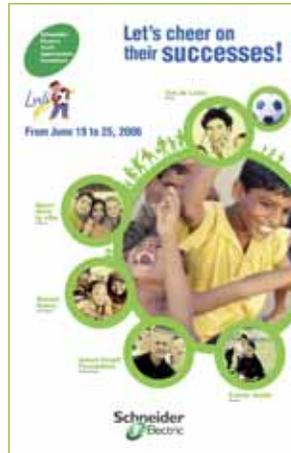
### 11 tons of food

and thousands of school supplies were collected in Brazil during the Luli campaign week for 13 associations, setting a new record.



## Luli supporter

Scheduled during the World Cup of soccer, our weeklong Luli fundraising campaign highlighted social integration through sports to marshal employee support. A competition to forecast the World Cup's results called "Luli Foot" was organized for the benefit of local associations in each country, with matching funds donated by the Foundation to five international associations. New participants this year included Nigeria, the Electropole and Bangalore research centers in France and India, and our Crouzet subsidiary in Morocco. Thanks to the contributions collected in 69 countries, we were able to provide €1.4 million in funding to 205 associations.



## A worldwide response

Since 2002, the Luli international campaign has encouraged employees to demonstrate shared values like commitment and solidarity during a weeklong fundraising drive. The objective is to lend financial and moral support for educational, training and job opportunity projects launched by associations located near our sites and selected by our employees. Team members organize festive and sports events and donate their time and talent. The Schneider Electric Foundation matches their contributions.

## → "100 opportunities – 100 jobs"



## Electrical training for young people

Several sites support high schools and institutes that provide electrical training. From Portugal to Venezuela to Madagascar, team members work with local associations to help disadvantaged young people pursue technical training.

Following the lead of our Chalon-sur-Saône unit in 2005, our sites in Grenoble, France have committed to a campaign that targets low-skilled residents of disadvantaged neighborhoods, age 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 similar campaign is planned in 2007 in Normandy.

## 215 runners

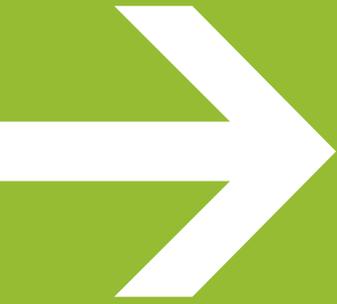
and walkers participated in a 16 Km race in Carros, France to help young disabled people obtain personalized material, educational and paramedical assistance.



## In Singapore,

employees and their families, customers and suppliers work hand in hand year round to ensure that disabled students get the educational resources they need.





# A new value-creating growth profile



**2006 Actionaria Shareholder fair**  
In November, Schneider Electric met with shareholders during the four-day fair in Paris.

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

**up 33%**

2006 dividend per share.

**up 31%**

2006 earnings per share.

**up 12%**

Schneider Electric  
share price  
performance in 2006.



### Shareholders' Advisory Committee

The Committee reflects the geographic and professional diversity of Schneider Electric's shareholder base. It is currently made up of eight independent volunteers appointed by Schneider Electric for a three-year term. In 2006, the members met three times and made numerous suggestions that were then implemented by Schneider Electric's investor relations department.

Thanks to its unique strengths, Schneider Electric has developed an attractive business profile that allows it to take advantage of the New Electric World's fantastic growth opportunities.

These strengths include:

- Leadership positions in Electrical Distribution and in Automation & Control.
- A comprehensive, integrated and innovative lineup.
- Broad geographic coverage and a solid local presence.
- A flexible business model based on partnerships.
- The ability to play an active role in the industry's consolidation, through acquisitions.

Schneider Electric is committed to nurturing a solid relationship of dialogue and trust with its shareholders. We report regularly and clearly to shareholders through our business and sustainable development report, our registration document, our thrice-yearly Letter to Shareholders, financial notices published in the press and the shareholder relations section of our corporate website. On our site, shareholders can view the annual and interim results presentations and the Annual Meeting and track the Schneider Electric share price in real time.

### Face to face with shareholders

Schneider Electric took advantage of the Actionaria shareholder fair held in Paris in November 2006 to discuss its business, strategy and performance with numerous shareholders and other visitors. We will again be on hand for Actionaria 2007 to promote and enhance relations with individual shareholders.

In 2006, we also invited financial analysts, investors and journalists to visit our new Electropole R&D center in Grenoble, France, dedicated to power protection and control. The visit provided an opportunity to present our research and innovation strategy. Lastly, we pursued our information campaigns with socially responsible investors and ratings agencies.



### Individual shareholders make their voices heard

The Shareholders' Advisory Committee is designed to relay shareholders' concerns in the area of financial communication to the Company.

**N° Vert 0 800 20 55 14**

### Financial calendar

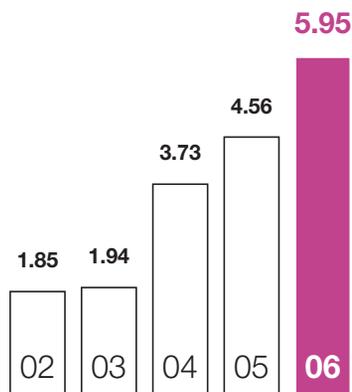
- April 19, 2007**  
First-quarter 2007 revenue
- April 26, 2007**  
Annual and Extraordinary Shareholders' Meeting
- June 4, 2007**  
Shareholders' meeting in Strasbourg, France
- August 1, 2007**  
Half-year results and second-quarter revenue
- September 25, 2007**  
Shareholders' meeting in Lyon, France
- October 23, 2007**  
Third-quarter revenue
- November 22, 2007**  
Shareholders' meeting in Toulouse, France



# Stock Market Information

## Earnings per share

(in euros)

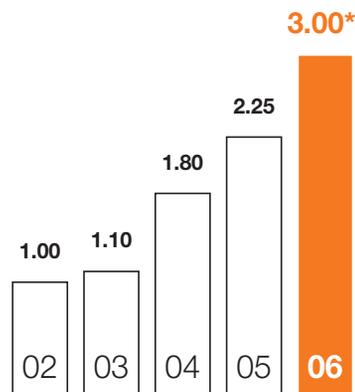


**€5.95**

earnings per share  
up 31%

## Dividend per share

(in euros)



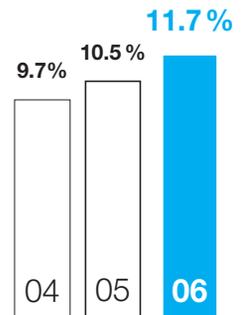
**€3.00\***

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.

## Return on capital employed

(in %)



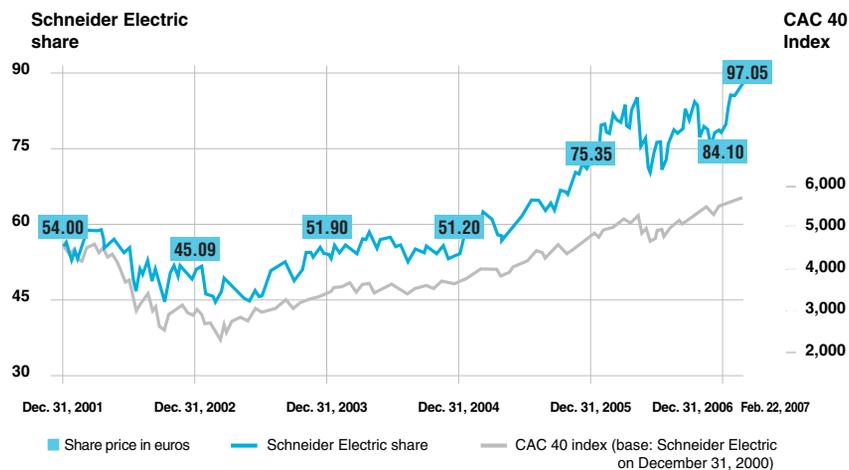
up 1.2 point

**€1,107**

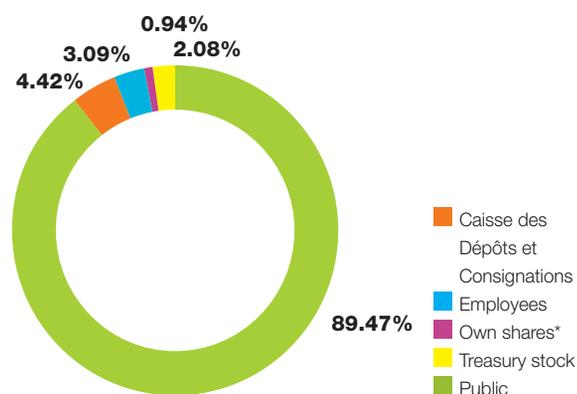
million  
free cash flow

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

(Thomson Financial data)



## Ownership structure at December 31, 2006



\*Via Cofibel/Cofimines

## Changes in the share base in 2006

Shares outstanding at Dec. 31, 2005	226,619,227
Share cancelled	0
Exercise of stock options	1,079,121
2006 corporate savings plan	0
Shares outstanding at Dec. 31, 2006	227,698,348
Potential shares at Dec. 31, 2006 (of which options to subscribe or purchase new or existing shares)	10,174,330
Fully diluted shares outstanding at Dec. 31, 2006	237,872,678
Average shares outstanding in 2006 (used to calculate earnings per share)	220,002,969

## Five-year trading summary

	2002	2003	2004	2005	2006
Average daily trading volume					
• Thousands of shares	1,068.17	1,198.06	942.82	947.34	1 058.84
• Millions of euros	53.87	53.92	50.49	59.31	88.85
High and low share prices (in euros) <sup>1</sup>					
• High	59.85	54.30	58.25	77.15	93.40
• Low	37.16	37.40	49.20	51.15	70.85
Year-end closing price (in euros)	45.09	51.90	51.20	75.35	84.10
Yield including tax credit (%)	3.33	3.18	3.52	2.99	3.57

1. During the trading session.

## Socially Responsible Investment (SRI) rating

### 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.

### 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.

### Ethibel Investment Register

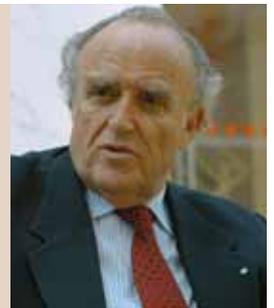
Schneider Electric was included in the Ethibel Investment Register in 2006. This reference for socially responsible investing is used by a growing number of European banks, fund managers and institutional investors.

- Traded on Eurolist by Euronext™ Paris (compartment A), eligible for the deferred settlement service
- ISIN code: FR0000121972
- Market capitalization at Dec. 31, 2006: €19.1 bn
- Index: CAC 40 and Euronext 100

# A clear separation between management and oversight

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. This governance system separates management and oversight functions. 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 the bylaws. The Supervisory Board exercises ongoing control over the Management Board's management of the Company. 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. The Supervisory Board has appointed an Audit Committee and a Remunerations and Appointments & Corporate Governance Committee.

Henri Lachmann



## Supervisory Board



The Supervisory Board comprises 13 members, including one non-voting member. Nine are independent, as defined by the Bouton report on corporate governance. Of these, five are from industry and services and four are from finance and insurance. In all, five different nationalities are represented. These individuals bring a remarkable set of competencies to the Board and are all very involved in its operations. One of the members has been assigned on behalf of the Board to develop specific expertise in the area of sustainable development and environmental and social risks.



## 2006 in brief

**The Audit Committee** plays a key role in the Group's internal control system. It is responsible for preparing the Supervisory Board's decisions, making recommendations to the Board and issuing opinions on financial, accounting and risk management issues. The Committee met four times in 2006. The average duration of the meetings was 2 hours and 15 minutes and the average attendance rate was 94%.

**The Remunerations and Appointments & Corporate Governance 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 and on their remuneration. It also recommends processes and procedures to ensure shareholders that the Supervisory Board carries out its missions objectively and independently. The Committee met three times in 2006, with an attendance rate of 100%.

## Supervisory Board

### Henri Lachmann

68, French  
Chairman  
Former Chairman and Chief Executive  
Officer of Schneider Electric

### Serge Weinberg\*

56, French  
Vice Chairman  
Chairman of the Board of Directors  
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  
Corporate Director  
Chairman of the Leadership Foundation  
for Higher Education

### Piero Sierra\*

72, Italian  
Special Advisor for the administration of  
Pirelli's international companies

## Non-voting member

### Claude Bébéar

Chairman of the Supervisory  
Board of Axa

## Board Secretary

### Philippe Bougon

## Audit Committee

**Gérard de La Martinière\***, Chairman

**James Ross\***

**Piero Sierra\***

**Serge Weinberg\***

## Remunerations and Appointments & Corporate Governance Committee

**Henri Lachmann**, Chairman

**Claude Bébéar**

**Willy Kissling\***

**René Barbier de La Serre\***

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

→ *For Schneider Electric, the separation of operational  
responsibility from oversight is a guarantee of transparency  
and discipline.*

## Corporate governance facts and figures

- The Supervisory Board, created on May 3, 2006, held six meetings during the year.
- The average duration of these meetings was 2 hours, 50 minutes.
- The average attendance rate was 88%.
- Key topics included corporate governance and strategy, the acquisition of American Power Conversion (APC) and the review of the interim financial statements.
- Two meetings were devoted to the bid for APC and its financing.



# How we generate and use our revenue

Schneider Electric is dedicated to creating wealth for shareholders, as well as all its other stakeholders, including customers, employees, suppliers and the community.

**Customers**  
**€13,730 million**

Schneider Electric generated revenue of €13,730 million in 2006, for operating profit of €2,001 million and attributable profit of €1,309 million. Reported revenue rose 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 markets and investments in promising new activities such as services and energy management.

**Suppliers**  
**€7,285 million**

Schneider Electric makes 90% of its purchases from 3,000 suppliers and subcontractors. These include raw materials (€1,600 million), electronic components (€1,500 million), manufactured components (€1,800 million) and MRO purchases (€2,200 million).

**Income tax**  
**€535 million**

Schneider Electric's financial contribution to its host countries amounted to €535 million in corporate income tax in 2006.

**Employees**  
**€3,896 million**

Schneider Electric paid its 105,000 employees in 106 countries nearly €3.9 billion in 2006.

**Shareholders**  
**€517 million**

In 2006, Schneider Electric paid:

- €502 million in dividends to holders of 227,698,348 shares in the Company.
- €15 million in minority interests.



**Income from investments**  
**€96 million**

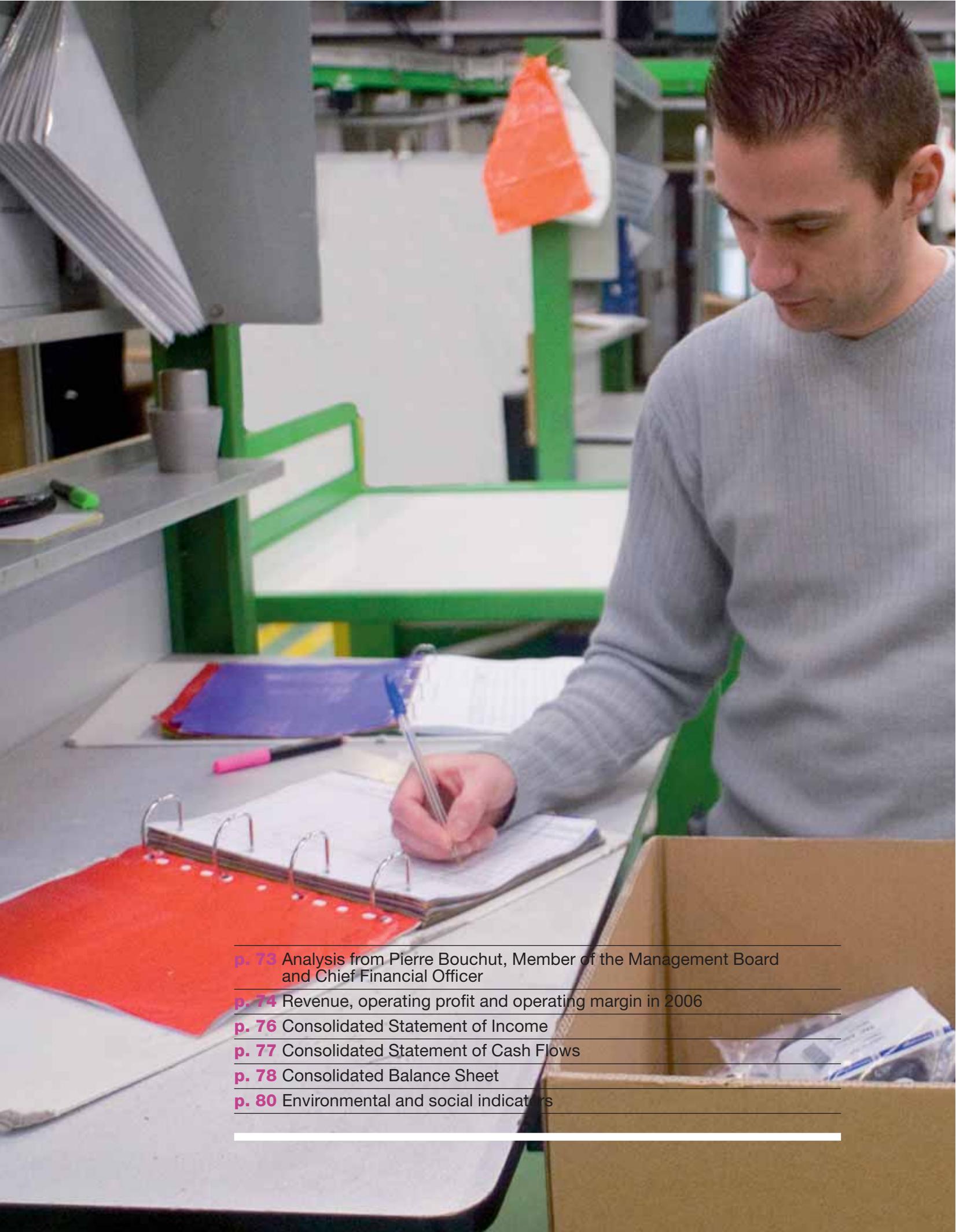
Schneider Electric's strategic investments generated €96 million in interest, foreign exchange gains, advances and dividends in 2006.

**Cash flow after dividends**  
**€1,404 million**

Schneider Electric finances operating expenses and remunerates shareholders from cash flow.

**Banks and bondholders**  
**€189 million**

Interest on debt totaled €189 million.



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**p. 73** Analysis from Pierre Bouchut, Member of the Management Board and Chief Financial Officer

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**p. 74** Revenue, operating profit and operating margin in 2006

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**p. 76** Consolidated Statement of Income

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**p. 77** Consolidated Statement of Cash Flows

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**p. 78** Consolidated Balance Sheet

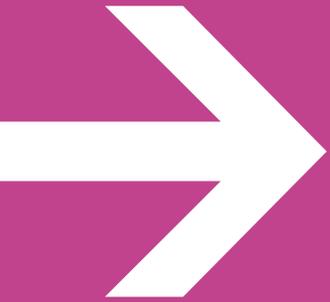
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**p. 80** Environmental and social indicators

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**Financial, social and environmental performance** 



# Financial, social and environmental performance

Schneider Electric achieved record-breaking financial results in 2006. This performance reflects, in particular, the Group's growing presence in high-growth emerging markets and investments in promising new activities such as services and energy management. It demonstrates 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 target. Our social and environmental performance also improved, especially for eight of the ten targets in our Planet & Society Barometer.

**€13.7  
billion**

revenue in 2006.

**14.6%**

operating  
margin in 2006.

**€1.309  
billion**

profit attributable to equity  
holders of the parent in 2006.

# Analysis from

Pierre Bouchut,  
Member of the Management  
Board and Chief Financial Officer



## Historic high for organic growth

Revenue rose 17.6% on a current structure and exchange rate basis to €13,730 million in 2006.

- Like for like, revenue increased by 10.7% thanks to vigorous growth in Europe, solid demand in North America and a very vibrant trend in the emerging markets, which accounted for 31% of total revenue compared with 27% in 2004.
- Acquisitions—primarily ABS EMEA and IBS in Building Automation; Clipsal Asia, OVA and Merten in installation systems and control; BEI Technologies and Juno Lighting—contributed €800 million, or 6.9%, to revenue.
- The currency effect was virtually nonexistent at a negative €3 million, reflecting the stability in the average dollar/euro exchange rate between 2006 and 2005.

## A record operating margin

Operating profit increased again in 2006, rising a strong 28% to €2,001 million. As with revenue, the currency effect had virtually no impact. Acquisitions added €103 million, or 7% to operating profit growth. Like for like, operating profit rose 21% on organic revenue growth of 10.7%.

- Record revenue growth generated a strong volume effect.
- The Group demonstrated its ability to increase prices during the year, lifting revenue by €141 million or 1.2%. This offset much of the €227 million increase in raw material costs.
- Our efficiency plans helped us achieve significant productivity gains again this year.
- Selling, administrative and general expenses were kept under control.

Operating margin widened by 1.2 point during the year to a record 14.6%, exceeding the new<sup>2</sup> program's target of 12.5%-14.5% for 2005-2008.

“  
2006 was a historic year for Schneider Electric. We further enhanced our effectiveness, with record growth of 17.6% and an operating margin of 14.6%—1.2 point above our previous historic high. All of our profitability ratios have improved. We have a solid balance sheet and an excellent outlook.”

# Revenue, operating profit and operating margin in 2006

## By region (€ million)

	Revenue	Operating profit	Operating margin	% change
Europe	6,402	983	15.4%	+ 1.9 pt
North America	3,698	518	14.0%	+ 0.7 pt
Asia-Pacific	2,514	327	13.0%	+ 0.1 pt
Rest of the World	1,116	173	15.5%	+ 1.5 pt
<b>Total</b>	<b>13,730</b>	<b>2,001</b>	<b>14.6%</b>	<b>+ 1.2 pt</b>

## By business (€ million)

	Revenue	Operating profit	Operating margin	% change
Electrical Distribution	8,605	1,315	15.3%	+ 1.4 pt
Automation & Control*	4,456	600	13.5%	+ 0.9 pt
Critical Power & cooling services	668	86	12.9%	+ 0.8 pt
<b>Total</b>	<b>13,730</b>	<b>2,001</b>	<b>14.6%</b>	<b>+ 1.2 pt</b>

\*Including building automation and custom sensors.

### Strong growth in attributable profit (up 32%) and return on capital employed (up 1.2 point)

Profit attributable to equity holders of the parent also increased strongly, by 32% to €1,309 million, 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 totaled €1,921 million and represented 14.0% of revenue versus 13.3% in 2005. After changes in working capital and net investment, free cash flow rose 30% to €1,107 million. Return on capital employed increased by 1.2 point to 11.7% thanks to tight control over capital employed, which rose by only 15% during a period of strong business and earnings growth. As of December 31, 2006, the Group had a debt-to-equity ratio of 21%. However, the acquisition of APC, consolidated as from February 15, 2007, will substantially modify the balance sheet structure. Pro forma consolidation of APC as of December 31, 2006 results in a debt-to-equity ratio of 69% before the capital increase.

### new<sup>2</sup> financial targets revised upwards

In light of the success of the new<sup>2</sup> company program's action plans, Schneider Electric has set new financial targets for 2007-2008. These include:

- Organic revenue growth of more than 6% a year, thanks in particular to the additional growth provided by APC.

- EBITA margin of between 13% and 15%, for a growth potential of 1-1.5 point in an equivalent economic environment.
- A 2-point\* increase in return on capital employed.

### €1 billion share issue with pre-emptive subscription rights carried out in March 2007

When Schneider Electric made its friendly bid for APC on October 30, 2006, it indicated that part of the transaction (finalized on February 14, 2007) would be financed through a share issue in an amount of around €1.2 billion. In light of the high level of free cash generated in 2006, the Group decided to scale back the issue to €1 billion, with pre-emptive subscription rights for Schneider Electric shareholders. Carried out from March 12 to 23, the issue was a resounding success. Shareholders had the opportunity to subscribe one new share for 17 existing shares at a price of €73 for each new share.

In all, 13,412,969 new shares were issued. They rank pari passu with existing shares as from May 2, 2007.

Following the capital increase, Schneider Electric's debt-to-equity ratio declined to around 53%, allowing the Group to obtain a credit rating of BBB+.

\*In relation to pro forma 2006 including APC (EBITA of 13.7% and ROCE of 9.3%).

# Consolidated Statement of Income

(in millions of euros except for earnings per share)

	2006	2005*	2004
<b>Revenue</b>	<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	(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	(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>	<b>(120.9)</b>	<b>(104.6)</b>	<b>(59.3)</b>
Share of profit /(losses) of associates	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	(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)	5.95	4.56	3.73
Diluted earnings per share (in euros)	5.90	4.54	3.72

\*IAS 32/39 applied as from January 1, 2005 with no adjustment for 2004.

# Consolidated Statement of Cash Flows

2006 performance

(in millions of euros)	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	
Net cash provided by operating activities before changes in operating assets and liabilities	1,921.3	1,548.1	1 282.1	
(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	(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	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</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.

# Consolidated Balance Sheet

## Assets

(in millions of euros)

	Dec. 31, 2006	Dec. 31, 2005	Jan. 1, 2005*	Dec. 31, 2004
<b>Non-current assets</b>				
Goodwill, net	6,185.7	5,878.8	4,539.0	4,462.3
Intangible assets, net	1,493.1	1,299.1	894.5	894.5
Property, plant and equipment, net	1,615.1	1,600.6	1,456.7	1,456.7
Assets held for sale	6.4	6.8	7.6	7.6
<b>Total tangible and intangible assets</b>	<b>3,114.6</b>	<b>2,906.5</b>	<b>2,358.8</b>	<b>2,358.8</b>
Investments in associates	10.2	48.2	65.3	65.3
Available-for-sale financial assets	315.7	315.4	198.5	154.3
Other financial assets	114.2	281.4	288.1	288.1
<b>Total non current financial assets</b>	<b>429.9</b>	<b>596.8</b>	<b>486.6</b>	<b>442.4</b>
Deferred taxes	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	2,055.9	1,636.6	1,409.4	1,409.4
Trade accounts receivable	2,882.8	2,586.7	2,135.7	2,135.7
Other receivables and prepaid expenses	994.8	783.0	550.8	529.1
Current financial assets	73.5	0.0	0.0	0.0
Cash and cash equivalents	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.

# Liabilities and equity

(in millions of euros)

	Dec. 31, 2006	Dec. 31, 2005	Jan. 1, 2005*	Dec. 31, 2004
<b>Equity</b>				
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	1,159.0	1,200.4	1,026.2	1,026.2
Provisions for contingencies	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	3,237.9	2,691.1	1,200.0	1,200.0
Perpetual bonds	0.0	-	-	73.3
Other long-term debt	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	305.3	259.4	225.9	203.2
Other non-current liabilities	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	286.7	276.7	236.5	236.5
Other current liabilities	505.3	340.5	338.9	279.2
Short-term debt	884.6	252.9	227.7	254.3
<b>Total current liabilities</b>	<b>4,831.7</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.

# Social indicators

	2006	2005	2004
<b>I. Total workforce</b>			
Average workforce*	100,078▲	88,670	84,866
Fixed-term and open-ended contracts	96,529▲	84,819	84,184
Average production staff	46,135▲	40,792	40,582
Average non-production staff	53,943▲	47,878	44,284
New hires*	31,141	16,070	13,726
Departures*	23,387	15,820	12,342
Breakdown by region (percent)			
Asia-Pacific	22%	20%	18%
Europe	46%	49%	54%
North America	25%	24%	21%
Rest of the World	7%	7%	7%
Men/women (percent)			
Men	64%	65%	63.7%
Women	36%	35%	36.3%
Age (percent)			
14-24	11.2%▲	11.9%	8.1%
25-34	29.6%▲	28.1%	29.1%
35-44	27.7%▲	27.4%	29%
45-54	21.8%▲	22.9%	24%
55-64	9.2%▲	9.3%	9.6%
> 64	0.5%▲	0.4%	0.2%
Seniority (percent)			
< 5 years	43.4%	42%	37.6%
5-14 years	27.5%	28.3%	29%
15-24 years	15.1%	16%	17.6%
25-34 years	10.6%	11%	13%
> 34 years	3.4%	2.7%	2.8%
Gender and category (percent)			
White collar	56.9%	59%	56.6%
- Men	72.5%	75%	-
- Women	27.5%	25%	-
Blue collar	43.1%	41%	43%
- Men	53%	51%	50%
- Women	47%	49%	50%
Function (percent)			
Marketing	4.4%	4.1%	4%
Sales	18.3%	18.3%	16%
Support	15.7%	15.7%	21%
Technical	8.3%	7.5%	6%
Production	10.2%	10.8%	10%
Direct variable costs - employees linked directly to production of range core and adapted products	43.1%	43.6%	43%
Type of contract (percent)			
Flexibility rate (temporary staff/total workforce)	19.5%	18.1%	17.9%
<b>II. New hires</b>			
Type of contract (percent)			
Open-ended	68%	65.2%	58.3%
Fixed-term	32%	34.8%	41.7%
Category (percent)			
White collar	48%	45%	-
Blue collar	52%	55%	-
Breakdown by region (percent)			
Asia-Pacific	29%	25%	-
Europe	28%	27%	-
North America	34%	41%	-
Rest of the World	9%	7%	-

\*Including staff from temporary employment agencies in 2006.

	2006	2005	2004
<b>III. Dismissals</b>			
Number	3,795	4,460	-
o/w layoffs for economic reasons	620	1,070	-
Type of contract (percent)			
Open-ended	88.5%	85.8%	-
Fixed-term	11.5%	14.2%	-
Category (percent)			
White collar	35.4%	37.5%	-
Blue collar	64.6%	62.5%	-
Breakdown by region (percent)			
Asia-Pacific	15%	17%	-
Europe	27%	25%	-
North America	50%	52%	-
Rest of the World	8%	6%	-
<b>IV. Payroll and compensation</b>			
Variable compensation (percent)	7.9%	6.1%	5%
Average cost per employee			
Gross salary + payroll expenses+ individual and collective benefits (thousand)	38.9	40.2	40.2
<b>V. Training</b>			
Training costs by type of training (percent)			
Health, safety, environment	7%	8.9%	10.6%
Technical	30%	33.3%	38.7%
Foreign languages and IT	13%	13.1%	17.2%
Management and leadership	31%	24.7%	14.8%
Other	19%	20.0%	18.7%
Training costs by category (percent)			
White collar	77%	88.4%	88.9%
Blue collar	23%	11.6%	11.1%
Training days by category (percent)			
White collar	68%	70.4%	69.8%
Blue collar	32%	29.6%	30.2%
Average number of days of training per employee	3.8▲	3.6	3.3
Category (days)			
White collar	4.4	4.7	4
Blue collar	2.5	2.1	2.2
<b>VI. Health and safety</b>			
Frequency rate	9.8▲	16.7	22.8
Severity rate	0.10▲	0.16	0.19
Accidents by category			
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).

▲ 2006 audited indicators.

### Scope of data consolidation

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.

# Environmental indicators

## Scope of environmental data

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. 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. Our environmental reporting principles were officially audited in early 2006 and early 2007. In 2006, we implemented a process to measure CO<sub>2</sub> emissions from primary energy consumption and to estimate volatile organic compound emissions. The data will be published for the first time in 2007.

Indicators	Reported scope				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
<b>Estimates</b>						
■ 2006 CO <sub>2</sub> emissions (in metric tons)				285,655▲		244,177
■ CO <sub>2</sub> 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

▲ 2006 audited indicators

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