

NOTES TO THE HALF-YEAR 2004 CONSOLIDATED FINANCIAL STATEMENTS

All amounts in million euros unless otherwise indicated.

1. Accounting principles and valuation methods

The half-year consolidated financial statements of Schneider Electric SA and its subsidiaries have been prepared in accordance with French generally accepted accounting principles.

They have been prepared using the same accounting principles and methods as for the full-year consolidated financial statements, as described in the 2003 annual report, taking into account specific principles and methods for half-year accounts, as detailed below.

Seasonal variations

Seasonal variations can affect the level of sales from one quarter to another. For this reason, the half-year financial results are not necessarily indicative of the Group's expected full-year performance.

Income taxes

For the half-year statements, current and deferred taxes are calculated by applying the estimated average effective tax rate for the current fiscal year to each member company's net income for the period.

2. Significant transactions during the period

2.1 Changes in the scope of consolidation

The main changes in the scope of consolidation at June 30, 2004 may be summarized as follows:

Acquisitions

On February 6, 2004, the Group acquired 48.1% of the outstanding shares of MGE-UPS Systems, raising its interest in the affiliate to 84.2%.

Until December 31, 2003, MGE-UPS was accounted for by the equity method, based on financial statements for the twelve months to September 30. Since January 1, 2004, MGE has been fully consolidated, while its accounting report has been aligned with the Group's, at December 31. The financial statements at June 30, 2004 therefore include MGE-UPS's fourth-quarter 2003 income accounted for by the equity method and its first-half 2004 results, which have been fully consolidated.

Newly consolidated companies

In light of the partner's predominant role in managing the Group during the first year, the Clipsal Asia Holdings Limited joint venture, created in December 2003 with the Singapore group CIH Ltd, has been accounted for by the equity method since January 1, 2004.

Clipsal's wholly-owned subsidiaries, in charge of Ultra Terminal business purchased from Gerard Industry in December 2003, located in Australia, New Zealand, India and South Africa have been fully consolidated since January 1, 2004.

2.2 Impact of significant acquisitions on first-half 2004 results

The impact of the acquisition of MGE-UPS Systems, Clipsal and TAC (consolidated as of September 1, 2003) on the half-year 2004 income statement is as follows:

Pro forma data, excluding TAC. Clipsal and MGE-UPS Systems

	June 30, 2004	June 30, 2004	June 30, 2003
	Reported	Pro forma	Reported
Sales	4,984.4	4,428.7	4,235.9
Operating income	571.5	505.2	440.2
Operating margin	11.5%	11.4%	10.4%
Net income before amortization of goodwill	330.3	294.1	269.0
Amortization of goodwill	(104.0)	(81.1)	(79.3)
Net income	226.3	213.0	189.7

2.3 Acquisition of investments at cost

On May 27, 2004, Schneider Electric acquired California-based Kavlico Corporation, a major player in the sensing technology market with sales of \$156 million and an operating margin of 10.6% in the fiscal year ending August 31, 2004. It will be consolidated as from July 1, 2004.

3. Goodwill

3.1 Main goodwill

					June 30, 2004	Dec. 31, 2003
	Amortization period	Year acquired	Cost	Amortization	Net	Net
Square D Company	40 years	1991	1,648.4	537.0	1,111.4	1,089.7
Groupe Lexel						
LK AS	40 years	1999	250.1	34.4	215.6	218.4
AB WIBE	40 years	1999	116.5	16.0	100.5	102.6
Elka AS	40 years	1999	100.7	13.9	86.8	88.3
LE OY Prod	40 years	1999	81.8	11.3	70.6	71.6
Elda SE	40 years	1999	53.8	7.4	46.4	45.3
Thorsman & Co	40 years	1999	53.6	7.4	46.2	47.2
Eljo AB	40 years	1999	44.8	6.2	38.6	39.4
Others (less than €40 million)	40 years	1999	<u>291.2</u>	<u>47.3</u>	<u>243.9</u>	<u>247.3</u>
			992.4	143.8	848.5	860.2
Telemecanique	40 years	1988	802.0	349.5	452.6	462.6
MGE-UPS Systems	20 years	2000 to 2004	378.1	24.8	353.3	7.7
TAC Group	20 years	2003	319.2	14.8	304.4	396.0
Crouzet Automatismes	20 years	2000	206.1	48.7	157.5	162.4
Clipsal	20 years	2004	175.3	5.1	170.2	0.0
Positec	20 years	2000	168.7	65.7	102.9	106.0
Merlin Gerin	30 years	1992	160.7	76.2	84.6	87.2
Digital Electronics	10 years	2002	97.9	15.0	82.9	85.6
Federal Pioneer Ltd	40 years	1990	80.1	30.6	49.5	50.7
Mita Holding Ltd	20 years	1999	52.9	12.5	40.4	40.9
Infra +	10 years	2000 to 2004	50.6	8.9	41.7	14.2
PDL	20 years	2001	37.9	5.8	32.1	33.3
Others*	5-20 years		400.2	273.1	127.1	116.3
TOTAL			5,570.5	1,611.5	3,959.0	3,512.8

*Approximately 55 companies.

Lexel Group companies

As part of the process of integrating the Lexel subsidiaries into the Schneider Electric organization, the related goodwill, in a net amount of €860.2 million at January 1, 2004, has been allocated among these units, the most significant of which are presented in the table above. The remaining goodwill, totaling €247.3 million at December 31, 2003, was allocated to around 25 other Lexel Group companies in amounts of less than €40 million per Group.

3.2 Movements of the period

The main movements between December 31, 2003 and June 30, 2004 are summarized in the following table :

	2004	2003
Net goodwill at January 1st	3,512.8	3,371.9
Acquisitions	604.0	127.4
Disposals	(6.3)	0.0
Reclassifications	(91.5)	0.0
Amortization for the year	(104.0)	(79.1)
Impact of exchange rate fluctuations	44.0	(122.7)
Net goodwill at June 30	3,959.0	3,297.5

Acquisitions primarily included Clipsal, MGE-UPS and Infra+. The only disposal concerned the VA Tech Schneider High Voltage GmbH joint venture.

Goodwill recognized on the first-time consolidation of TAC was reduced by €91.5 million following reclassification of the TAC trademark in the same amount.

The main exchange rate fluctuations are due to goodwill related to Square D (in US dollars), Clipsal (in Australian dollars) and TAC Americas (in US dollars).

3.3 Acquisitions

Clipsal goodwill

Clipsal was consolidated for the first time as of January 1, 2004. The related goodwill has been calculated on the basis of the financial statements at that date.

Clipsal's core business was valued at €444 million, of which €259 million in assumed debt.

The Non Core Business activities have been valued at €146 million and disposed for the same amount without impact on the Group consolidated financial statements.

Clipsal's shares are consequently valued at €334 million including acquisition costs. After fair value adjustments to the acquired assets and liabilities, including trademarks, Clipsal's net assets were valued at €151 million.

Goodwill arising on the first-time consolidation of Clipsal was determined as follows:

	<i>In million Australian dollars</i>	<i>In million euros*</i>
Acquisition price	561.0	333.9
Fair value of the assets and liabilities acquired		
Net assets acquired at January 1, 2004	104.0	61.9
Fair value adjustments to assets and liabilities acquired	(105.8)	(63.0)
Trademarks	255.0	151.8
Fair value of net assets at January 1, 2004	253.2	150.7
Goodwill	307.8	183.2

*On the basis of the exchange rate on January 1, 2004 : AUD 1.00 = €0.5952

Infra+ goodwill

Goodwill arising on the acquisition of additional shares in Infra+, raising the Group's stake to 100% from 38.1%, totalled a gross €29.3 million, as calculated on the basis of the financial statements at January 1, 2004.

MGE-UPS goodwill

MGE-UPS has been fully consolidated since January 1, 2004. The related goodwill has been calculated as follows:

Acquisition price, net of transaction expense	260.0
Value of shares previously held	<u>79.9</u>
Total value of shares	339.9
Fair value of the assets and liabilities acquired (Group share)	
Net assets acquired at January 1, 2004	124.7
Cancellation of previous goodwill	(423.7)
Fair value adjustments to the assets and liabilities acquired	8.1
Trademark	<u>252.7</u>
Fair value of net assets at January 1, 2004	(38.2)
Goodwill	378.1

In line with accounting standards concerning the acquisition by step, the additional goodwill was recognized as follows :

- The acquired assets and liabilities were restated at fair value, leading to total adjustments of €16.8 million, included group share of €8.1 million. The €6 million revaluation difference corresponding to the previously held interest was directly recorded in consolidated reserves
- 100% of the MGE trademark was recognized in an amount of €300 million (included group share of €252.7 million)
- A total goodwill was booked in an amount of €378.1 million including :
 - €80.1 million corresponds to the historic 36% owned and carried on the MGE balance sheet;
 - €7.7 million corresponds to the 3.83% interest acquired in 2003;
 - €290.3 million corresponds to the purchase of 48.1% percent in 2004

The acquisition price reflects i) a deferred consideration of €24.2 million, discounted to present value, and ii) an earn-out payment currently estimated at €24 million, whose final amount will be based on MGE's earnings at September 30, 2005.

The Group has until December 31, 2004 to finalize this allocation, particularly in regard to the value of intangible assets.

In addition, the Group has agreed to purchase the 15.8% of outstanding shares held by minority interests, for a price, based on MGE earnings at September 30, 2005, that is currently estimated at an aggregate €79 million.

4. Property, plant and equipment and intangible assets

Changes in these items, including leased assets, between December 31, 2003 and June 30, 2004 can be analyzed as follows:

	Trademarks	Other intangible assets	Property, plant and equipment	Total
Dec. 31, 2003	40.4	230.3	1,439.1	1,709.8
Acquisitions	0.2	26.1	125.7	152.0
Disposals		(0.3)	(18.6)	(18.9)
Depreciation and amortization	(0.5)	(40.8)	(145.2)	(186.5)
Translation adjustment	(5.4)	2.0	17.0	13.6
Changes in scope and other (1)	558.2	7.9	79.6	645.7
June 30, 2004	592.9	225.2	1,497.6	2,315.7

(1) Of which trademarks recognized during the period in the amount of €300 million for MGE-UPS, €151.8 million for Clipsal and €91.5 million for TAC.

5. Equity investments and investments at cost

5.1 Equity investments

Equity investments can be analyzed as follows:

	% interest		Share in net assets		Share in net income (loss)	
	June 30, 2004	Dec. 31, 2003	June 30, 2004	Dec. 31, 2003	June 30, 2004	Dec. 31, 2003
MGE Finances (1)	-	36.1%	-	35.5	(0.9)	(5.0)
VA Tech Schneider HV GmbH (2)	-	40.0%	-	16.9	(0.8)	(13.1)
Delta Dore Finance	20.0%	20.0%	10.4	10.1	0.3	1.0
Entivity	31.2%	31.2%	0.3	0.8	(0.5)	(0.7)
Clipsal Asia Holdings (1)	50.0%	-	48.8	-	(0.0)	
ELAU Administration GmbH	49.05%	-	5.1	-	0.1	
Other	N/A	N/A	(4.9)	(2.8)	(0.4)	(0.3)
Total			59.7	60.5	(2.2)	(18.1)

(1) See note 2.1, changes in scope of consolidation and note 3.

(2) On June 30, 2004, the Group sold its interest in the VA Tech Schneider High Voltage GmbH joint venture to VA Tech T&D GmbH & Co KEG. The Group has set aside provisions covering 50% of the costs related to litigation underway on certain contracts, as stipulated in the sale agreement. Deconsolidation of the joint venture did not have any impact on consolidated net income for first-half 2004.

Related party transactions primarily concerned companies accounted for by the equity method and were not material at June 30, 2004.

5.2 Investments at cost

	June 30, 2004		Dec. 31, 2003	
	Cost	Allowances	Net	Net
I – Listed companies				
Finaxa	68.9	-	68.9	65.8
Gold Peak Industries Holding Ltd	10.6	-	10.6	10.6
Other	22.1	4.6	17.5	14.2
Total listed investments	101.6	4.6	97.0	90.6
II – Unlisted companies				
Clipsal Australia Holdings Pty Ltd (1)	-	-	-	184.5
Clipsal Asia Holdings Limited (1)	-	-	-	48.6
Kavlico Corporation (2)	161.7	-	161.7	-
E Business @ Schneider Electric (3)	20.7	20.7	-	-
Comipar	16.4	16.4	-	-
SIAP	8.1	-	8.1	8.1
Paramer	7.3	1.8	5.5	5.5
Simak	5.5	1.0	4.5	4.5
Senside (1)	-	-	-	4.5
Other (4)	35.4	20.9	14.5	23.3
Total unlisted investments	255.1	60.8	194.3	279.0
Total investments at cost	356.7	65.4	291.3	369.6

(1) Investments consolidated as from January 1, 2004

(2) See note 2.3, "Acquisitions of investments at cost"

(3) Investment no longer consolidated as from January 1, 2004

(4) Unit cost less that €5 million

6. Shareholders' equity

6.1 Translation adjustment

Changes in exchange rates increased shareholders' equity attributable to Schneider Electric by an aggregate €53.4 million, primarily due to the following currencies:

	Attributable to Schneider Electric SA	Attributable to Schneider Electric SA
	June 30, 2004	Dec. 31, 2003
US dollar	35.3	(256.5)
Japanese yen	(0.3)	2.0
Danish krona	(0.9)	(6.5)
Chinese yuan	11.2	(10.3)
British pound	8.6	(9.0)
Swedish krona	(1.2)	5.1
Others	0.7	(23.9)
Total	53.4	(299.1)

6.2 Stock option plans

In first-half 2004, 646,160 new Schneider Electric SA shares were created on the exercise of currently vested stock options.

On May 26, 2004, the Board of Directors set up stock option plans n°23 and n°24 :

- Plan n°23, granting to the prizewinners of the “New 2004” trophy, 107 000 options to purchase new shares of Company stock at a price of €56.09, exercisable between October 1, 2004 and May 5, 2012.
- Plan n°24, granting 2 060 700 options to purchase new or existing shares of Company stock at a price of €56.09, in principle exercisable between May 6, 2008 and May 5, 2012. Their exercise is subjected to the condition to be an employee or corporate officer of the Group and for the second half, to the achievement on annual objectives, based on an operating margin rate

7. Provisions for pensions and other post-retirement benefits

Changes in the value of assets and liabilities related to pension and other post-retirement benefit plans and assets allocated to funding these obligations were as follows :

	Pensions		Other benefits	
	June 30, 2004	Dec. 31, 2003	June 30, 2004	Dec. 31, 2003
Other long-term assets	303.4	315.6	-	-
Provisions for pensions and other post-retirement benefits	(404.9)	(407.5)	(285.4)	(265.0)
Net liabilities in the balance sheet	(101.5)	(91.9)	(285.4)	(265.0)

The periodic pension cost charged against first-half 2004 operating income and the funded status of the obligation may be analyzed as follows:

	Pensions		Other benefits	
	June 30, 2004	Dec. 31,	June 30,	Dec. 31, 2003
Service cost during the period	(26.7)	(46.9)	(4.9)	(6.8)
Interest cost (impact of discounting)	(42.0)	(89.1)	(14.5)	(39.6)
Expected return on plan assets	40.7	87.6	-	-
Amortization of prior service cost during the period	(1.8)	(1.4)	3.4	8.3
Amortization of initial obligation during the period	(0.3)	(3.1)	(0.1)	-
Recognized net actuarial (loss) gain	(12.0)	(24.9)	(6.4)	(13.3)
Curtailments and settlements	-	-	-	-
Periodic pension cost	(42.1)	(77.8)	(22.5)	(51.4)

Assumptions used to calculate pension obligations and costs are reviewed every year for the largest plans and at periodic intervals for the other plans. Any adjustments are generally made at year-end.

8. Reserves for contingencies

	Dec. 31, 2003	Additions	Releases (unused)	Releases (used)	Change in scope	Translation adjustment	June 30, 2004
Economic risks	33.9					(0.7)	33.2
Customer risks	59.0			(2.4)		2.2	58.8
Technical risks	12.5	6.2		(3.5)		(0.3)	14.9
Other risks	51.3	6.5		(5.5)		0.1	52.4
Total	156.7	12.7	-	(11.4)	-	1.3	159.3
Impact on							
Operating income		6.3		(6.4)			(0.1)
Financial expense, net							
Exceptional items		6.4		(5.0)			1.4

Reserves are recorded for identified contingencies on either a case-by-case basis or a statistical basis.

9. Debt and cash

	June 30, 2004	Dec. 31, 2003
Convertible and ordinary bonds	(1,200.0)	(2,151.0)
Perpetual bonds	(94.2)	(113.6)
Bank borrowings	(142.3)	(159.1)
Obligations under capital leases	(19.1)	(10.4)
Employee profit-sharing	(9.0)	(9.9)
Less current portion	58.7	1,008.7
Long-term debt	(1,405.9)	(1,435.3)
Commercial paper	(60.0)	(60.2)
Accrued interest	(39.6)	(37.0)
Other	(81.9)	(53.8)
Bank overdrafts	(152.4)	(93.3)
Current portion of long-term debt	(58.7)	(1,008.7)
Short-term debt	(392.6)	(1,253.0)
Cash	494.6	525.8
Marketable securities	729.3	2,471.1
Treasury shares	89.6	90.6
Cash and cash equivalents	1,313.3	3,087.5
Net cash (debt)	(485.0)	399.2

Marketable securities consist primarily of highly liquid mutual funds. Short-term investments in bonds are stated including accrued interest. Marketable securities are stated at the lower of cost and market.

10 Commitments

10.1 Commitments given and received

	June 30, 2004	Dec. 31, 2003
Contract counterguarantees (1)	178.0	175.0
Mortgages and collateral (2)	25.3	28.2
Guarantees	3.4	1.6
Other commitments given (3)	239.7	226.9
Commitments given	446.4	431.7
Guarantees	28.1	29.9
Commitments received	28.1	29.9

(1) On certain contracts, customers require a guarantee from a bank that the contract will be fully executed by the Group. For these contracts, the Group gives a counterguarantee to the bank. If a claim occurs, the risk linked to the commitment is assessed and a reserve for contingencies is recorded when the risk is considered probable and can be reasonably estimated.

(2) Certain loans are secured by property, plant and equipment and securities lodged as collateral.

(3) Other commitments given primarily comprise letters of credit issued by Square D, as well as guarantees to certain lessors that rental payments will be made until the end of the lease.

10.2 Purchase commitments

Commitments to purchase shares correspond to contractual undertakings given by the Group to buy out the minority shareholders of consolidated companies, or relate to earn-out payments.

At June 30, 2004, firm commitments amounted to €103 million and put and call options amounted to €141 million.

10.3 Contingent liabilities

Management generally considers that all known contingencies related to litigation involving the Group are adequately covered by reserves carried in the balance sheet and that the outcome of these claims should not materially affect the Group's financial position or results.

The loan agreements related to the Group's long-term debt do not contain any rating triggers, but some agreements include covenants requiring the Group to comply with certain financial ratios. As of June 30, 2004, the Group was in compliance with all of these covenants.

11. Financial instruments

11.1 Nominal value of off-balance sheet financial instruments and unrealized gains and losses

	June 30, 2004		Dec. 31, 2003	
	Nominal value	Unrealized gains (losses)	Nominal value	Unrealized gains (losses)
Perpetual bond rate swap	440.0	(69.9)	443.5	(83.1)
Other swaps, caps and collars	920.6	(4.6)	916.9	(5.0)
Forward purchases and sales of foreign currencies	1,840.0	13.6	2,076.0	63.9
Currency options and other hedges	20.2	(0.2)	161.0	9.1
Metal price futures and options	59.4	(0.8)	39.2	(9.0)
Total off balance sheet	3,280.2	(61.9)	3,636.6	24.1

11.2 Book value and market value of on-balance sheet financial instruments

	June 30, 2004	
	Book value	Market value
Investments at cost	291.3	345.5
Cash and cash equivalents	729.3	740.7
Other financial assets	294.9	294.9
Bonds	(1,200)	(1,236.1)
Syndicated loan (Lexel)	(11.6)	(14.8)
Perpetual Bonds	(94.2)	(94.2)
Other borrowings	(492.7)	(492.7)
Derivative instruments on balance sheet	(483.0)	(456.7)

The fair value of swaps is estimated either internally, by discounting the future differential cash flows at current market interest rate, or by third party banks.

For other derivative instruments, fair value has been obtained from third-party banks.

12. Segment information

Net sales	First-half 2004	First-half 2003
In € millions		
Europe	2,448.3	2,346.6
North America	1,020.6	1,059.3
Asia Pacific	791.1	574.6
Rest of the world	305.7	255.3
Growth Platform	418.6	-
Total	4,984.3	4,235.9
Operating margin	First-half 2004	First-half 2003
in %		
Europe	12.2	10.8
North America	12.2	9.8
Asia Pacific	8.9	9.4
Rest of the world	11.6	11.3
Growth Platform	9.9	-
Average operating margin	11.5	10.4

13. Financial income (expense) - net

Interest income and expense consist solely of income and expense relating to financial assets (including cash and short-term investments) and debt.

	First-half 2004	First-half 2003
Interest income	16.8	23.5
Interest expense	(62.1)	(55.3)
Net gains on the sale of marketable securities	18.3	24.8
Net cost of debt	(27.0)	(7.0)
Exchange gains (losses) - net	0.2	(3.9)
Dividend income	3.9	3.7
Allowances on marketable securities and equity investments	1.1	(5.5)
Other financial expense	(6.4)	(8.2)
Total	(28.2)	(20.9)

14. Exceptional items

Exceptional items primarily comprise restructuring costs, which include severance costs and write-offs of scrapped assets and inventories. Reserves for restructuring are booked under accrued liabilities in the balance sheet.

	First-half 2004	First-half 2003
Restructuring costs	(39.6)	(20.4)
Other	1.5	(11.0)

Total	(38.1)	(31.4)
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15. Income taxes

15.1 Analysis of tax expense

Wherever possible, Group entities file consolidated tax returns. Schneider Electric SA files a consolidated tax return with its French subsidiaries held directly or indirectly through Schneider Electric Industries SAS.

Analysis of tax (expense) benefit	First-half 2004	First-half 2003
Current taxes		
- France	(13.4)	95.7*
- International	(136.8)	(131.8)
Total	(150.2)	(36.1)
Deferred taxes		
- France	(30.5)	(124.8)*
- International	20.8	55.4
Total	(9.7)	(69.4)
Tax (expense) benefit	(159.9)	(105.5)

* On the first half 2003, taxes losses have been carried back for an amount of €103 million and reclassified as a consequence from deferred taxes to current taxes.

15.2 Reconciliation of theoretical and effective tax rates

	First-half 2004	First-half 2003
Net income attributable to the Group	226.3	189.7
Tax (expense) benefit	(159.9)	(105.5)
Amortization of goodwill	(104.0)	(79.3)
Minority interests	(12.8)	(10.3)
Net income of companies accounted for by the equity method	(2.2)	(3.1)
Income before tax and amortization of goodwill	505.2	387.9
Theoretical tax rate	35.43%	35.43%
Income tax calculated at the theoretical rate (35.43%)	(179.0)	(137.4)
Reconciling items:		
Difference between French and foreign tax rates	21.7	17.7
Tax credits and other tax reductions	13.8	14.2
Unrecognized tax losses arising in current year	(1.9)	(1.6)
Use of unrecognized tax loss carryforwards	1.4	2.4
Additional taxes	(8.3)	(7.2)
Other permanent differences	(7.6)	6.4
Actual net tax (expense) benefit	(159.9)	(105.5)
Effective tax rate	31.7%	27.2%

16. Subsequent events

- On July 13, 2004, Schneider Electric acquired Andover Controls Corporation, a Massachusetts-based Company that is a highly successful player in building automation and security, with 2003 sales of \$169 million and an operating margin of 16.7%.

The Group paid \$403 million in cash to acquire 100% of Andover Controls' shares, representing an enterprise value of \$335 million and including a US tax benefit of a section 338(h)(10) election for \$68 million.

- On July 27, 2004, according the employee stock purchase plan decided by the Board of Directors on Mai 6, 2004, Schneider Electric has increased its capital by creating 705 847 shares.