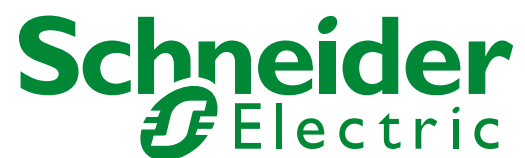


# Consolidated Financial Statements

**For the year ended December 31, 2008**



## Consolidated Statement of Income

(in millions of euros except for earnings per share)

|  |                    | 2008          | 2007          |
|--|--------------------|---------------|---------------|
| <b>Revenue</b>   | <i>(note 21)</i>   | <b>18,311</b> | <b>17,309</b> |
| Cost of sales  |                    | (10,896)      | (10,210)      |
| <b>Gross profit</b>  |                    | <b>7,415</b>  | <b>7,099</b>  |
| Research and development expenses                                | <i>(note 22)</i>   | (402)         | (417)         |
| Selling, general and administrative expenses                     |                    | (4,120)       | (3,978)       |
| Other operating income and expenses                              | <i>(note 24)</i>   | (139)         | (142)         |
| <b>EBITA (*)</b>   |                    | <b>2,754</b>  | <b>2,562</b>  |
| Amortization and impairment of purchase accounting intangibles   | <i>(note 25)</i>   | (174)         | (79)          |
| <b>Operating profit</b>  |                    | <b>2,580</b>  | <b>2,483</b>  |
| Finance costs, net   |                    | (246)         | (247)         |
| Other financial income and expenses                              |                    | (68)          | (19)          |
| <b>Finance costs and other financial income and expense, net</b> | <i>(note 26)</i>   | <b>(314)</b>  | <b>(266)</b>  |
| Share of profit /(losses) of associates                          | <i>(note 6)</i>    | 12            | 4             |
| <b>Profit before tax</b>   |                    | <b>2,278</b>  | <b>2,221</b>  |
| Income tax expense   | <i>(note 11)</i>   | (555)         | (600)         |
| <b>Profit for the period</b>                                     |                    | <b>1,723</b>  | <b>1,621</b>  |
| - Attributable to equity holders of the parent                   |                    | 1,682         | 1,583         |
| - Attributable to minority interests                             |                    | 41            | 38            |
| Basic earnings per share (in euros)                              | <i>(note 13.3)</i> | 7.02          | 6.78          |
| Diluted earnings per share (in euros)                            | <i>(note 13.3)</i> | 7.00          | 6.70          |

\* EBITA (Earnings Before Interest Taxes and Amortization of purchase accounting intangibles)

Effective January 1, 2007, the Group adopted a new presentation for operating performance that separates out amortization and impairment of intangible assets rec

*The accompanying notes are an integral part of the consolidated financial statements.*

## Consolidated Statement of Cash Flows

| <i>(in millions of euros)</i>   | <b>2008</b>     | <b>2007</b>    |
|---|-----------------|----------------|
| <b>I - Cash flows from operating activities:</b>  |                 |                |
| Profit attributable to equity holders of the parent   | 1,682           | 1,583          |
| Minority interests  | 41              | 38             |
| Share of (profit)/ losses of associates, net of dividends received                                    | (12)            | (4)            |
| <i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>              |                 |                |
| Depreciation of property, plant and equipment   | 328             | 309            |
| Amortization of intangible assets other than goodwill   | 220             | 185            |
| Losses on non current assets  | 72              | 41             |
| Increase/(decrease) in provisions   | 93              | 101            |
| Change in deferred taxes  | (23)            | 11             |
| Losses/(gains) on disposals of assets   | 18              | (81)           |
| Other   | 81              | 28             |
| <b>Net cash provided by operating activities before changes in operating assets and liabilities</b>   | <b>2,500</b>    | <b>2,211</b>   |
| (Increase)/decrease in accounts receivable  | (31)            | (367)          |
| (Increase)/decrease in inventories and work in process  | (50)            | (44)           |
| Increase/(decrease) in accounts payable   | (5)             | 151            |
| Change in other current assets and liabilities  | 14              | 139            |
| <b>Change in working capital requirement</b>  | <b>(72)</b>     | <b>(121)</b>   |
| <b>Total I</b>  | <b>2,428</b>    | <b>2,090</b>   |
| <b>II - Cash flows from investing activities:</b>   |                 |                |
| Purchases of property, plant and equipment  | (416)           | (403)          |
| Proceeds from disposals of property, plant and equipment  | 14              | 79             |
| Purchases of intangible assets  | (298)           | (233)          |
| Proceeds from disposals of intangible assets  | 7               | (3)            |
| <b>Net cash used by investment in operating assets</b>  | <b>(693)</b>    | <b>(560)</b>   |
| Purchases of financial investments - net <span style="float: right;"><i>(note 2)</i></span>           | (598)           | (5,291)        |
| Purchases of other long-term investments  | (17)            | (1)            |
| Increase in long-term pension assets  | 28              | (25)           |
| <b>Sub-total</b>  | <b>(587)</b>    | <b>(5,317)</b> |
| <b>Total II</b>   | <b>(1,280)</b>  | <b>(5,877)</b> |
| <b>III - Cash flows from financing activities:</b>  |                 |                |
| Issuance of long-term debt <span style="float: right;"><i>(note 16)</i></span>                        | 435             | 708            |
| Repayment of long-term debt   | (749)           | (5,160)        |
| Sale/(purchase) of treasury shares  | (70)            | 15             |
| Increase/(reduction) in other financial debt  | 366             | 6,386          |
| Issuance of shares  | 144             | 1,271          |
| Dividends paid: Schneider Electric SA (1)   | (796)           | (670)          |
| Minority interests  | (36)            | (29)           |
| <b>Total III</b>  | <b>(706)</b>    | <b>2,520</b>   |
| <b>IV - Net effect of exchange rate :</b>   | <b>Total IV</b> | <b>(83)</b>    |
| <b>Total IV</b>   | <b>(83)</b>     | <b>(2)</b>     |
| <b>Net increase/(decrease) in cash and cash equivalents : I + II + III + IV</b>                       | <b>359</b>      | <b>(1,268)</b> |
| Cash and cash equivalents at beginning of period  | 1,158           | 2,426          |
| Increase/(decrease) in cash and cash equivalents  | 359             | (1,268)        |
| <b>Cash and cash equivalents at end of period</b> <span style="float: right;"><i>(note 12)</i></span> | <b>1,517</b>    | <b>1,158</b>   |

(1) Includes a *précompte* withholding tax back payment in 2006

*The accompanying notes are an integral part of the consolidated financial statements*

## Consolidated Balance Sheet

(in millions of euros)

| <b>ASSETS</b>                               |                  | <b>Dec. 31, 2008</b> | <b>Dec. 31, 2007</b> |
|---|------------------|----------------------|----------------------|
| <b>Non-current assets</b>                   |                  |                      |                      |
| Goodwill, net                               | <i>(note 3)</i>  | 8,542                | 8,141                |
| Intangible assets, net                      | <i>(note 4)</i>  | 3,991                | 3,714                |
| Property, plant and equipment, net          | <i>(note 5)</i>  | 1,970                | 1,856                |
| <b>Total tangible and intangible assets</b> |                  | <b>5,961</b>         | <b>5,570</b>         |
| Investments in associates                   | <i>(note 6)</i>  | 281                  | 172                  |
| Available-for-sale financial assets         | <i>(note 7)</i>  | 200                  | 323                  |
| Other financial assets                      | <i>(note 7)</i>  | 113                  | 124                  |
| <b>Total non current financial assets</b>   |                  | <b>313</b>           | <b>447</b>           |
| Deferred taxes                              | <i>(note 11)</i> | 932                  | 688                  |
| <b>Total non-current assets</b>             |                  | <b>16,029</b>        | <b>15,018</b>        |
| <b>Current assets</b>                       |                  |                      |                      |
| Inventories and work in process             | <i>(note 8)</i>  | 2,584                | 2,481                |
| Trade accounts receivable                   | <i>(note 9)</i>  | 3,537                | 3,463                |
| Other receivables and prepaid expenses      | <i>(note 10)</i> | 925                  | 951                  |
| Assets held for sale                        |                  | 2                    | 2                    |
| Current financial assets                    | <i>(note 7)</i>  | 78                   | 84                   |
| Cash and cash equivalents                   | <i>(note 12)</i> | 1,652                | 1,269                |
| <b>Total current assets</b>                 |                  | <b>8,778</b>         | <b>8,250</b>         |
| <b>Total assets</b>                         |                  | <b>24,807</b>        | <b>23,268</b>        |

*The accompanying notes are an integral part of the consolidated financial statements*

# Consolidated Balance Sheet

(in millions of euros)

| <b>LIABILITIES</b>   |                  | <b>Dec. 31, 2008</b> | <b>Dec. 31, 2007</b> |
|--|------------------|----------------------|----------------------|
| <b>Equity</b>  | <i>(note 13)</i> |                      |                      |
| Share capital  |                  | 1,979                | 1,962                |
| Share premium account                                      |                  | 5,378                | 5,254                |
| Retained earnings  |                  | 4,503                | 3,931                |
| Translation reserve  |                  | (954)                | (962)                |
| <b>Equity attributable to equity holders of the parent</b> |                  | <b>10,906</b>        | <b>10,185</b>        |
| Minority interests   |                  | 145                  | 129                  |
| <b>Total equity</b>  |                  | <b>11,051</b>        | <b>10,314</b>        |
| <b>Long-term provisions</b>                                |                  |                      |                      |
| Provisions for pensions and other post-employment benefits | <i>(note 14)</i> | 1,463                | 996                  |
| Provisions for contingencies                               | <i>(note 15)</i> | 302                  | 264                  |
| <b>Total long-term provisions</b>                          |                  | <b>1,765</b>         | <b>1,260</b>         |
| <b>Non-current liabilities</b>                             |                  |                      |                      |
| Ordinary and convertible bonds                             | <i>(note 16)</i> | 3,367                | 3,196                |
| Other long-term debt                                       | <i>(note 16)</i> | 1,272                | 590                  |
| <b>Total non-current financial liabilities</b>             |                  | <b>4,639</b>         | <b>3,786</b>         |
| Deferred tax liabilities                                   | <i>(note 11)</i> | 888                  | 910                  |
| Other non-current liabilities                              | <i>(note 17)</i> | 20                   | 77                   |
| <b>Total non-current liabilities</b>                       |                  | <b>7,312</b>         | <b>6,033</b>         |
| <b>Current liabilities</b>                                 |                  |                      |                      |
| Trade accounts payable                                     |                  | 2,312                | 2,133                |
| Accrued taxes and payroll costs                            |                  | 1,320                | 1,305                |
| Short-term provisions                                      | <i>(note 15)</i> | 538                  | 445                  |
| Other current liabilities                                  |                  | 708                  | 637                  |
| Short-term debt  | <i>(note 16)</i> | 1,566                | 2,401                |
| <b>Total current liabilities</b>                           |                  | <b>6,444</b>         | <b>6,921</b>         |
| <b>Total equity and liabilities</b>                        |                  | <b>24,807</b>        | <b>23,268</b>        |

The accompanying notes are an integral part of the consolidated financial statements

## Consolidated Statement of Changes in Equity and Minority Interests

(in millions of euros except for number of shares)

|  | Number<br>of shares<br>(thousands) | Share<br>capital | Share<br>premium<br>account | Retained<br>earnings | Treasury<br>stock | Other<br>reserves | Translation<br>reserve | Equity<br>attributable to<br>equity holders<br>of the parent | Minority<br>interests | TOTAL         |
|--|------------------------------------|------------------|-----------------------------|----------------------|-------------------|-------------------|------------------------|--|-----------------------|---------------|
| <b>December 31, 2006</b>   | <b>227,698</b>                     | <b>1,822</b>     | <b>4,121</b>                | <b>3,200</b>         | <b>(265)</b>      | <b>(9)</b>        | <b>(152)</b>           | <b>8,717</b>   | <b>121</b>            | <b>8,838</b>  |
| Profit for the year  |                                    |                  |                             | 1,583                |                   |                   |                        | 1,583  | 38                    | 1,621         |
| Valuation gains/(losses) taken to equity<br>(note 13)                                |                                    |                  |                             |                      |                   | 12                |                        | 12   |                       | 12            |
| Exchange differences on translating foreign operations                               |                                    |                  |                             |                      |                   |                   | (810)                  | (810)  | (1)                   | (811)         |
| <i>Total recognized income and expense for<br/>the period (comprehensive income)</i> |                                    |                  |                             | <b>1,583</b>         |                   | <b>12</b>         | <b>(810)</b>           | <b>785</b>   | <b>37</b>             | <b>822</b>    |
| Issuance of shares   | 15,781                             | 126              | 1,052                       |                      |                   |                   |                        | 1,178  |                       | 1,178         |
| Exercise of stock options (note 13)  | 1,820                              | 14               | 81                          |                      |                   |                   |                        | 95   |                       | 95            |
| Dividends (note 13)  |                                    |                  |                             | (670)                |                   |                   |                        | (670)  | (29)                  | (699)         |
| Change in treasury stock (note 13)   |                                    |                  |                             |                      | 24                |                   |                        | 24   |                       | 24            |
| Stock options  |                                    |                  |                             |                      | 26                |                   |                        | 26   |                       | 26            |
| Other (1)  |                                    |                  |                             | 19                   | 11                |                   |                        | 30   |                       | 30            |
| <b>December 31, 2007</b>   | <b>245,299</b>                     | <b>1,962</b>     | <b>5,254</b>                | <b>4,132</b>         | <b>(204)</b>      | <b>3</b>          | <b>(962)</b>           | <b>10,185</b>  | <b>129</b>            | <b>10,314</b> |
| Profit for the year  |                                    |                  |                             | 1,682                |                   |                   |                        | 1,682  | 41                    | 1,723         |
| Valuation gains/(losses) taken to equity<br>(note 13)                                |                                    |                  |                             |                      |                   | (424)             |                        | (424)  |                       | (424)         |
| Exchange differences on translating foreign operations                               |                                    |                  |                             |                      |                   |                   | 8                      | 8  | 10                    | 18            |
| <i>Total recognized income and expense for<br/>the period (comprehensive income)</i> |                                    |                  |                             | <b>1,682</b>         |                   | <b>(424)</b>      | <b>8</b>               | <b>1,266</b>   | <b>51</b>             | <b>1,317</b>  |
| Issuance of shares   | 2,000                              | 16               | 118                         |                      |                   |                   |                        | 134  |                       | 134           |
| Exercise of stock options (note 13)  | 127                                | 1                | 6                           |                      |                   |                   |                        | 7  |                       | 7             |
| Dividends (note 13)  |                                    |                  |                             | (796)                |                   |                   |                        | (796)  | (36)                  | (832)         |
| Change in treasury stock (note 13)   |                                    |                  |                             |                      | (70)              |                   |                        | (70)   |                       | (70)          |
| Stock options  |                                    |                  |                             |                      | 26                |                   |                        | 26   |                       | 26            |
| Other (2)  |                                    |                  |                             | 152                  | 2                 |                   |                        | 154  | 1                     | 155           |
| <b>December 31, 2008</b>   | <b>247,426</b>                     | <b>1,979</b>     | <b>5,378</b>                | <b>5,170</b>         | <b>(246)</b>      | <b>(421)</b>      | <b>(954)</b>           | <b>10,906</b>  | <b>145</b>            | <b>11,051</b> |

(1) Of which €12 million in connection with the employee share purchase plan and €6.0 million from redassification of capital gains on own shares.

(2) Of which €152 million in long term receivable on tax authorities, €5 million in connection with the employee share purchase plan and €(2) million from reclassification of capital gains on own shares.

The accompanying notes are an integral part of the consolidated financial statements.

## **Notes to the Consolidated Financial Statements**

|   |           |
|---|-----------|
| <b>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>              | <b>8</b>  |
| <b>NOTE 2 - CHANGES IN THE SCOPE OF CONSOLIDATION</b>                   | <b>18</b> |
| <b>NOTE 3 - GOODWILL</b>  | <b>20</b> |
| <b>NOTE 4 - INTANGIBLE ASSETS</b>                                       | <b>23</b> |
| <b>NOTE 5 - PROPERTY, PLANT AND EQUIPMENT</b>                           | <b>25</b> |
| <b>NOTE 6 - INVESTMENTS IN ASSOCIATES</b>                               | <b>27</b> |
| <b>NOTE 7 - FINANCIAL ASSETS</b>  | <b>27</b> |
| <b>NOTE 8 - INVENTORIES AND WORK IN PROCESS</b>                         | <b>28</b> |
| <b>NOTE 9 - TRADE ACCOUNTS RECEIVABLE</b>                               | <b>29</b> |
| <b>NOTE 10 - OTHER RECEIVABLES AND PREPAID EXPENSES</b>                 | <b>29</b> |
| <b>NOTE 11 - INCOME TAX</b>   | <b>30</b> |
| <b>NOTE 12 - CASH AND CASH EQUIVALENTS</b>                              | <b>31</b> |
| <b>NOTE 13 - EQUITY</b>   | <b>31</b> |
| <b>NOTE 14 - PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT OBLIGATIONS</b> | <b>38</b> |
| <b>NOTE 15 - PROVISIONS FOR CONTINGENCIES</b>                           | <b>44</b> |
| <b>NOTE 16 - LONG AND SHORT-TERM DEBT</b>                               | <b>45</b> |
| <b>NOTE 17 - OTHER NON-CURRENT LIABILITIES</b>                          | <b>47</b> |
| <b>NOTE 18 - COMMITMENTS AND CONTINGENT LIABILITIES</b>                 | <b>47</b> |
| <b>NOTE 19 - FINANCIAL INSTRUMENTS</b>                                  | <b>48</b> |
| <b>NOTE 20 - RELATED PARTY TRANSACTIONS</b>                             | <b>51</b> |
| <b>NOTE 21 - SEGMENT INFORMATION</b>                                    | <b>51</b> |

|   |           |
|---|-----------|
| <b>NOTE 22 - RESEARCH AND DEVELOPMENT</b>                                       | <b>52</b> |
| <b>NOTE 23 - DEPRECIATION, AMORTIZATION AND PROVISION EXPENSE</b>               | <b>53</b> |
| <b>NOTE 24 - OTHER OPERATING INCOME AND EXPENSES</b>                            | <b>53</b> |
| <b>NOTE 25 - AMORTIZATION AND IMPAIRMENT OF PURCHASE ACCOUNTING INTANGIBLES</b> | <b>54</b> |
| <b>NOTE 26 - FINANCE COSTS AND OTHER FINANCIAL INCOME AND EXPENSE, NET</b>      | <b>54</b> |
| <b>NOTE 27 - EMPLOYEES</b>  | <b>54</b> |
| <b>NOTE 28 - SUBSEQUENT EVENTS</b>  | <b>55</b> |
| <b>NOTE 29 - AUDITORS' FEES</b>   | <b>56</b> |
| <b>NOTE 30 - CONSOLIDATED COMPANIES</b>   | <b>57</b> |



## Notes to the Consolidated Financial Statements

*All amounts in millions of euros unless otherwise indicated.*

*The following notes are an integral part of the consolidated financial statements.*

The consolidated financial statements for the year ended December 31, 2008 were reviewed by the Management Board of Schneider Electric on February 13, 2009 and by the Supervisory Board on February 18, 2009. They will be submitted to shareholders for approval at the Annual General Meeting of April 23, 2009.

The Group's main businesses are described in Chapter 1 of the Registration Document.

### Note 1 - Summary of significant accounting policies

#### 1.1 Accounting standards

Schneider Electric's consolidated financial statements have been prepared in compliance with the international accounting standards adopted by the European Union as of December 31, 2008. The same accounting methods were used as for the consolidated financial statements for the year ended December 31, 2007, with the exception of the following standards and interpretations adopted in 2008, whose impact on the Group's accounts was not material:

- IFRIC 11 – *IFRS 2 Group and Treasury Share Transactions*
- IFRIC 14 – *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
- Amendments to IAS 39 and IFRS 7 – *Reclassification of Financial Assets*

There are no differences in practice between the standards applied by the Group and the IFRSs issued by the International Accounting Standards Board (IASB), as the application from January 1, 2008 of the following standards and interpretations not yet adopted by the European Union would not have a material impact on the Group's accounts:

- IFRIC 12 - *Service Concession Arrangements*
- Amendments to IFRIC 9 and IAS 39 – *Embedded Derivatives*
- Amendment to IFRS 7 – *Investments in Debt Instruments*

The Group did not early adopt the following standards and interpretations adopted by the European Union that are applicable after January 1, 2008:

- Amendment to IAS 1 – *Presentation of Financial Statements*
- Amendment to IAS 23 – *Borrowing Costs*
- IFRS 8 – *Operating Segments*
- IFRIC 13 – *Customer Loyalty Programmes*
- Amendment to IFRS 2 – *Share-based Payment: Vesting Conditions and Cancellations*

Lastly, the Group did not apply the following standards and interpretations that had not been adopted by the European Union as of December 31, 2008:

- Amendment to IFRS 3 – *Business Combinations*
- Amendment to IAS 27 – *Consolidated and Separate Financial Statements*
- Amendment to IAS 39 – *Financial Instruments: Recognition and Measurement – Exposures Qualifying for Hedge Accounting*
- Amendments to IAS 32 and IAS 1 – *Puttable Financial Instruments and Obligations Arising on Liquidation*
- IFRIC 15 – *Agreements for the Construction of Real Estate*
- IFRIC 16 – *Hedges of a Net Investment in a Foreign Operation*
- IFRIC 17 – *Distributions of Non-cash Assets to Owners*
- *IFRS improvements*

The potential impact of these standards and interpretations on the consolidated financial statements is currently being assessed. At this stage of analysis, the Group does expect their impact to be material, except for:

- IFRS 8, which will modify the presentation of segment information.

- The amendment to IFRS 3, which will modify prospectively the accounting treatment of business combinations.

The financial statements present data prepared in accordance with IFRS for the years ended December 31, 2008 and December 31, 2007. The financial statements for the year ended December 31, 2006, presented in the Registration Document registered with Autorité des Marchés Financiers (AMF) under number D.07-223 on March 26, 2007, are incorporated by reference.

## 1.2 Basis of presentation

The financial statements have been prepared on a historical cost basis, with the exception of derivatives and available-for-sale financial assets, which are measured at fair value. Financial liabilities are measured using the cost model. The carrying amount of hedged assets and liabilities and the related hedging instruments corresponds to their fair value.

## 1.3 Use of estimates

The preparation of financial statements requires Group and subsidiary management to make estimates and assumptions that are reflected in the reported amounts of assets and liabilities at the date of the financial statements, revenues and expenses for the reporting period and related disclosures. Actual results could differ from those estimates.

These estimates mainly concern:

- The recoverable amount of goodwill, property, plant and equipment and intangible assets (described in note 1.10).
- The net realizable value of inventories and work in process (described in note 1.12).
- The recoverable amount of accounts receivable (described in note 1.13).
- The valuation of share-based payments (described in note 1.18).
- The calculation of provisions for contingencies, in particular for warranties (described in note 1.19).
- Pension and other post-employment benefit obligations (described in note 14).

## 1.4 Consolidation principles

Companies over which the Group exercises exclusive control, either directly or indirectly, are fully consolidated. Exclusive control is control by all means, including ownership of a majority voting interest, significant minority ownership, and contracts or agreements with other shareholders.

Investments in operating entities controlled jointly with a limited number of partners, such as joint ventures and alliances, are accounted for by the equity method in accordance with the alternative treatment allowed under IAS 31 - *Interests in Joint Ventures*.

Companies over which the Group has significant influence ("associates") are accounted for by the equity method. Significant influence is presumed to exist when more than 20% of outstanding voting rights are held.

Companies acquired or sold during the year are included in or removed from the consolidated financial statements as of the date when effective control is acquired or relinquished.

Intragroup balances and transactions are eliminated in consolidation.

The list of the main consolidated subsidiaries and associates is provided in note 30.

All of the companies included in the scope of consolidation have a December 31 year-end.

## 1.5 Business combinations

Business combinations are accounted for using the purchase method, in accordance with IFRS 3 – *Business Combinations*. In accordance with the option provided by IFRS 1 – *First-Time Adoption of IFRS* – business combinations recorded before January 1, 2004 have not been restated.

All identified acquired assets, liabilities and contingent liabilities are recognized at their fair value as of the date of acquisition. Provisional fair values are adjusted within a maximum of twelve months following the date of acquisition.

If the cost of acquisition is higher than the fair value of assets acquired and liabilities assumed at the date of acquisition, the excess is recorded under goodwill. If the cost of acquisition is lower than the fair value of assets acquired and liabilities assumed at the date of acquisition, the negative goodwill is immediately recognized in the income statement.

Goodwill is not amortized, but tested for impairment at least annually and when there is an indication that it may be impaired (note 1.10 below). Any impairment losses are recognized under “Amortization and impairment of purchase accounting intangibles”.

## 1.6 Translation of the financial statements of foreign subsidiaries

The consolidated financial statements are drawn up in euros.

The financial statements of subsidiaries that use another functional currency are translated into euros as follows:

- Assets and liabilities are translated at official year-end exchange rates.
- Income statement and cash flow items are translated at weighted-average annual exchange rates.

Differences arising on translation are recorded in equity under "Translation reserve". In accordance with IFRS 1 – *First Time Adoption of IFRS* – cumulative translation adjustments were reset to zero at January 1, 2004 by adjusting opening retained earnings, without any impact on total equity.

## 1.7 Foreign currency transactions

Foreign currency transactions are recorded using the official exchange rate in effect at the date the transaction is recorded or the hedging rate. At year-end, foreign currency payables and receivables are translated into the reporting currency at year-end exchange rates or the hedging rate. Gains or losses on foreign currency conversion are recorded in the income statement under "Other financial income and expense, net". Foreign currency hedging is described below, in note 1.22.

## 1.8 Intangible assets

### ➤ Intangible assets acquired separately or as part of a business combination

Intangible assets acquired separately are initially recognized in the balance sheet at historical cost. They are subsequently measured using the cost model, in accordance with IAS 38 – *Intangible Assets*.

Trademarks, customer lists and other identifiable assets of acquired companies are recognized in the balance sheet at fair value, determined by qualified experts for the most significant assets and internally for the rest. The valuations are performed using generally accepted methods, based on expected future cash flows. The assets are regularly tested for impairment.

Intangible assets other than trademarks are amortized on a straight-line basis over their useful life or the period of legal protection. Amortized intangible assets are tested for impairment when there is any indication that their recoverable amount may be less than their carrying amount.

Amortization and impairment losses on intangible assets recognized on business combinations are presented under "Amortization and impairment of purchase accounting intangibles" in the income statement.

#### *Trademarks*

Trademarks acquired as part of a business combination are not amortized when they are considered to have an indefinite life.

This is determined on the basis of:

- Brand awareness.
- The Group's strategy for integrating the trademark into its existing portfolio.

Non-amortized trademarks are tested for impairment at least annually and when there is any indication that their recoverable amount may be less than their carrying amount. When necessary, an impairment loss is recorded.

#### ➤ **Internally-generated intangible assets**

##### *Research and development costs*

Research costs are recognized in the income statement when incurred.

Systems were set up to track and capitalize development costs in 2004. As a result, only development costs for new products launched since 2004 are capitalized in the IFRS accounts.

Development costs for new projects are capitalized if, and only if:

- The project is clearly identified and the related costs are separately identified and reliably tracked.
- The project's technical feasibility has been demonstrated and the Group has the intention and financial resources to complete the project and to use or sell the related products.
- It is probable that the future economic benefits attributable to the project will flow to the Group.

Development costs that do not meet these criteria are expensed in the year in which they are incurred.

Capitalized development costs are amortized over the estimated life of the underlying technology, which generally ranges from 3 to 10 years. The amortization charge is included in the cost of the related products and classified into "Cost of sales" when the products are sold.

##### *Software implementation*

External and internal costs for the programming, coding and testing of enterprise resource planning (ERP) applications are capitalized and amortized over the applications' useful lives.

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

Land, buildings, plant and equipment are carried at cost, less accumulated depreciation and any accumulated impairment losses, in accordance with the cost model provided for in IAS 16 – *Property, plant and equipment*.

Each part of an item of property, plant and equipment with a useful life that is different from that of the item as a whole is depreciated separately on a straight-line basis. The main useful lives are as follows:

|                     |   |                |
|---------------------|---|----------------|
| Buildings           | : | 20 to 40 years |
| Plant and equipment | : | 3 to 10 years  |
| Other               | : | 3 to 12 years  |

The useful life of operating assets, such as production lines, reflects the related products' estimated life cycles.

Useful lives are reviewed periodically and may be adjusted prospectively if appropriate.

The depreciable amount of an asset is determined after deducting its residual value, when the residual value is material.

Depreciation is charged to the income statement or included in the production cost of inventory or the cost of internally-generated intangible assets. It is recognized under "Cost of sales," "Research expenses" or "Selling, general and administrative expenses", depending on the case.

Property, plant and equipment are tested for impairment when there is any indication that their recoverable amount may be less than their carrying amount. Impairment losses are charged to the income statement under "Other operating income/(expense).

➤ **Leases**

Finance leases, defined as leases that transfer substantially all the risks and rewards of ownership to the lessee, are recognized as an asset and a liability.

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases and the related payments are recognized as an expense on a straight-line basis over the lease term.

➤ **Borrowing costs**

Borrowing costs incurred during the construction or acquisition of property, plant and equipment and intangible assets are expensed when incurred, in accordance with the recommended treatment under IAS 23 – *Borrowing Costs*.

### 1.10 Impairment of assets

In accordance with IAS 36 – *Impairment of Assets* – the recoverable amount of long-lived assets is assessed as follows:

- All depreciable and amortizable property, plant and equipment and intangible assets are reviewed at each balance sheet date to determine whether there is any indication that the asset may be impaired. Indications of impairment are identified on the basis of external or internal information. If such an indication exists, the Group tests the asset for impairment by comparing its carrying amount to the higher of fair value less costs to sell and value in use.
- Non-amortizable intangible assets and goodwill are tested for impairment at least annually and when there is any indication that the asset may be impaired.

Value in use is determined by discounting estimated future cash flows that will be generated by the tested assets, generally over a period of not more than five years. Estimated future cash flows are based on management's economic assumptions and operating forecasts. The discount rate corresponds to Schneider Electric's weighted average cost of capital (WACC) at the measurement date impacted by a risk premium depending on the region in question. The Group's WACC stood at 8.2% at December 31, 2008 compared with 7.5% at December 31, 2007. This rate is based on a long-term risk-free interest rate of 4.0%, corresponding to the average interest rate for 10-year OAT treasury bonds over the past few years, the average premium applied to financing obtained by the Group in the fourth quarter of 2008, and the weighted country risk premium for the Group's businesses in the countries in question.

The perpetuity growth rate was 2% in 2008, unchanged from the previous year.

Impairment tests are performed at the level of the cash-generating unit (CGU) to which the asset belongs. A cash-generating unit is the smallest group of assets that generates cash inflows that are largely independent of those cash flows from other assets or groups of assets. CGUs generally correspond to the Operating Divisions (Europe, North America, International and Asia-Pacific) and Business Units Critical Power & Cooling Services (CPCS), Building Automation (BA), and Customized Sensors & Technologies (CST)).

Goodwill is allocated to a CGU when initially recognized. The allocation is made on the basis used to track the performance of Group operations and to assess the benefits derived from the synergies of the business combination.

If the recoverable amount of an asset or CGU is lower than its carrying amount, an impairment loss is recognized. To the extent possible, impairment losses on CGUs comprising goodwill are recorded as a deduction from goodwill.

### **1.11 Non-current financial assets**

Investments in non-consolidated companies are classified in available-for-sale financial assets. They are initially recorded at cost and subsequently measured at fair value, when fair value can be reliably determined.

The fair value of equity instruments quoted in an active market corresponds to the quoted price on the balance sheet date.

In cases where fair value can not be reliably determined, the instruments are measured at cost net of any accumulated impairment losses. The recoverable amount is determined by reference to the Group's equity in the entity's underlying net assets and the entity's expected future profitability and business outlook. This rule is applied in particular to equity instruments that do not have a quoted market price in an active market.

Changes in fair value are accumulated in equity under "Other reserves" up to the date of sale, at which time they are recognized in the income statement. Unrealized losses on assets that are considered to be permanently impaired are recorded under "Finance costs and other financial income and expense, net".

Loans, recorded under "Other financial assets", are carried at amortized cost and tested for impairment if there is any indication that their recoverable amount may be less than their carrying amount. Long-term financial receivables are discounted when the impact of discounting is material.

### **1.12 Inventories and work in process**

Inventories and work in process are stated at the lower of cost (generally determined by the weighted-average cost method) and estimated net realizable value.

Net realizable value corresponds to the estimated selling price net of remaining expenses to complete and/or sell the products.

Impairment losses on materials are recognized in "Cost of sales" and on finished products in "Selling, general and administrative expenses".

The cost of work in process, semi-finished and finished products includes direct materials and labor costs, subcontracting costs, production overheads based on normal capacity utilization rates and the portion of research and development costs related to the production process (corresponding to the amortization of capitalized projects in production and product and range maintenance costs).

### **1.13 Trade accounts receivable**

An allowance for doubtful accounts is recorded when it is probable that receivables will not be collected and the amount of the loss can be reasonably estimated. Doubtful accounts and the related allowances are identified and determined based on historical loss experience, the age of the receivables and a detailed assessment of related credit risks. Once it is known with certainty that a doubtful account will not be collected, the doubtful account and the related allowance are written off to the income statement.

Accounts receivable in more than one year are discounted in cases where the discounting adjustment is material.

### **1.14 Assets held for sale**

Assets held for sale are no longer depreciated and are recorded separately in the balance sheet under "Assets held for sale" at the lower of amortized cost and net realizable value.

### 1.15 Deferred taxes

Deferred taxes, corresponding to temporary differences between the tax basis and reporting basis of consolidated assets and liabilities, are recorded using the liability method. Deferred tax assets are recognized when it is probable that they will be recovered at a reasonably determinable date.

Future tax benefits arising from the utilization of tax loss carryforwards (including amounts available for carryforward without time limit) are recognized only when they can reasonably be expected to be realized.

Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities that concern the same unit and are expected to reverse in the same period are netted off.

### 1.16 Cash and cash equivalents

Cash and cash equivalents presented in the balance sheet consist of cash, bank accounts, term deposits of three months or less and other liquid marketable securities. Substantially all marketable securities represent short-term instruments that can be easily converted into a determinable cash amount, such as commercial paper, mutual funds and equivalents. In light of their nature and maturities, these instruments carry virtually no risk of impairment. The Group treats them as cash equivalents.

### 1.17 Schneider Electric SA shares

Schneider Electric shares held by the parent company or by fully consolidated companies are measured at cost and deducted from equity. They are held at their acquisition price until sold.

Gains and losses on the sale of treasury stock are recognized in equity, net of tax.

### 1.18 Pensions and other post-employment benefit obligations

Depending on local practices and laws, the Group's subsidiaries participate in pension, termination benefit and other long-term benefit plans. Benefits paid under these plans depend on such factors as seniority, compensation levels and payments into mandatory retirement programs.

#### ➤ Defined contribution plans

Payments made under defined contribution plans are recorded in operating profit in the year of payment and are in full settlement of the Group's liability.

In most countries, the Group participates in mandatory general plans which are accounted for as defined contribution plans.

#### ➤ Defined benefit plans

The present value of defined benefit obligations is determined using the projected unit credit method.

Expenses recognized in profit or loss are recorded as a deduction from operating profit.

The amount recognized in the balance sheet corresponds to the present value of the obligation, adjusted for unrecognized past service cost and reduced by the fair value of plan assets at the balance sheet date.

If the plan has a surplus (i.e. the fair value of plan assets is greater than the present value of the obligation, as adjusted for unrecognized past service cost), the recognized asset is limited to the lower of unrecognized past service cost and the present value of available refunds and reductions in future contributions to the plan.

Changes resulting from periodic adjustments to actuarial assumptions regarding general financial and business conditions or demographics (i.e., changes in the discount rate, annual salary increases, return on plan assets, years of service, etc.) are immediately recognized in the Group's obligation and as a separate component of equity in "Other reserves".

### ➤ Other commitments

Provisions are booked to cover the cost of providing healthcare benefits for certain retired employees in Europe and the United States. The accounting policies applied to these plans are similar to those used to account for defined benefit pension plans.

The Group also records for all its subsidiaries an obligation for seniority-related benefits (primarily long service awards in its French subsidiaries). Actuarial gains and losses on these benefit obligations are recognized directly in profit or loss.

### 1.19 Share-based payments

The Group grants different types of share-based payment to senior executives and certain employees. These include:

- Stock options.
- Stock grants.
- Stock Appreciation Rights ("SARs").

IFRS 2 – *Share-based payment* – applies only to plans set up after November 7, 2002 that did not vest prior to January 1, 2005.

In accordance with IFRS 2, these plans are valued on the date of grant, using the Cox, Ross, Rubinstein binomial option pricing model, and are recognized as an expense over the vesting period, generally three to four years depending on the country.

A contra entry is posted to the treasury stock reserve for stock grants and stock options. In the case of SARs, a liability is recorded corresponding to the amount of the remeasured benefit at the closing date.

As part of its commitment to employee share ownership, Schneider Electric gave its employees the opportunity to purchase shares at a discount during the year (note 13.5).

### 1.20 Provisions for contingencies and pension accruals

A provision is recorded when the Group has a present obligation as a result of a past event, and a reliable estimate can be made of the amount of the obligation. If the obligation is not probable and cannot be reliably estimated, but remains possible, it is classified as a contingent liability and disclosed in the notes to the consolidated financial statements. Provisions are calculated on a case-by-case or statistical basis. Long-term provisions (greater than one year) are discounted. Discounting adjustments to long-term provisions were calculated at a rate of 3.8% at December 31, 2008 and December 31, 2007.

Provisions are primarily set aside to cover:

- Economic risks.

These include tax risks arising from tax audits performed by various local tax administrations and financial risks arising primarily on guarantees given to third parties in relation to certain assets and liabilities.

- Customer risks.

These provisions primarily concern liability claims arising from alleged defects in products sold to customers and other third parties and are determined on a case-by-case basis.

- Product risks.

These provisions comprise:

- Provisions recorded on a statistical basis for the residual cost of product warranties not covered by insurance. Such warranties may run up to 18 months.
- Provisions to cover disputes concerning defective products and recalls of clearly identified products.



- Environmental risks.

These provisions are primarily set aside to cover potential reclamation costs.

- Restructuring costs, when the Group has prepared a detailed formal plan for the restructuring and has either announced or started to implement the plan at year-end.

### 1.21 Financial liabilities

Financial liabilities primarily comprise bonds and short and long-term bank debt. These liabilities are initially recorded at fair value, taking into account any direct transaction costs, and subsequently measured at amortized cost based on their effective interest rate.

### 1.22 Financial instruments and derivatives

Risk hedging management is centralized. The Group's policy is to use derivative financial instruments exclusively to manage and hedge changes in exchange rates, interest rates or prices of certain raw materials. Derivative financial instruments are never used for speculative purposes. These risks are managed and hedged primarily through the use of swaps, options and futures, depending upon the nature of the Group's exposure.

#### ➤ Foreign currency hedges

The Group periodically enters into foreign currency contracts to hedge foreign currency transactions. Some of these contracts are designated as hedges of operating receivables and payables carried in the balance sheets of Group companies. The Group does not apply hedge accounting to these instruments because at year-end, foreign currency contracts are marked to market and gains or losses are recorded in "Other financial income and expense". These gains or losses offset the losses or gains arising from converting foreign currency payables and receivables into the reporting currency at year-end rates, in accordance with IAS 21 – *The Effects of Changes in Foreign Exchange Rates*.

The Group may also hedge recurring future transactions or planned acquisitions or disposals of investments. In accordance with IAS 39, these are treated as cash flow hedges. The hedging instruments are recognized in the balance sheet and are measured at fair value at the period-end. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is accumulated in equity, under "Other reserves", and recognized in the income statement when the hedged transaction affects profit or loss. The ineffective portion of the gain or loss on the hedging instrument is recognized in "Other financial income and expense".

In addition, certain long-term receivables and loans to subsidiaries are considered to be part of the Group's net investment in the companies concerned, as defined by IAS 21 – *The Effects of Changes in Foreign Exchange Rates*. In accordance with the rules governing hedges of net investments in foreign operations, the impact of exchange rate fluctuations is recorded in equity and recognized in the income statement when the investment is sold.

#### ➤ Interest rate swaps

Interest rate swaps, which synthetically adjust interest rates on certain indebtedness, involve the exchange of fixed and floating-rate interest payments. The differential to be paid (or received) is accrued (or deferred) as an adjustment to interest income or expense over the life of the agreement. The Group applies hedge accounting as described in IAS 39 for interest rate swaps. Gains and losses on remeasurement of interest rate swaps at fair value are recognized in equity (for cash flow hedges) or in profit or loss (for fair value hedges).

#### ➤ Commodity contracts

The Group also purchases commodity derivatives including forward purchase contracts, swaps and options to hedge price risks on all or part of its forecast future purchases. Under IAS 39, these qualify as cash flow hedges. The hedging instruments are recognized in the balance sheet and are measured at fair value at the period-end. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is accumulated in equity, under "Other reserves", and reclassified into the income statement under "Cost of sales" when the hedged transaction affects profit or loss. The ineffective portion of the gain or loss on the hedging instrument is recognized in "Other financial income and expense".

Cash flows from derivative financial instruments are recognized in the statement of cash flows in a manner consistent with the underlying transactions.

➤ **Put options granted to minority shareholders**

Under IAS 32 – *Financial Instruments: Disclosure and Presentation* – commitments to buy out minority shareholders (e.g. put options) must be recognized as a liability, in an amount corresponding to the exercise price of the put options.

In the absence of established accounting practice, the difference between the put options' exercise price and the share in the underlying net assets is posted to goodwill without remeasuring the acquired assets and liabilities at fair value. Subsequent changes in the fair value of the liability are recognized by adjusting goodwill.

### 1.23 Revenue recognition

The Group's revenues primarily include sales of products and revenues from service and project contracts.

➤ **Sales of products**

Revenue from sales is recognized when the product is shipped and title transferred (standard shipping terms are FOB).

Discounts offered to distributors are accrued when the products are sold to the distributor and recognized as a deduction from revenue.

Certain subsidiaries also offer cash discounts to distributors. These discounts are deducted from sales.

Total revenue is presented net of these discounts and rebates.

➤ **Service contracts**

Revenue from service contracts is recorded over the contractual period of service. It is recognized when the result of the transaction can be reliably determined, by the percentage of completion method.

➤ **Long-term contracts**

Income from long-term contracts is recognized using the percentage-of-completion method, based either on the percentage of costs incurred in relation to total estimated costs of the entire contract, or on the contract's technical milestones, notably proof of installation or delivery of equipment. When a contract includes performance clauses in the Group's favor, the related revenue is recognized at each project milestone and a provision is set aside if targets are not met.

Losses at completion for a given contract are provided for in full as soon as they become probable. The cost of work-in-process includes direct and indirect costs relating to the contracts.

### 1.24 Earnings per share

Earnings per share are calculated in accordance with IAS 33 – *Earnings Per Share*.

Diluted earnings per share are calculated by adjusting profit and the weighted average number of shares outstanding for the dilutive effect of the exercise of stock options outstanding at the balance sheet date. The dilutive effect of stock options is determined by applying the "treasury stock" method, which consists of taking into account the number of shares that could be purchased, based on the average share price for the year, using the proceeds from the exercise of the rights attached to the options.

## 1.25 Statement of cash flows

The consolidated statement of cash flows has been prepared using the indirect method, which consists of reconciling net profit to net cash provided by operations. Net cash and cash equivalents represent cash and cash equivalents as presented in the balance sheet (note 1.16) net of bank overdrafts.

## Note 2 - Changes in the scope of consolidation

### 2.1 Additions and removals

The consolidated financial statements for the year ended December 31, 2008 include the accounts of the companies listed in note 30. The scope of consolidation at December 31, 2008 and 2007 is summarized as follows:

| Number of companies                                | Dec. 31, 2008 |        | Dec. 31, 2007 |        |
|--|---------------|--------|---------------|--------|
|  | France        | Abroad | France        | Abroad |
| Parent company and fully consolidated subsidiaries | 69            | 503    | 65            | 507    |
| Proportionally consolidated companies              | -             | -      | -             | -      |
| Companies accounted for by the equity method       | 1             | 5      | 1             | 3      |
| Sub-total by region                                | 70            | 508    | 66            | 510    |
| <b>Total</b>                                       | <b>578</b>    |        | <b>576</b>    |        |

The principal changes in 2008 were as follows:

### Main acquisitions

On September 29, 2008, the Group finalized the acquisition of Canada-based Xantrex, a world leader in inverters for solar and wind power systems, for \$412 million in cash net of proceeds from the sale by Xantrex of its programmable business and excluding acquisition expenses. Xantrex was consolidated as from October 1, 2008. The acquisition cost was provisionally allocated as follows:

|  | Before temporary allocation of acquisition cost | After temporary allocation of acquisition cost |
|--|---|--|
| Acquisition price  |   | 280  |
| Transaction costs  |   | 1  |
| <b>Total acquisition cost <sup>(1)</sup></b>             |   | <b>281</b>                                     |
| Non-current assets                                       | 44  | 102  |
| Other current assets                                     | 60  | 56   |
| Cash and cash equivalents                                | 21  | 21   |
| <b>Total assets</b>                                      | <b>125</b>                                      | <b>179</b>                                     |
| Long and short-term debt                                 | -   | -  |
| Other non-current liabilities (excluding long-term debt) | 2   | 38   |
| Other current liabilities (excluding short-term debt)    | 41  | 42   |
| <b>Total liabilities (excluding equity)</b>              | <b>43</b>                                       | <b>80</b>                                      |
| <b>Goodwill</b>  |   | <b>182</b>                                     |

<sup>(1)</sup> acquisition price is net of proceeds from sale programmable business.

Details of acquisition cost allocation are provided in note 3.2.

## Other acquisitions

During the year, the Group acquired IMS, ECP Tech Services and RAM Industries in the United States; Arrow in Japan, Marisio in Chile and Wessen in Russia.

These companies have been fully consolidated from their respective acquisition dates.

Acquisitions during the period totalled €598 million, net of the cash acquired.

## Other changes

On September 30, 2008, Schneider Electric contributed its electrical distribution and industrial control operations in Japan and €60 million in cash to its new Fuji Electric FA Components & Systems joint venture with Fuji Electric, for a stake of 37%. For its part, Fuji Electric contributed its electrical distribution and industrial control operations in Japan and other Asian countries to the joint venture. Fuji Electric FA Components & Systems is accounted for by the equity method.

### 2.2 Impact of changes in the scope of consolidation on the 2008 results

Changes in the scope of consolidation had the following impact:

#### Impact on 2008 revenue and profit

|   | 2007   | 2008                      |   |          |
|---|--------|---------------------------|---|----------|
|   |        | Excluding<br>acquisitions | Contribution<br>from<br>acquisitions &<br>disposals | Reported |
| Revenue   | 17,309 | 17,774                    | 537   | 18,311   |
| EBITA   | 2,562  | 2,710                     | 44  | 2,754    |
| <i>EBITA margin</i>                                 | 14.8%  | 15.2%                     | 8.2%  | 15.0%    |
| Operating profit                                    | 2,483  | 2,560                     | 20  | 2,580    |
| <i>Operating margin</i>                             | 14.3%  | 14.4%                     | 3.7%  | 14.1%    |
| Profit attributable to equity holders of the parent | 1,583  | 1,669                     | 13  | 1,682    |

The following table shows the pro forma full-year impact of acquisitions on 2008 revenue, operating profit and profit attributable to equity holders of the parent (i.e., as if the acquisitions had been made on January 1, 2008).

|   | 2008<br>Reported | 2008<br>Incl. acquisitions<br>over the full year |
|---|------------------|--|
|   | Revenue          | 18,311   |
| EBITA   | 2,754            | 2,760  |
| <i>EBITA margin</i>                                 | 15.0%            | 14.9%  |
| Operating profit                                    | 2,580            | 2,580  |
| <i>Operating margin</i>                             | 14.1%            | 14.0%  |
| Profit attributable to equity holders of the parent | 1,682            | 1,682  |

#### Impact on cash

Changes in the scope of consolidation reduced the Group's cash position by a net €598 million, as described below:

|   | <b>2008</b>  |
|---|--------------|
| Acquisitions                              | (610)        |
| <i>Cash and cash equivalents paid</i>     | (559)        |
| <i>Cash and cash equivalents acquired</i> | (51)         |
| Disposals                                 | 12           |
| Other operations                          |              |
| <b>Net financial investments</b>          | <b>(598)</b> |

### Impact on the balance sheet at December 31, 2008

The impact of the year's acquisitions on the main balance sheet items at December 31, 2008 was as follows:

|  | Impact of<br>acquisitions * | Dec. 31, 2008<br>Reported | %           |
|--|-----------------------------|---------------------------|-------------|
| Goodwill   | 400                         | 8,542                     | 4.7%        |
| Property, plant & equipment and intangible assets    | 136                         | 5,961                     | 2.3%        |
| Other non current assets                             | 31                          | 1,526                     | 2.0%        |
| Current assets (excluding cash and cash equivalents) | 139                         | 7,126                     | 2.0%        |
| Cash and cash equivalents                            | 23                          | 1,652                     | 1.4%        |
| <b>Total assets</b>                                  | <b>729</b>                  | <b>24,807</b>             | <b>2.9%</b> |
| Financial liabilities                                | 126                         | 6,205                     | 2.0%        |
| Non-current liabilities (excluding long-term debt)   | 46                          | 2,673                     | 1.7%        |
| Current liabilities (excluding short-term debt)      | 81                          | 4,878                     | 1.7%        |
| <b>Total liabilities (excluding equity)</b>          | <b>253</b>                  | <b>13,756</b>             | <b>1.8%</b> |

\* At closing exchange rates

## Note 3 - Goodwill

### 3.1 Breakdown of goodwill

The following table presents goodwill by company and the Cash Generating Unit (CGU) to which it is allocated:

|  | Year<br>of acquisition | CGU<br>( <sup>1</sup> ) | Dec. 31, 2008<br>Net | Dec. 31, 2007<br>Net |
|--|------------------------|-------------------------|----------------------|----------------------|
| APC  | 2007                   | CPCS                    | 2,131                | 2,065                |
| Square D Company                                   | 1991                   | (A)                     | 986                  | 934                  |
| Groupe Lixel                                       | 1999                   | EOD                     | 810                  | 875                  |
| Telemecanique                                      | 1988                   | (A)                     | 463                  | 463                  |
| TAC/ Andover/ Abacus/ Applied Control Tech./ Yamas | 2003 to 2007           | BA                      | 417                  | 426                  |
| Pelco  | 2007                   | BA                      | 366                  | 352                  |
| MGE UPS  | 2000 to 2007           | CPCS                    | 344                  | 333                  |
| IBS  | 2006                   | BA                      | 310                  | 293                  |
| Juno Lighting Inc.                                 | 2005                   | NAOD                    | 285                  | 269                  |
| Clipsal  | 2004 to 2006           | APOD                    | 230                  | 264                  |
| BEI Technologies                                   | 2005                   | CST                     | 224                  | 264                  |
| Xantrex  | 2008                   | RE                      | 193                  | -                    |
| Crouzet Automatismes                               | 2000                   | CST                     | 156                  | 156                  |
| Power Measurement Inc.                             | 2005                   | NAOD                    | 136                  | 130                  |
| Positec  | 2000                   | EOD                     | 106                  | 106                  |
| ABS  | 2005                   | BA                      | 104                  | 113                  |
| Digital Electronics                                | 2002                   | APOD                    | 89                   | 68                   |
| Merlin Gerin                                       | 1992                   | (A)                     | 87                   | 87                   |
| OVA  | 2006                   | EOD                     | 80                   | 80                   |
| Kavlico  | 2004                   | CST                     | 78                   | 74                   |
| Ritto  | 2007                   | EOD                     | 60                   | 59                   |
| Wessen   | 2008                   | IOD                     | 58                   | -                    |
| Elau   | 2004 and 2005          | EOD                     | 56                   | 56                   |
| RAM  | 2008                   | NAOD                    | 54                   | -                    |
| Federal Pioneer                                    | 1990                   | NAOD                    | 49                   | 57                   |
| Crydom   | 2006                   | CST                     | 49                   | 47                   |
| Citect   | 2006                   | APOD                    | 46                   | 56                   |
| Infra +  | 2000 to 2004           | EOD                     | 43                   | 43                   |
| AEM  | 2006                   | EOD                     | 30                   | 30                   |
| ECP  | 2008                   | NAOD                    | 28                   | -                    |
| PDL  | 2001                   | APOD                    | 26                   | 32                   |
| GET  | 2006                   | EOD                     | 25                   | 32                   |
| Mita Holding                                       | 1999                   | EOD                     | 25                   | 32                   |
| IMS  | 2008                   | EOD                     | 24                   | -                    |
| Marisio  | 2008                   | IOD                     | 22                   | -                    |
| Grant  | 2007                   | EOD                     | 2                    | 2                    |
| Other entities                                     |                        |                         | 350                  | 343                  |
| <b>TOTAL</b>                                       |                        |                         | <b>8,542</b>         | <b>8,141</b>         |

(<sup>1</sup>) Cash Generating Unit to which goodwill has been mainly allocated.

*EOD: European Operating Division; NAOD: North American Operating Division ; APOD: Asia-Pacific Operating Division  
IOD: International Operating Division, RE : Renewable Energy, CST: Customized Sensors & Technologies, BA: Building  
Automation, CP: Critical Power & Cooling system*

(A) Square D, Telemecanique and Merlin Gerin goodwill has been allocated on the basis of operating profit by region as of the acquisition date.

|               | Europe | North America | Asia Pacific | International |
|---------------|--------|---------------|--------------|---------------|
| Square D      | 9%     | 80%           | 10%          | 1%            |
| Telemecanique | 71%    | 0%            | 20%          | 9%            |
| Merlin Gerin  | 62%    | 10%           | 20%          | 8%            |

### 3.2 Changes in goodwill

The main movements between December 31, 2007 and December 31, 2008 are summarized in the following table:

|                                 | 2008         | 2007         |
|---------------------------------|--------------|--------------|
| <b>Net goodwill at opening</b>  | <b>8,141</b> | <b>6,186</b> |
| Acquisitions*                   | 415          | 2,885        |
| Disposals                       | -            | (221)        |
| Impairment                      | (59)         | -            |
| Translation adjustment          | 97           | (660)        |
| Reclassifications               | (52)         | (49)         |
| <b>Net goodwill at year end</b> | <b>8,542</b> | <b>8,141</b> |
| <b>Cumulative impairment</b>    | <b>(67)</b>  | <b>(8)</b>   |

\* On the basis of the exchange rate on the acquisition date

#### Acquisitions

The Group has a period of 12 months from the acquisition date to finalize the purchase accounting. As a result, goodwill figures for 2008 acquisitions are provisional.

Acquisitions during the year primarily concerned Xantrex in Canada.

Application of purchase accounting to the Xantrex acquisition led primarily to the recognition of intangible assets of \$135 million (€97 million), of which \$36 million (€26 million) for the trademark, \$32 million (€23 million) for customer lists and \$67 million (€48 million) for technology. Details of the acquired assets and liabilities are provided in note 2.1.

#### Impairment

Impairment losses recognized during the year totaled €59 million, of which €53 million for CST (note 25).

#### Other changes

Adjustments to the provisional accounting for APC when the initial accounting was completed led to a €50 million reduction in deferred tax liabilities on intangible assets, with a corresponding deduction from goodwill.

The main exchange rate changes concerned goodwill in US dollars.

## Note 4 - Intangible assets

### 4.1 Change in intangible assets

|   | Trademarks   | Software     | Development projects (R&D) | Other        | Total          |
|---|--------------|--------------|----------------------------|--------------|----------------|
| <b>GROSS VALUE</b>                              |              |              |                            |              |                |
| <b>Dec. 31, 2006</b>                            | <b>766</b>   | <b>438</b>   | <b>315</b>                 | <b>495</b>   | <b>2,014</b>   |
| Acquisitions/Capitalization                     | 0            | 28           | 129                        | 76           | 233            |
| Disposals                                       | -            | (14)         | (1)                        | (31)         | (46)           |
| Translation adjustment                          | (189)        | (12)         | (9)                        | (104)        | (314)          |
| Reclassification                                | -            | 44           | 3                          | (38)         | 9              |
| Changes in the scope of consolidation and other | 1,776        | 35           | (8)                        | 786          | 2,589          |
| <b>Dec. 31, 2007</b>                            | <b>2,353</b> | <b>519</b>   | <b>429</b>                 | <b>1,184</b> | <b>4,485</b>   |
| Acquisitions/Capitalization                     | 1            | 31           | 192                        | 71           | 295            |
| Disposals                                       | 0            | (6)          | (1)                        | (4)          | (11)           |
| Translation adjustment                          | 75           | 1            | 12                         | 70           | 158            |
| Reclassification                                | 0            | 16           | 3                          | (19)         | 0              |
| Changes in the scope of consolidation and other | 23           | (2)          | 2                          | 82           | 105            |
| <b>Dec. 31, 2008</b>                            | <b>2,452</b> | <b>559</b>   | <b>637</b>                 | <b>1,384</b> | <b>5,032</b>   |
| <b>ACCUMULATED AMORTIZATION AND IMPAIRMENT</b>  |              |              |                            |              |                |
| <b>Dec. 31, 2006</b>                            | <b>(5)</b>   | <b>(340)</b> | <b>(51)</b>                | <b>(125)</b> | <b>(521)</b>   |
| Allocation and impairment                       | (1)          | (66)         | (48)                       | (82)         | (197)          |
| Recapture                                       | 0            | 17           | 3                          | 1            | 21             |
| Translation adjustment                          | 0            | 8            | 3                          | 11           | 22             |
| Reclassification                                | -            | (5)          | (2)                        | 1            | (6)            |
| Changes in the scope of consolidation and other | (100)        | (2)          | 6                          | 6            | (90)           |
| <b>Dec. 31, 2007</b>                            | <b>(106)</b> | <b>(388)</b> | <b>(89)</b>                | <b>(188)</b> | <b>(771)</b>   |
| Allocation and impairment                       | (17)         | (62)         | (63)                       | (114)        | (256)          |
| Recapture                                       | 0            | 7            | (1)                        | 1            | 7              |
| Translation adjustment                          | (1)          | (3)          | (7)                        | (18)         | (29)           |
| Reclassification                                | 1            | 1            | 0                          | 3            | 5              |
| Changes in the scope of consolidation and other | 2            | 1            | 1                          | (1)          | 3              |
| <b>Dec. 31, 2008</b>                            | <b>(121)</b> | <b>(444)</b> | <b>(159)</b>               | <b>(317)</b> | <b>(1,041)</b> |
| <b>NET VALUE</b>                                |              |              |                            |              |                |
| <b>Dec. 31, 2006</b>                            | <b>761</b>   | <b>98</b>    | <b>264</b>                 | <b>370</b>   | <b>1,493</b>   |
| <b>Dec. 31, 2007</b>                            | <b>2,247</b> | <b>131</b>   | <b>340</b>                 | <b>996</b>   | <b>3,714</b>   |
| <b>Dec. 31, 2008</b>                            | <b>2,331</b> | <b>115</b>   | <b>478</b>                 | <b>1,067</b> | <b>3,991</b>   |

The amounts reported in the above table for 2008 acquisitions correspond to the Xantrex trademark and other intangible assets, consisting primarily of patents and customer lists (notes 3.2 and 4.2).

Following impairment tests, impairment losses of €20 million and €11 million, respectively, were recorded on other intangible assets allocated to the CST CGU and on the trademark.

As of December 31, 2008, costs totaling €39 million were capitalized and classified under "Other intangible assets" in connection with an ongoing project to develop a Groupwide SAP system.



## 4.2 Trademarks

Main trademarks recognized as of December 31, 2008 include:

|              | <b>Dec. 31, 2008</b> | <b>Dec. 31, 2007</b> |
|--------------|----------------------|----------------------|
|              | Net                  | Net                  |
| APC          | 1,321                | 1,249                |
| PELCO        | 369                  | 344                  |
| MGE          | 200                  | 200                  |
| Clipsal      | 126                  | 152                  |
| TAC/ANDOVER  | 104                  | 114                  |
| Juno         | 82                   | 78                   |
| Digital      | 43                   | 33                   |
| Xantrex      | 26                   | -                    |
| BEI          | 19                   | 28                   |
| Merten       | 18                   | 18                   |
| Kavlico      | 11                   | 11                   |
| Other        | 12                   | 20                   |
| <b>Total</b> | <b>2,331</b>         | <b>2,247</b>         |

Trademarks are not amortized as they are considered to have indefinite lives.

## Note 5 - Property, plant and equipment

## 5.1 Change in property, plant and equipment

|  | Land        | Buildings    | Machinery and equipment | Other        | Total          |
|--|-------------|--------------|-------------------------|--------------|----------------|
| <b>GROSS VALUE</b>                             |             |              |                         |              |                |
| <b>Dec. 31, 2006</b>                           | <b>106</b>  | <b>1,043</b> | <b>2,914</b>            | <b>598</b>   | <b>4,661</b>   |
| Acquisitions                                   | 1           | 42           | 169                     | 202          | 414            |
| Disposals                                      | (6)         | (39)         | (145)                   | (66)         | (256)          |
| Translation adjustment                         | (7)         | (33)         | (76)                    | (28)         | (144)          |
| Reclassification                               | (1)         | 46           | 45                      | (96)         | (6)            |
| Changes in scope of consolidation and other    | 26          | 98           | 86                      | 65           | 275            |
| <b>Dec. 31, 2007</b>                           | <b>119</b>  | <b>1,157</b> | <b>2,993</b>            | <b>675</b>   | <b>4,944</b>   |
| Acquisitions                                   | 4           | 42           | 182                     | 208          | 436            |
| Disposals                                      | (1)         | (20)         | (91)                    | (75)         | (187)          |
| Translation adjustment                         | 4           | 8            | (9)                     | (5)          | (2)            |
| Reclassification                               | 29          | (11)         | 66                      | (92)         | (8)            |
| Changes in scope of consolidation and other    | 0           | 6            | 21                      | 13           | 40             |
| <b>Dec. 31, 2008</b>                           | <b>155</b>  | <b>1,182</b> | <b>3,162</b>            | <b>724</b>   | <b>5,223</b>   |
| <b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b> |             |              |                         |              |                |
| <b>Dec. 31, 2006</b>                           | <b>(15)</b> | <b>(506)</b> | <b>(2,186)</b>          | <b>(339)</b> | <b>(3,046)</b> |
| Depreciation and impairment                    | (1)         | (48)         | (224)                   | (44)         | (317)          |
| Recapture                                      | 1           | 29           | 153                     | 28           | 211            |
| Translation adjustment                         | 1           | 8            | 49                      | 14           | 72             |
| Reclassification                               | 1           | (3)          | (3)                     | 8            | 3              |
| Changes in scope of consolidation and other    | (1)         | 5            | 0                       | (15)         | (11)           |
| <b>Dec. 31, 2007</b>                           | <b>(14)</b> | <b>(515)</b> | <b>(2,211)</b>          | <b>(348)</b> | <b>(3,088)</b> |
| Depreciation and impairment                    | (1)         | (50)         | (221)                   | (57)         | (329)          |
| Recapture                                      | 0           | 17           | 122                     | 32           | 171            |
| Translation adjustment                         | (1)         | (3)          | 8                       | 7            | 11             |
| Reclassification                               | 0           | (1)          | 2                       | (1)          | 0              |
| Changes in scope of consolidation and other    | 1           | (1)          | (9)                     | (9)          | (18)           |
| <b>Dec. 31, 2008</b>                           | <b>(15)</b> | <b>(553)</b> | <b>(2,309)</b>          | <b>(376)</b> | <b>(3,253)</b> |
| <b>NET VALUE</b>                               |             |              |                         |              |                |
| <b>Dec. 31, 2006</b>                           | <b>91</b>   | <b>537</b>   | <b>728</b>              | <b>259</b>   | <b>1,615</b>   |
| <b>Dec. 31, 2007</b>                           | <b>105</b>  | <b>642</b>   | <b>782</b>              | <b>327</b>   | <b>1,856</b>   |
| <b>Dec. 31, 2008</b>                           | <b>140</b>  | <b>629</b>   | <b>853</b>              | <b>348</b>   | <b>1,970</b>   |

Reclassifications primarily correspond to assets put into use.

## 5.2 Finance leases

Property, plant and equipment include the following assets held under finance leases:

|  | Dec. 31, 2008 | Dec. 31, 2007 |
|--|---------------|---------------|
| Land                                   | 3             | 3             |
| Buildings                              | 69            | 69            |
| Machinery and equipment                | 32            | 31            |
| Other tangible assets                  | 2             | 1             |
| Accumulated depreciation               | (76)          | (73)          |
| <b>Assets under finance lease, net</b> | <b>30</b>     | <b>31</b>     |

Future minimum lease payments under finance leases as of December 31, 2008 are as follows:

|                                    | Minimum payments | Discounted minimum payments |
|------------------------------------|------------------|-----------------------------|
| Less than one year                 | 4                | 4                           |
| Between one year and five years    | 8                | 7                           |
| Five years and more                | 7                | 6                           |
| <b>Total commitments</b>           | <b>19</b>        | <b>17</b>                   |
| Discounting effect                 | (2)              | -                           |
| <b>Discounted minimum payments</b> | <b>17</b>        | <b>-</b>                    |

## 5.3 Operating leases

Rental expenses for operating leases in 2008 and 2007 were as follows:

|                             | 2008       | 2007      |
|-----------------------------|------------|-----------|
| Minimum rentals             | 104        | 98        |
| Contingent rentals          | 1          | 1         |
| Sub-lease rentals           | (2)        | (1)       |
| <b>Total rental expense</b> | <b>103</b> | <b>98</b> |

Future minimum lease payments under non-cancelable operating leases break down as follows at December 31, 2008:

|                                    | Minimum payments | Discounted minimum payments |
|------------------------------------|------------------|-----------------------------|
| Less than one year                 | 88               | 88                          |
| Between one and five years         | 227              | 212                         |
| Five years and more                | 130              | 104                         |
| <b>Total rental commitments</b>    | <b>445</b>       | <b>404</b>                  |
| Discounting effect                 | (41)             | -                           |
| <b>Discounted minimum payments</b> | <b>404</b>       | <b>-</b>                    |

## Note 6 - Investments in associates

Investments in associates can be analyzed as follows:

|                                       | % interest at Dec. 31 |          | Share in net assets at Dec. 31 |            | Share in net profit at Dec. 31 |          |
|---------------------------------------|-----------------------|----------|--------------------------------|------------|--------------------------------|----------|
|                                       | 2008                  | 2007     | 2008                           | 2007       | 2008                           | 2007     |
| Delta Dore Finance                    | 20%                   | 20%      | 11                             | 14         | 1                              | 1        |
| Delixi Electric                       | 50%                   | 50%      | 182                            | 152        | 11                             | 2        |
| Fuji Electric FA Components & Systems | 37%                   | -        | 84                             | -          | -                              | -        |
| Others                                | N/A                   | N/A      | 4                              | 6          | 0                              | 1        |
| <b>Total</b>                          | <b>-</b>              | <b>-</b> | <b>281</b>                     | <b>172</b> | <b>12</b>                      | <b>4</b> |

On September 30, 2008, Schneider Electric and Fuji Electric contributed their respective electrical distribution and industrial control operations in Japan to their new joint venture, Fuji Electric FA Components & Systems (note 2.1). Schneider Electric's share of the joint venture's results for the period from October 1 to December 31, 2008 is not reflected in the consolidated income statement, as the joint venture's accounts were not yet available when the consolidated accounts were closed.

## Note 7 - Financial assets

### 7.1 Available-for-sale financial assets

Available-for-sale financial assets, corresponding mainly to investments in non-consolidated companies, break down as follows:

|  | %      | Dec. 31, 2008 |                            |            | Dec. 31, 2007 |
|--|--------|---------------|----------------------------|------------|---------------|
|  |        | Gross value   | Revaluation/<br>impairment | Fair value | Fair value    |
| <b>I – Listed available for sale financial assets</b>    |        |               |                            |            |               |
| AXA  | 0.5%   | 102           | 53                         | 155        | 268           |
| Gold Peak Industries Holding Ltd                         | 6.3%   | 7             | (5)                        | 2          | 3             |
| Other listed AFS   |        | 0             | 0                          | 0          | 0             |
| <b>Total listed AFS</b>                                  |        | <b>109</b>    | <b>48</b>                  | <b>157</b> | <b>271</b>    |
| <b>II – Unlisted available for sale financial assets</b> |        |               |                            |            |               |
| Profiluks <sup>(1)</sup>                                 | 100.0% | -             | -                          | -          | 12            |
| Polam BV <sup>(2) (5)</sup>                              | 100.0% | 26            | 0                          | 26         | 26            |
| Thorsman Ireland <sup>(2)</sup>                          | 100.0% | 6             | (6)                        | 0          | 0             |
| Simak <sup>(2)</sup>                                     | 98.5%  | 6             | (1)                        | 5          | 5             |
| Senside <sup>(2)</sup>                                   | 100.0% | 5             | (5)                        | 0          | 0             |
| Easy Plug SAS <sup>(3)</sup>                             | 50.0%  | 9             | (9)                        | 0          | 0             |
| SE Venture   | 100.0% | 7             | (7)                        | 0          | 0             |
| Other unlisted AFS <sup>(4)</sup>                        |        | 20            | (8)                        | 12         | 9             |
| <b>Total unlisted AFS</b>                                |        | <b>79</b>     | <b>(36)</b>                | <b>43</b>  | <b>52</b>     |
| <b>Financial assets available for sale</b>               |        | <b>188</b>    | <b>12</b>                  | <b>200</b> | <b>323</b>    |

(1) Consolidated as from January 1, 2008.

(2) Removed from the scope of consolidation - in liquidation.

(3) Dormant companies.

(4) Investments with a unit value of less than €5 million.

(5) The Group had a debt towards Polam equal to the value of the shares held.

Fair value corresponds to the quoted price on the last trading day of the period for investments listed on an active market and the carrying amount for unlisted investments. Net losses arising from

remeasurement at fair value of listed investments, recorded in equity under "Other reserves" (note 13.7), totaled €113 million.

## 7.2 Other non-current financial assets

|  | Dec. 31, 2008 |            | Dec. 31, 2007 |            |
|--|---------------|------------|---------------|------------|
|  | Cost          | Impairment | Net           | Net        |
| Restricted cash on Clipsal acquisition (note 17) | 12            | -          | 12            | 54         |
| Others   | 109           | (8)        | 101           | 70         |
| <b>Other non current financial assets</b>        | <b>121</b>    | <b>(8)</b> | <b>113</b>    | <b>124</b> |

## 7.3 Current financial assets

|                                       | Dec. 31, 2008 | Dec. 31, 2007 |
|---------------------------------------|---------------|---------------|
| Short-term investments                | 78            | 52            |
| Pension assets                        | 0             | 32            |
| <b>Total current financial assets</b> | <b>78</b>     | <b>84</b>     |

Short-term investments primarily comprise available-for-sale financial assets.

## Note 8 - Inventories and work in process

Inventories and work in process changed as follows:

|  | Dec. 31, 2008 | Dec. 31, 2007 |
|--|---------------|---------------|
| <b>Cost:</b>                                   |               |               |
| Raw materials                                  | 1,041         | 995           |
| Work in process                                | 344           | 340           |
| Semi-finished and finished products            | 1,376         | 1,307         |
| Goods  | 87            | 102           |
| <b>Inventories and work in process at cost</b> | <b>2,848</b>  | <b>2,744</b>  |
| <b>Impairment:</b>                             |               |               |
| Raw materials                                  | (112)         | (106)         |
| Work in process                                | (15)          | (15)          |
| Semi-finished and finished products            | (128)         | (132)         |
| Goods  | (9)           | (10)          |
| <b>Impairment loss</b>                         | <b>(264)</b>  | <b>(263)</b>  |
| <b>Net:</b>                                    |               |               |
| Raw materials                                  | 929           | 889           |
| Work in process                                | 329           | 325           |
| Semi-finished and finished products            | 1,248         | 1,175         |
| Goods  | 78            | 92            |
| <b>Inventories and work in process, net</b>    | <b>2,584</b>  | <b>2,481</b>  |

## Note 9 - Trade accounts receivable

|                                    | Dec. 31, 2008 | Dec. 31, 2007 |
|------------------------------------|---------------|---------------|
| Accounts receivable                | 3,203         | 3,049         |
| Notes receivable                   | 391           | 422           |
| Advances to suppliers              | 63            | 85            |
| <b>Accounts receivable at cost</b> | <b>3,657</b>  | <b>3,556</b>  |
| Impairment                         | (120)         | (93)          |
| <b>Accounts receivable, net</b>    | <b>3,537</b>  | <b>3,463</b>  |
| Of which:                          |               |               |
| On time                            | 2,915         | 2,664         |
| Less than one month past due       | 307           | 463           |
| One to two months past due         | 119           | 154           |
| Two to three months past due       | 62            | 57            |
| Three to four months past due      | 48            | 50            |
| More than four months past due     | 86            | 75            |
| <b>Accounts receivable, net</b>    | <b>3,537</b>  | <b>3,463</b>  |

The Group's accounts receivable are generated from sales to customers operating in a wide range of businesses and geographic regions. Consequently, the Group believes that there is no significant concentration of credit risk.

In addition, the Group takes out substantial credit insurance and uses other types of guarantees to limit the risk of losses on trade accounts receivable.

Changes in provisions for impairment of short and long-term trade accounts receivable were as follows:

|   | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---------------|---------------|
| <b>Provisions for impairment on Jan. 1</b>  | <b>(93)</b>   | <b>(99)</b>   |
| Additions                                   | (50)          | (28)          |
| Utilizations                                | 27            | 20            |
| Reversals of surplus provisions             | 3             | 6             |
| Translation adjustment                      | 0             | 5             |
| Other                                       | (7)           | 3             |
| <b>Provisions for impairment on Dec. 31</b> | <b>(120)</b>  | <b>(93)</b>   |

## Note 10 - Other receivables and prepaid expenses

|                                   | Dec. 31, 2008 | Dec. 31, 2007 |
|-----------------------------------|---------------|---------------|
| Précompte Equalization tax credit | -             | 25            |
| Carryback credit                  | -             | 97            |
| Other receivables                 | 204           | 239           |
| Other tax credits                 | 448           | 415           |
| Derivative instruments            | 95            | 47            |
| Prepaid expenses                  | 178           | 128           |
| <b>Total</b>                      | <b>925</b>    | <b>951</b>    |

The remaining €25 million précompte equalization tax credit and €97 million carryback credit with the French Treasury were refunded in 2008.

## Note 11 - Income tax

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

### 11.1 Analysis of income tax expense for the year

|                                     | 2008         | 2007         |
|-------------------------------------|--------------|--------------|
| <b>Current taxes</b>                |              |              |
| France                              | 2            | (32)         |
| International                       | (569)        | (557)        |
| <b>Total</b>                        | <b>(567)</b> | <b>(589)</b> |
| <b>Deferred taxes</b>               |              |              |
| France                              | 53           | (35)         |
| International                       | (41)         | 24           |
| <b>Total</b>                        | <b>12</b>    | <b>(11)</b>  |
| <b>Income tax (expense)/benefit</b> | <b>(555)</b> | <b>(600)</b> |

### 11.2 Tax proof

|  | 2008         | 2007         |
|--|--------------|--------------|
| <b>Profit attributable to equity holders of the parent</b> | <b>1,682</b> | <b>1,583</b> |
| Income tax (expense)/benefit                               | (555)        | (600)        |
| Minority interests   | (41)         | (38)         |
| Share of profit of associates                              | 12           | 4            |
| <b>Profit before tax</b>                                   | <b>2,266</b> | <b>2,217</b> |
| Statutory tax rate   | 34.43%       | 34.43%       |
| <b>Income tax expense calculated at the statutory rate</b> | <b>(780)</b> | <b>(763)</b> |
| <b>Reconciling items:</b>                                  |              |              |
| Difference between French and foreign tax rates            | 149          | 123          |
| Tax credits and other tax reductions                       | 131          | 80           |
| Impact of tax losses                                       | (6)          | -            |
| Other permanent differences                                | (49)         | (40)         |
| Income tax (expense)/benefit                               | (555)        | (600)        |
| <b>Effective tax rate</b>                                  | <b>24.5%</b> | <b>27.1%</b> |

### 11.3 Deferred taxes by type

Deferred tax assets recorded in respect of tax loss carryforwards at December 31, 2008 essentially concern Belgium (€168 million) and France (€92 million).

|  | Dec. 31, 2008 | Dec. 31, 2007 |
|--|---------------|---------------|
| <i>Deferred tax assets</i>                                   |               |               |
| Tax credits and tax loss carryforwards                       | 282           | 226           |
| Provisions for pensions and other post-retirement benefit    | 486           | 303           |
| Impairment of receivables and inventory                      | 143           | 62            |
| Non deductible provisions for contingencies and accruals     | 164           | 138           |
| Other deferred tax assets                                    | 257           | 288           |
| Deferred tax assets set off against deferred tax liabilities | (400)         | (329)         |
| <b>Deferred tax assets</b>                                   | <b>932</b>    | <b>688</b>    |
| <i>Deferred tax liabilities</i>                              |               |               |
| Differences between tax and accounting depreciation          | (95)          | (76)          |
| Trademarks and other intangible assets                       | (933)         | (844)         |
| Capitalized development costs (R&D)                          | (36)          | (28)          |
| Other deferred tax liabilities                               | (224)         | (291)         |
| Deferred tax assets set off against deferred tax liabilities | 400           | 329           |
| <b>Total deferred tax liabilities</b>                        | <b>(888)</b>  | <b>(910)</b>  |

#### 11.4 Income tax recognized directly in equity

Tax on items recognized directly in equity amounted to €234 million at December 31, 2008 versus €18 million the year before.

Income tax recognized directly in equity primarily reflects the effect of tax increases or decreases for items initially recognized in equity (as part of the transition to IFRS) and the tax impact of increases or decreases in items recognized in "Other reserves" (note 13.7).

#### Note 12 - Cash and cash equivalents

|  | Dec. 31, 2008 | Dec. 31, 2007 |
|--|---------------|---------------|
| Mutual funds and equivalent                      | 995           | 501           |
| Other  | 2             | 10            |
| <b>Short-term investments</b>                    | <b>997</b>    | <b>511</b>    |
| Money market instruments and short-term deposits | 13            | 72            |
| Cash   | 642           | 686           |
| <b>Total cash and cash equivalents</b>           | <b>1,652</b>  | <b>1,269</b>  |
| Short-term bank loans and overdrafts             | (135)         | (111)         |
| <b>Net cash and cash equivalents</b>             | <b>1,517</b>  | <b>1,158</b>  |

#### Note 13 - Equity

##### 13.1 Capital

###### ➤ Share capital

The Company's share capital at December 31, 2008 amounted to €1,979,405,032, represented by 247,425,629 shares with a par value of €8, all fully paid up.

At December 31, 2008, a total of 264,864,134 voting rights were attached to the 247,425,629 shares outstanding.

Schneider Electric's capital management strategy is designed to ensure liquidity, optimize the balance sheet and the weighted average cost of capital, and ensure access to capital markets under the best possible conditions. Decisions may be based on EPS, rating or balance sheet targets. Their implementation may depend on specific market conditions.



### ➤ Changes in share capital

Changes in share capital since December 31, 2007 were as follows:

|                                 | Cumulative<br>number of shares | Total<br>(in €)      |
|---------------------------------|--------------------------------|----------------------|
| <b>Capital at Dec. 31, 2007</b> | <b>245,299,366</b>             | <b>1,962,394,928</b> |
| Exercise of stock options       | 126,417                        | 1,011,336            |
| Issuance of shares              | -                              | -                    |
| Employee share issue            | 1,999,846                      | 15,998,768           |
| <b>Capital at Dec. 31, 2008</b> | <b>247,425,629</b>             | <b>1,979,405,032</b> |

The share premium account increased by €123,906,581, following the exercise of options and increases in capital.

### 13.2 Ownership structure

|   | Dec. 31, 2008 |                     |               |                            | Dec. 31, 2007 |               |
|---|---------------|---------------------|---------------|----------------------------|---------------|---------------|
|   | Capital       | Number of<br>shares | Voting rights | Number of<br>voting rights | Capital       | Voting rights |
|   | %             |                     | %             |                            | %             | %             |
| Capital Research and Management Company | 10.7          | 26 405 879          | 10.0          | 26 405 879                 | 5.4           | 5.0           |
| CDC                                     | 4.4           | 10 921 925          | 5.3           | 14 096 925                 | 4.4           | 5.3           |
| Employees                               | 3.6           | 8 902 608           | 5.3           | 14 100 423                 | 3.3           | 5.1           |
| Own shares (1)                          | 0.9           | 2 277 107           | -             | -                          | 0.9           | -             |
| Treasury stock                          | 2.1           | 5 231 782           | -             | -                          | 1.7           | -             |
| Public                                  | 78.3          | 193 686 328         | 76.5          | 202 752 018                | 84.3          | 82.2          |
| <b>TOTAL</b>                            | <b>100.0</b>  | <b>247 425 629</b>  | <b>100.0</b>  | <b>264 864 134 (2)</b>     | <b>100.0</b>  | <b>100.0</b>  |

(1) Held through Cofibel/Cofimines

(2) Number of voting rights as defined in Article 223-11 of the AMF general regulations, which includes shares stripped of voting rights.

No shareholders' pact was in effect as of December 31, 2008.

### 13.3 Earnings per share

#### Determination of the share base used in calculation

| (in millions of shares)                  | Dec. 31, 2008  |                | Dec. 31, 2007  |                |
|--|----------------|----------------|----------------|----------------|
|  | Basic          | Diluted        | Basic          | Diluted        |
| Common shares*                           | 239,444        | 239,444        | 233,671        | 233,671        |
| Stock options                            | -              | 727            | -              | 2,472          |
| <b>Average weighted number of shares</b> | <b>239,444</b> | <b>240,171</b> | <b>233,671</b> | <b>236,143</b> |

\* net of treasury stock and own shares

#### Earnings per share

| (in euros)                | Dec. 31, 2008 |             | Dec. 31, 2007 |             |
|---------------------------|---------------|-------------|---------------|-------------|
|                           | Basic         | Diluted     | Basic         | Diluted     |
| Profit before tax         | 9.47          | 9.44        | 9.49          | 9.39        |
| <b>Earnings per share</b> | <b>7.02</b>   | <b>7.00</b> | <b>6.78</b>   | <b>6.70</b> |

### 13.4 Dividends

In 2008, the Group paid out the 2007 dividend of €3.30 per share, for a total of €796 million. In 2007, the Group paid out the 2006 dividend of €3.00 per share, for a total of €670 million.

At the Annual Meeting of April 23, 2009, shareholders will be asked to approve a dividend of € 3.45 per share for 2008. At December 31, 2008, Schneider Electric SA had distributable reserves in an amount of €14 million (versus €484 million at the previous year-end), not including profit for the year.

### 13.5 Share-based payment

#### **Current stock option and stock grant plans**

The Board of Directors of Schneider Electric SA and later the Management Board have set up stock option and stock grant plans for senior executives and certain employees. The main features of these plans were as follows at December 31, 2008:

#### - Stock option plans

| Plan no.     | Date of Board Meeting | Type (1) | Starting date of exercise period | Expiration date | Price (in euros) before adjustment | Number of options initially granted | Options cancelled because targets not met |
|--------------|-----------------------|----------|----------------------------------|-----------------|------------------------------------|-------------------------------------|---|
| 18           | Mar 24, 00            | P        | Mar 24, 03                       | Mar 23, 08      | 65.24                              | 1,421,200                           | 686,600                                   |
| 19           | Apr 4, 01             | S        | Apr 4, 05                        | Apr 3, 09       | 68.13                              | 1,557,850                           | NA (2)                                    |
| 20           | Dec 12, 01            | S        | Dec 12, 05                       | Dec 11, 09      | 51.26                              | 1,600,000                           | 166,800                                   |
| 21           | Feb 5, 03             | S        | Feb 5, 07                        | Feb 4, 11       | 45.21                              | 2,000,000                           | 141,900                                   |
| 22           | Feb 5, 03             | S        | Jun 5, 03                        | Feb 4, 11       | 45.21                              | 111,000                             | NA (2)                                    |
| 23           | May 6, 04             | S        | Oct 1, 04                        | May 5, 12       | 55.55                              | 107,000                             | NA (2)                                    |
| 24           | May 6, 04             | S        | May 6, 08                        | May 5, 12       | 55.55                              | 2,060,700                           | 94,300                                    |
| 25           | May 12, 05            | S        | Oct 1, 05                        | May 11, 13      | 56.47                              | 138,500                             | NA (2)                                    |
| 26           | Jun 28, 05            | S        | Jun 28, 09                       | Jun 27, 13      | 60.19                              | 2,003,800                           | -   |
| 27           | Dec 1, 05             | S or P   | Dec 1, 09                        | Nov 30, 13      | 71.40                              | 1,614,900                           | -   |
| 28           | Dec 21, 06            | S or P   | Dec 21, 10                       | Dec 20, 16      | 81.34                              | 1,257,120                           | -   |
| 29           | Apr 23, 07            | S or P   | Apr 23, 11                       | Apr 22, 17      | 97.05                              | 83,150                              | -   |
| 30           | Dec 19, 07            | S or P   | Dec 19, 07                       | Dec 18, 17      | 92.00                              | 944,926                             | -   |
| <b>Total</b> |                       |          |                                  |                 |                                    | <b>14,900,146</b>                   | <b>1,089,600</b>                          |

(1) S = Options to subscribe new shares. P = Options to purchase existing shares.

(2) Not applicable because no vesting conditions were set.

Rules governing the stock option plans are as follows:

- To exercise the option, the grantee must be an employee or corporate officer of the Group. Exercise is also conditional on the achievement of performance criteria (note 13.5.2).
- The options expire after eight to ten years.
- The vesting period is three or four years in the United States and four years in the rest of the world.

#### - Stock grants

| Plan no.     | Date of Board Meeting | Vesting date | End of lock-up period | Number of shares initially granted | Grants cancelled because targets not met |
|--------------|-----------------------|--------------|-----------------------|------------------------------------|--|
| 1            | Dec 21, 06            | Dec 21, 09   | Dec 21, 11            | 52,006                             | -  |
| 2            | Apr 23, 07            | Apr 23, 10   | Apr 23, 12            | 2,214                              | -  |
| 3            | Dec 19, 07            | Dec 19, 10   | Dec 19, 12            | 66,394                             | -  |
| 4            | Dec 19, 07            | Dec 19, 11   | Dec 19, 11            | 57,250                             | -  |
| <b>Total</b> |                       |              |                       | <b>177,864</b>                     | <b>-</b>                                 |

Rules governing the stock grant plans are as follows:

- To receive the stock, the grantee must be an employee or corporate officer of the Group. Vesting is also conditional on the achievement of performance criteria (note 13.5.2).
- The vesting period is three to four years.
- The lock-up period is zero to two years.

### **Outstanding options and grants as of December 31, 2008**

- Change in the number of options:

| Plan no.     | Number of options outstanding at Dec. 31, 2007 | Options exercised and/or created in 2008 | Options cancelled in 2008 (1) | Number of options outstanding at Dec. 31 2008 |
|--------------|--|--|-------------------------------|---|
| 18           | 177,514  | (158,479)                                | (19,035)                      | -   |
| 19           | 571,240  | (7,537)                                  | (2,273)                       | 561,430                                       |
| 20           | 345,769  | -  | -                             | 345,769                                       |
| 21           | 536,557  | (14,651)                                 | -                             | 521,906                                       |
| 22           | 24,631   | (1,320)                                  | -                             | 23,311  |
| 23           | 42,454   | -  | -                             | 42,454  |
| 24           | 1,717,509                                      | (94,796)                                 | -                             | 1,622,713                                     |
| 25           | 46,856   | (200)                                    | -                             | 46,656  |
| 26           | 1,993,764                                      | (7,913)                                  | (41,202)                      | 1,944,649                                     |
| 27           | 1,613,644                                      | -  | (13,331)                      | 1,600,313                                     |
| 28           | 1,260,226                                      | -  | (10,504)                      | 1,249,722                                     |
| 29           | 83,150   | -  | (7,000)                       | 76,150  |
| 30           | 944,926  | -  | (8,610)                       | 936,316                                       |
| <b>Total</b> | <b>9,358,240</b>                               | <b>(284,896)</b>                         | <b>(101,955)</b>              | <b>8,971,389</b>                              |

(1) Including potential cancellations due to targets not being met or options being allowed to lapse without being exercised.

To exercise the options granted under plans 26, 27, 28, 29 and 30 and the SARs, the grantee must be an employee or corporate officer of the Group. In addition, exercise of half the options is conditional on the achievement of annual objectives based on revenue and on operating profit and EBITA margins.

In 2008, 284,694 new Schneider Electric SA shares were issued on the exercise of currently vested stock options.

- Change in number of stock grants:

| Plan no.     | Number of stock grants at Dec. 31, 2007 | Number of existing or new shares granted in 2008 | Stocks cancelled in 2008 | Number of grants outstanding at Dec. 31, 2008 |
|--------------|---|--|--------------------------|---|
| 1            | 51,946                                  | -  | -                        | 51,946  |
| 2            | 2,214                                   | -  | -                        | 2,214   |
| 3            | 66,394                                  | -  | (563)                    | 65,831  |
| 4            | 57,250                                  | -  | (423)                    | 56,827  |
| <b>Total</b> | <b>177,804</b>                          | <b>-</b>   | <b>(986)</b>             | <b>176,818</b>                                |

For stock grants to vest, the grantee must be an employee or corporate officer of the Group. In addition, vesting of half of the stock grants is conditional on the achievement of annual objectives based on revenue and on operating profit and EBITA margins.

### 13.5.1 Valuation of share-based payments

- Stock options:

In accordance with the accounting policies described in note 1.19, the stock option plans have been valued on the basis of an average estimated life of between seven and ten years using the following assumptions:

- Expected volatility of between 20% and 25%, corresponding to capped historical volatility.
- A payout rate of between 3.0% and 4.5%.
- A discount rate of between 3.1% and 4.5%, corresponding to a risk-free rate over the life of the plans (source: Bloomberg).

Based on these assumptions, the amount recorded under "Selling, general and administrative expenses" for stock option plans set up after November 7, 2002 breaks down as follows:

|         | <b>2008</b> | <b>2007</b> |
|---------|-------------|-------------|
| Plan 21 | -           |             |
| Plan 24 | (1)         | 5           |
| Plan 25 | -           | -           |
| Plan 26 | 5           | 6           |
| Plan 27 | 6           | 6           |
| Plan 28 | 7           | 6           |
| Plan 29 | 1           | 1           |
| Plan 30 | 4           | -           |
|         | <b>22</b>   | <b>24</b>   |

- Stock grants:

In accordance with the accounting policies described in note 1.19, the stock grant plans have been valued on the basis of an average estimated life of between four and five years using the following assumptions:

- A payout rate of between 3.0% and 4.5%.
- A discount rate of between 3.7% and 4.5%, corresponding to a risk-free rate over the life of the plans (source: Bloomberg).

Based on these assumptions, the amount recorded under "Selling, general and administrative expenses" for stock grant plans set up after November 7, 2002 breaks down as follows:

|        | <b>2008</b> | <b>2007</b> |
|--------|-------------|-------------|
| Plan 1 | 1           | 1           |
| Plan 2 |             | 0           |
| Plan 3 | 2           | -           |
| Plan 4 | 1           | -           |
|        | <b>4</b>    | <b>1</b>    |

### 13.5.2 Worldwide Employee Stock Purchase Plan

Schneider Electric gives its employees the opportunity to participate in employee share issues. Employees in countries that meet legal and fiscal requirements have the choice between a nonleveraged and a leveraged plan.

**Under the nonleveraged plan**, employees may purchase Schneider Electric shares at a 15% discount to the price quoted for the shares on the stock market. Employees must then hold their shares for five years, except in certain cases provided for by law. The share-based payment expense recorded in accordance with IFRS 2 is measured by reference to the fair value of the discount on the locked-up shares. The lock-up cost is defined as the cost of a two-step strategy that involves first selling the locked-up shares on the forward market and then purchasing the same number of shares on the spot market (i.e., shares that may be sold at any time) using a bullet loan.

This strategy is designed to reflect the cost the employee would incur during the lock-up period to avoid the risk of carrying the shares subscribed under the nonleveraged plan. The borrowing cost corresponds to the cost of borrowing for the employees concerned, as they are the sole potential buyers in this market. It is based on the average interest rate charged by banks for an ordinary, non-revolving personal loan with a maximum maturity of five years granted to an individual with an average credit rating.

**Under the leveraged plan**, employees may also purchase Schneider Electric shares at a 15% discount to the price quoted on the stock market. However, the leveraged plan offers a different yield profile as a third-party bank tops up the employee's initial investment, essentially multiplying the amount paid by the employee. The total is invested in Schneider Electric shares at a preferential price. The bank converts the discount transferred by the employee into funds with a view to securing the yield for the employee and increasing the indexation on a leveraged number of directly subscribed shares.

As with the nonleveraged plan, the share-based payment expense is determined by reference to the fair value of the discount on the locked-up shares (see above). In addition, it includes the value of the benefit corresponding to the issuer's involvement in the plan, which means that employees have access to share prices with a volatility profile adapted to institutional investors rather than to the prices and volatility profile they would have been offered if they had purchased the shares through their retail banks. The volatility differential is treated as a discount equivalent that reflects the opportunity gain offered to employees under the leveraged plan.

On May 30, 2008, as part of its commitment to employee share ownership, Schneider Electric gave its employees the opportunity to purchase shares at a price of €67.00 per share. This represented a discount of 15% to the average opening price of €78.82 quoted for the share during the 20 days preceding the Management Board's decision to launch the employee share issue.

In all, 2 million shares were subscribed, increasing the Company's capital by €134 million as of July 17, 2008. The issue represented a total cost of €4.8 million, taking into account the five-year lock-up period.

The tables below summarize the main characteristics of the plans, the amounts subscribed, the valuation assumptions and the plans' cost for 2008 and 2007.

| Classic plan  | 2008         |            | 2007         |            |
|---|--------------|------------|--------------|------------|
|   | %            | €          | %            | €          |
| <b>Plan characteristics</b>                                     |              |            |              |            |
| Maturity (years)  |              | 5          |              | 5          |
| Reference price (euros)   |              | 78.82      |              | 103.59     |
| Subscription price (euros)                                      |              | 67.00      |              | 88.06      |
| Discount  | 15.00%       |            | 15.00%       |            |
| Amount subscribed by employees (millions of euros)              |              | 45.8       |              | 64.1       |
| Total amount subscribed (millions of euros)                     |              | 45.8       |              | 64.1       |
| Total number of shares subscribed (millions of shares)          |              | 0.7        |              | 0.7        |
| <b>Valuation assumptions</b>                                    |              |            |              |            |
| Interest rate available to market participant (bullet loan) (1) | 6.90%        |            | 5.97%        |            |
| Five-year risk-free interest rate (euro zone)                   | 5.20%        |            | 4.47%        |            |
| Annual interest rate (repo)                                     | 1.15%        |            | 0.95%        |            |
| (a) Value of discount   | 15.00%       | 8.1        | 15.00%       | 11.3       |
| (b) Value of lock-up period for market participant              | 13.69%       | 7.4        | 11.85%       | 8.9        |
| <b>Total expense for the Group (a-b)</b>                        | <b>1.30%</b> | <b>0.7</b> | <b>3.15%</b> | <b>2.4</b> |
| <b>Sensitivity</b>  |              |            |              |            |
| - Decrease in interest rate for market participant (2)          | (0.50%)      | 1.35       | (0.50%)      | 1.89       |

(1) Average interest rate charged by banks for an ordinary, non-revolving personal loan with a maximum maturity of five years granted to an individual with an average credit rating.

(2) A decline in the interest rate for market participants reduces the lock-up cost and increases the expense booked by the issuer.

| Leveraged plan  | 2008         |            | 2007         |            |
|---|--------------|------------|--------------|------------|
|   | %            | €          | %            | €          |
| <b>Plan characteristics</b>                                     |              |            |              |            |
| Maturity (years)  |              | 5          |              | 5          |
| Reference price (euros)   |              | 78.82      |              | 103.59     |
| Subscription price (euros)                                      |              | 67.00      |              | 88.06      |
| Discount  | 15.00%       |            | 15.00%       |            |
| Amount subscribed by employees (millions of euros)              |              | 8.9        |              | 14.2       |
| Total amount subscribed (millions of euros)                     |              | 88.6       |              | 142.2      |
| Total number of shares subscribed (millions of shares)          |              | 1.3        |              | 1.6        |
| <b>Valuation assumptions</b>                                    |              |            |              |            |
| Interest rate available to market participant (bullet loan) (1) | 6.90%        |            | 5.97%        |            |
| Five-year risk-free interest rate (euro zone)                   | 5.20%        |            | 4.47%        |            |
| Annual dividend rate  | 4.50%        |            | 3.00%        |            |
| Annual interest rate (repo)                                     | 1.15%        |            | 0.95%        |            |
| Retail/institutional volatility spread                          | 5.00%        |            | 5.00%        |            |
| (a) Value of the discount                                       | 15.00%       | 15.6       | 15.00%       | 25.1       |
| (b) Value of the lock-up period for market participant          | 13.69%       | 14.2       | 11.85%       | 19.8       |
| (c) Value of the opportunity gain (2)                           | 2.69%        | 2.8        | 2.54%        | 4.3        |
| <b>Total expense for the Group (a-b+c)</b>                      | <b>3.99%</b> | <b>4.1</b> | <b>5.69%</b> | <b>9.5</b> |
| <b>Sensitivity</b>  |              |            |              |            |
| - Decrease in interest rate for market participant (3)          | (0.50%)      | 1.35       | (0.50%)      | 1.89       |
| - Increase in retail/institutional volatility spread (4)        | 0.50%        | 0.22       | 0.50%        | 0.42       |

(1) Average interest rate charged by banks for an ordinary, non-revolving personal loan with a maximum maturity of five years granted to an individual with an average credit rating.

(2) Calculated using a binomial model.

(3) A decline in the interest rate for market participants reduces the lock-up cost and increases the expense booked by the issuer.

(4) An increase in the retail/institutional volatility spread increases the opportunity gain for the employee and increases the expense booked by the issuer.

### 13.6 Treasury stock

A share buyback program was authorized by shareholders at the Annual Meeting on May 6, 1999, and renewed at the Annual Meetings held on May 5, 2000, June 11, 2001, May 27, 2002, May 16, 2003, May 6, 2004, May 12, 2005, May 3, 2006, April 26, 2007 and April 21, 2008. The latest authorized program provides for the purchase of a maximum of 10% of the share capital within a period of up to eighteen months from April 21, 2008.

The purpose of the program may be to reduce share capital, cover stock option and stock grant plans, achieve external growth transactions, or optimize the stock market.

The Company set up a liquidity contract under which the financial intermediary bought 4,317,497 shares at an average price of €66.40 and sold 3,873,024 shares at an average price of €68.04.

At December 31, 2008, the Group held 7,508,889 Schneider Electric shares in treasury stock, acquired at a cost of €354 million, which has been recorded as a deduction from retained earnings.

### 13.7 Other reserves

Changes in other reserves were as follows:

|  | Gains and losses from remeasurement at fair value |                           |                                     | Actuarial gains and losses | Total        |
|--|---|---------------------------|-------------------------------------|----------------------------|--------------|
|  | Currency instruments and interest                 | Hedges of metal purchases | Available-for-sale financial assets |                            |              |
| <b>December 31, 2007</b>   | (173)   | (6)                       | 140                                 | 42                         | <b>3</b>     |
| - Unrealized net gains (losses) on available-for-sale financial assets | -   | -                         | (97)                                | -                          | (97)         |
| - Net gains (losses) on currency instruments                           | 44  | -                         | -                                   | -                          | 44           |
| - Net gains (losses) on interest rate hedges                           | (35)  | -                         | -                                   | -                          | (35)         |
| - Net gains (losses) on metal purchases                                | -   | (59)                      | -                                   | -                          | (59)         |
| - Net gains (losses) on post-retirement benefits                       | -   | -                         | -                                   | (271)                      | (271)        |
| - Other  | -   | -                         | -                                   | -                          | (6)          |
| <b>December 31, 2008</b>   | (164)   | (65)                      | 43                                  | (229)                      | <b>(421)</b> |

The main changes for the period stemmed from fair value adjustments to hedging instruments (note 19) and to AXA shares (note 7) and changes in actuarial gains and losses (note 14).

### Note 14 - Pensions and other post-employment benefit obligations

The Group has set up various post-employment benefit plans for employees covering pensions, termination benefits, healthcare, life insurance and other benefits, as well as long-term benefit plans for active employees, primarily in France.

Actuarial valuations are generally performed each year. The assumptions used vary according to the economic conditions prevailing in the country concerned, as follows:

|   | Weighted average rate |      | Of which US plans |      |
|---|-----------------------|------|-------------------|------|
|   | 2008                  | 2007 | 2008              | 2007 |
| Discount rate                                 | 5.4%                  | 5.6% | 5.8%              | 6.0% |
| Rate of compensation increases                | 3.9%                  | 3.8% | 4.5%              | 4.5% |
| Expected return on plan assets <sup>(1)</sup> | 7.8%                  | 7.7% | 9.0%              | 9.0% |

<sup>(1)</sup> corresponding to the 2008 and 2007 rates.

The discount rate is determined on the basis of the interest rate for investment-grade (AA) corporate bonds or, in the event a liquid market does not exist, government bonds with a maturity that matches

the duration of the benefit obligation (reference: Bloomberg). In the United States, the average discount rate is determined on the basis of a yield curve for investment-grade (AA and AAA) corporate bonds. These benchmarks, which are the same as those used in previous years, comply with IAS 19.

The expected return on plan assets is determined on the basis of the weighted average expected return and the total asset value. In the United States, the expected return on plan assets for 2009 is 8.5%.

The discount rate currently stands at 5.3% in the euro zone, 5.8% in the United States and 6.4% in the United Kingdom.

A 0.5-point increase in the discount rate would reduce pension and termination benefit obligations by around €101 million and the service cost by €2 million. A 0.5-point decrease would increase pension and termination benefit obligations by €111 million and the service cost by €1 million.

The post-employment healthcare obligation mainly concerns the United States. A one-point increase in healthcare costs would increase the post-employment healthcare obligation by €44 million and the sum of the service cost and interest cost by €3 million. A one-point decrease in healthcare costs would decrease the post-employment healthcare obligation by €31 million and the sum of the service cost and interest cost by €2 million.

In 2008, the rate of healthcare cost increases in the United States was expected to decline from 9% in 2009 to 5% in 2013. This compares with the previous year's forecast of 9% in 2008 and 5% in 2012. The rate in France was estimated at 4.5% in 2008 and 2007.

### **Pension and termination benefit obligations**

Pension and termination benefit obligations primarily concern the Group's North American and European subsidiaries. These plans feature either a lump-sum payment on the employee's retirement or regular pension payments after retirement. The amount is based on years of service, grade and end-of-career salary. They also include top-hat payments granted to certain senior executives guaranteeing supplementary retirement income beyond that provided by general, mandatory pension schemes.

The majority of benefit obligations under these plans, which represent 75% of the Group's total commitment or €1,523 million at December 31, 2008, are partially or fully funded through payments to external funds. These funds are not invested in Group assets.

External funds are invested in equities (around 46%), bonds (around 33%) and real estate or cash (around 21%).

Contributions amounted to €18 million in 2008 and are estimated at €19 million for 2009. In 2008, the two funds in France refunded €46 million in contributions to the Group. These refunds are reported as a deduction from contributions for the period.

At December 31, 2008, provisions for pensions and termination benefits totaled €1,026 million, compared with €597 million in 2007. These provisions have been included in non-current liabilities, as the current portion was not considered material in relation to the total liability.

Payments made under defined contribution plans are recorded in the income statement in the year of payment and are in full settlement of the Group's liability. Defined contribution plan payments totaled €42 million in 2008 and €43 million in 2007.

The Group has opted not to evaluate the possible impact of Article 11 of France's 2008 *Accord National Interprofessionnel* concerning the special termination benefit payable in the case of voluntary early retirement due to the various possible interpretations on its application. The expected potential effects of application are not material in relation to the Group's commitments.

### **Other post-employment benefits, including healthcare and life insurance, and other long-term benefits**

The North American subsidiaries pay certain healthcare costs and provide life insurance benefits to retired employees who fulfill certain criteria in terms of age and years of service. These post-employment benefit obligations are unfunded.



Healthcare coverage for North American employees represents 84% of this obligation. In September 2008, one of these plans was amended by changing the contributions and terms of eligibility. The effect of this plan amendment, which reduced the obligation by around \$9 million (€6 million), is being reflected in the income statement over the vesting period, with €2 million recognized in 2008 for vested rights and €4 million to be recognized over the next twelve years.

The assumptions used to determine post-employment benefit obligations related to healthcare and life insurance are the same as those used to estimate pension benefit obligations in the country concerned.

Other benefit obligations include healthcare coverage plans in Europe, for €38 million, and long-service awards due by subsidiaries in France, for €10 million.

At December 31, 2008, provisions for these benefit obligations totaled €436 million, compared with €399 million in 2007. These provisions have been included in non-current liabilities, as the current portion was not considered material in relation to the total liability.

#### 14.1 Changes in provisions for pensions and other post-employment benefit obligations

Changes in provisions for pensions and other post-employment benefit obligations (net of plan assets) were as follows:

|  | Pensions and termination benefits | Of which US plans (Square D) | Other post-employment and long-term benefits | Of which US plans (Square D) | Provisions for pensions and other post-employment benefits |
|--|-----------------------------------|------------------------------|--|------------------------------|--|
| <b>Dec. 31, 2006 *</b>                         | <b>617</b>                        | <b>30</b>                    | <b>517</b>                                   | <b>445</b>                   | <b>1,134</b>   |
| Net cost recognized in the statement of income | 47                                | (7)                          | 23   | 20                           | 70   |
| Benefits paid                                  | (42)                              | 0                            | (26)   | (22)                         | (68)   |
| Plan participants' contributions               | (26)                              | (1)                          | -  | -                            | (26)   |
| Items recognized in equity                     | (26)                              | 41                           | (77)   | (60)                         | (103)  |
| Translation adjustment                         | (8)                               | (5)                          | (39)   | (39)                         | (47)   |
| Changes in the scope of consolidation          | 13                                | 0                            | -  | -                            | 13   |
| Other changes                                  | (10)                              | 0                            | 1  | (1)                          | (9)  |
| <b>Dec. 31, 2007 *</b>                         | <b>565</b>                        | <b>58</b>                    | <b>399</b>                                   | <b>343</b>                   | <b>964</b>   |
| Net cost recognized in the statement of income | 55                                | 1                            | 21   | 15                           | 76   |
| Benefits paid                                  | (35)                              | 0                            | (24)   | (19)                         | (59)   |
| Plan participants' contributions               | 28                                | (1)                          | 0  | 0                            | 28   |
| Items recognized in equity **                  | 415                               | 321                          | 21   | 10                           | 436  |
| Translation adjustment                         | 7                                 | 21                           | 17   | 18                           | 24   |
| Changes in the scope of consolidation          | -                                 | -                            | -  | -                            | -  |
| Other changes                                  | (8)                               | 1                            | 2  | 3                            | (6)  |
| <b>Dec. 31, 2008</b>                           | <b>1,027</b>                      | <b>401</b>                   | <b>436</b>                                   | <b>370</b>                   | <b>1,463</b>   |

\* Including €25 million and €32 million in pension assets recognized under "Other financial assets" in 2006 and 2007, respectively.

\*\* Including €9 million and €(7) million of asset ceiling in 2007 and 2008, respectively.

Changes in gross items recognized in equity were as follows:

|  | Pensions and<br>termination<br>benefits | Other post-<br>employment<br>and long-term<br>benefits | <b>Provisions<br/>for pensions<br/>and other<br/>post-<br/>employment<br/>benefits</b> |
|--|---|--|--|
| <b>Dec. 31, 2006</b>                                     | <b>66</b>                               | <b>(8)</b>   | <b>58</b>  |
| Actuarial (gains)/losses on projected benefit obligation | (39)                                    | (77)   | (116)  |
| Actuarial (gains)/losses on plan assets                  | 3                                       | -  | 3  |
| Effect of the asset ceiling                              | 10                                      | -  | 10   |
| <b>Dec. 31, 2007</b>                                     | <b>40</b>                               | <b>(85)</b>  | <b>(45)</b>  |
| Actuarial (gains)/losses on projected benefit obligation | 28                                      | 21   | 49   |
| Actuarial (gains)/losses on plan assets                  | 385                                     | -  | 385  |
| Effect of the asset ceiling                              | 2                                       | -  | 2  |
| <b>Dec. 31, 2008</b>                                     | <b>455</b>                              | <b>(64)</b>  | <b>391</b>   |

#### 14.2 Provisions for pensions and termination benefit obligations

Annual changes in obligations, the market value of plan assets and the corresponding assets and provisions recognized in the consolidated financial statements can be analyzed as follows:

|   | Dec. 31, 2008 |   | Dec. 31, 2007 |   |
|---|---------------|---|---------------|---|
|   |               | <i>Of which<br/>US plans<br/>(Square D)</i> |               | <i>Of which<br/>US plans<br/>(Square D)</i> |
| <i>1. Reconciliation of balance sheet items</i>           |               |   |               |   |
| Pension assets  | 0             | -   | 32            | 26  |
| Provisions for pensions and other post-employment benefit | (1,027)       | (401)                                       | (597)         | (84)  |
| Net Asset/(Liability) recognized in the balance sheet     | (1,027)       | (401)                                       | (565)         | (58)  |

|  | Dec. 31, 2008 |   | Dec. 31, 2007 |   |
|--|---------------|---|---------------|---|
|  |               | <i>Of which<br/>US plans<br/>(Square D)</i> |               | <i>Of which<br/>US plans<br/>(Square D)</i> |
| <i>2. Components of net cost recognized in the statement of income</i> |               |   |               |   |
| Service cost   | 54            | 17  | 54            | 18  |
| Interest cost (impact of discounting)                                  | 102           | 52  | 99            | 50  |
| Expected return on plan assets   | (104)         | (73)  | (106)         | (75)  |
| Past service cost  | 5             | 5   | 1             | 0   |
| Curtailments and settlements   | (2)           | -   | (1)           | -   |
| Net cost recognized in the statement of income                         | 55            | 1   | 47            | (7)   |

|   | Dec. 31, 2008 |   | Dec. 31, 2007 |   |
|---|---------------|---|---------------|---|
|   |               | <i>Of which<br/>US plans<br/>(Square D)</i> |               | <i>Of which<br/>US plans<br/>(Square D)</i> |
| <i>3. Change in projected benefit obligation</i>  |               |   |               |   |
| Projected benefit obligation at beginning of year | 1,958         | 879   | 2,035         | 918   |
| Service cost                                      | 54            | 17  | 54            | 18  |
| Interest cost (impact of discounting)             | 102           | 52  | 99            | 50  |
| Plan participants' contributions                  | 3             | -   | 5             | -   |
| Benefits paid                                     | (94)          | (38)  | (101)         | (39)  |
| Actuarial (gains)/losses recognized in equity     | 28            | 42  | (39)          | 33  |
| Modification of pension plan                      | 6             | 5   | (1)           | -   |
| Changes in the scope of consolidation             | -             | -   | 41            | -   |
| Translation adjustments                           | (28)          | 55  | (129)         | (101)                                       |
| Curtailments and settlements                      | (3)           | -   | (5)           | -   |
| Other   | 10            | 1   | (1)           | -   |
| Projected benefit obligation at end of year       | 2,036         | 1,013                                       | 1,958         | 879   |

Actuarial gains and losses have been fully recognized in "Other reserves" (note 13.7).

They stem mainly from changes in actuarial assumptions (primarily discount rates) used to measure obligations in the United States, the United Kingdom and the euro zone.

Actuarial losses related to experience adjustments amounted to €445 million for the Group at December 31, 2008 and €36 million at December 31, 2007. At December 31, 2006, actuarial gains and losses related to experience adjustments amounted to €2 million in the United States and the United Kingdom.

|  | Dec. 31, 2008 |   | Dec. 31, 2007 |   |
|--|---------------|---|---------------|---|
|  |               | <i>Of which<br/>US plans<br/>(Square D)</i> |               | <i>Of which<br/>US plans<br/>(Square D)</i> |
| <b>4. Change in fair value of plan assets</b>  |               |   |               |   |
| Fair value of plan assets at beginning of year | 1,402         | 820   | 1,418         | 887   |
| Expected return on plan assets                 | 104           | 73  | 106           | 75  |
| Plan participants' contributions               | 3             | -   | 5             | -   |
| Employer contributions                         | (28)          | 1   | 26            | 1   |
| Benefits paid                                  | (59)          | (38)  | (59)          | (39)  |
| Actuarial gains/(losses) recognized in equity  | (385)         | (279)                                       | (3)           | (8)   |
| Changes in the scope of consolidation          | (1)           | -   | 28            | -   |
| Translation adjustments                        | (35)          | 34  | (121)         | (96)  |
| Curtailments and settlements                   |               | -   | (4)           | -   |
| Other  | 9             | -   | 6             | -   |
| Fair value of plan assets at end of year       | 1,010         | 611   | 1,402         | 820   |

The actual return on plan assets was a negative €281 million.

Actuarial gains and losses have been fully recognized in "Other reserves" (note 13.7). They stem primarily from differences between the actual and expected return on plan assets in the United States, the United Kingdom and Canada.

|   | Dec. 31, 2008 |                         | Dec. 31, 2007 |                         |
|---|---------------|-------------------------|---------------|-------------------------|
|   |               | <i>o/w US<br/>plans</i> |               | <i>o/w US<br/>plans</i> |
| <b>5. Funded status</b>                               |               |                         |               |                         |
| Projected benefit obligation                          | (2,036)       | (1,013)                 | (1,958)       | (879)                   |
| Fair value of plan assets                             | 1,010         | 611                     | 1,402         | 820                     |
| Effect of the asset ceiling                           | (2)           | -                       | (10)          | -                       |
| <i>Deferred items:</i>                                |               |                         |               |                         |
| Unrecognized past service cost                        | 1             | 1                       | 1             | 1                       |
| Net Asset/(Liability) recognized in the balance sheet | (1,027)       | (401)                   | (565)         | (58)                    |

### 14.3 Provisions for other post-employment benefits

Changes in provisions for other post-employment and long-term benefits were as follows:

|  | Dec. 31, 2008 | Dec. 31, 2007 |
|--|---------------|---------------|
| <b>1. Components of net cost recognized in the statement of income</b> |               |               |
| Service cost   | 6             | 6             |
| Interest cost (impact of discounting)                                  | 21            | 21            |
| Expected return on plan assets   | -             | -             |
| Past service cost  | (5)           | (4)           |
| Curtailments and settlements   | -             | -             |
| Amortization of actuarial gains & losses                               | (1)           | -             |
| Net cost recognized in the statement of income                         | 21            | 23            |

Amortization of actuarial gains and losses concern long-term benefits for active employees, notably long service awards in France.

|  | Dec. 31, 2008 | Dec. 31, 2007 |
|--|---------------|---------------|
| <b>2. Change in projected benefit obligation</b>   |               |               |
| Projected benefit obligation at beginning of year  | 366           | 477           |
| Service cost                                       | 5             | 6             |
| Interest cost (effect of discounting)              | 21            | 21            |
| Plan participants' contribution                    | 1             | 2             |
| Benefits paid                                      | (24)          | (26)          |
| Actuarial (gains)/losses recognized in equity      | 21            | (77)          |
| Past service cost                                  | (6)           |               |
| Changes in the scope of consolidation              | -             | -             |
| Translation adjustments                            | 17            | (39)          |
| Other (including curtailments and settlements)     | -             | 2             |
| <b>Projected benefit obligation at end of year</b> | <b>401</b>    | <b>366</b>    |

Actuarial gains and losses have been fully recognized in "Other reserves" (note 13.7). The only exception concerns long-term benefits for active employees (notably long service awards in France), for which part of the actuarial gain or loss is recognized in the income statement. Actuarial gains and losses stem from changes in actuarial assumptions (primarily discount rates).

Actuarial gains related to experience adjustments amounted to €10 million at December 31, 2008 for the Group, compared with a €59 million loss at December 31, 2007.

|  | Dec. 31, 2008 | Dec. 31, 2007 |
|--|---------------|---------------|
| <b>3. Funded status</b>                          |               |               |
| Projected benefit obligation                     | 401           | 366           |
| <i>Deferred items:</i>                           |               |               |
| Unrecognized past service cost                   | 35            | 33            |
| <b>Provision recognized in the balance sheet</b> | <b>436</b>    | <b>399</b>    |

## Note 15 - Provisions for contingencies

|   | Economic risks | Customer risks | Product risks | Environmental risks | Restructuring | Other risks | <b>Provisions</b> |
|---|----------------|----------------|---------------|---------------------|---------------|-------------|-------------------|
| <b>Dec. 31, 2006</b>                            | <b>161</b>     | <b>57</b>      | <b>145</b>    | <b>44</b>           | <b>85</b>     | <b>78</b>   | <b>570</b>        |
| <i>Long-term portion</i>                        | <i>84</i>      | <i>50</i>      | <i>35</i>     | <i>32</i>           | <i>15</i>     | <i>67</i>   | <i>283</i>        |
| Additions                                       | 152            | 5              | 52            | 2                   | 39            | 35          | 285               |
| Discounting effect                              | 0              | -              | 0             | 0                   | 0             | 0           | 0                 |
| Utilizations                                    | (28)           | (5)            | (42)          | (4)                 | (62)          | (17)        | (158)             |
| Reversals of surplus provisions                 | (17)           | 0              | (14)          | (1)                 | (1)           | (3)         | (36)              |
| Translation adjustments                         | 0              | (5)            | (7)           | (1)                 | (1)           | (6)         | (20)              |
| Changes in the scope of consolidation and other | 41             | 1              | 31            | 3                   | (4)           | (3)         | 69                |
| <b>Dec. 31, 2007</b>                            | <b>309</b>     | <b>53</b>      | <b>165</b>    | <b>43</b>           | <b>56</b>     | <b>84</b>   | <b>710</b>        |
| <i>Long-term portion</i>                        | <i>85</i>      | <i>45</i>      | <i>25</i>     | <i>30</i>           | <i>7</i>      | <i>72</i>   | <i>264</i>        |
| Additions                                       | 64             | 10             | 68            | 1                   | 122           | 40          | 305               |
| Discounting effect                              | 0              | -              | 0             | 0                   | 0             | 1           | 1                 |
| Utilizations                                    | (52)           | (10)           | (40)          | (2)                 | (41)          | (18)        | (163)             |
| Reversals of surplus provisions                 | (31)           | (10)           | (10)          | -                   | (8)           | (5)         | (64)              |
| Translation adjustments                         | 2              | 1              | 2             | (1)                 | (3)           | 1           | 2                 |
| Changes in the scope of consolidation and other | 32             | (16)           | 22            | 2                   | 6             | 3           | 49                |
| <b>Dec. 31, 2008</b>                            | <b>324</b>     | <b>28</b>      | <b>207</b>    | <b>43</b>           | <b>132</b>    | <b>106</b>  | <b>840</b>        |
| <i>Long-term portion</i>                        | <i>121</i>     | <i>24</i>      | <i>49</i>     | <i>30</i>           | <i>11</i>     | <i>67</i>   | <i>302</i>        |

### (a) Economic risks

These include tax risks arising from tax audits performed by various local tax administrations and financial risks arising primarily on guarantees given to third parties in relation to certain assets and liabilities.

During the year, the Group set aside provisions in an amount of €30 million to cover information systems contracts. At the same time, the Group used €21 million in provisions set aside in previous years and reversed a further €20 million, for a total of €41 million.

**(b) Customer risks**

These provisions primarily concern liability claims arising from alleged defects in products sold to customers and other third parties and are determined on a case-by-case basis. They also cover projected losses on various long-term contracts in an amount of €6 million.

Provision reversals primarily concerned customer rebates paid during the year and reassessments of customer risks in the United States.

**(c) Product risks**

These provisions comprise:

- Provisions recorded on a statistical basis for the residual cost of product warranties not covered by insurance. Such warranties may run up to 18 months.
- Provisions to cover disputes concerning defective products and recalls of clearly identified products.

**(d) Environmental risks**

These provisions are primarily set aside to cover potential reclamation costs.

**(e) Restructuring**

New provisions were set aside during the year to cover the costs of restructuring plans in Europe and the United States (note 24).

**Note 16 - Long and short-term debt**

Non current financial liabilities break down as follows:

|   | <b>Dec. 31, 2008</b> | <b>Dec. 31, 2007</b> |
|---|----------------------|----------------------|
| Convertible and non-convertible bonds                       | 3,477                | 3,946                |
| Bank and other borrowings                                   | 1,318                | 669                  |
| Lease liabilities   | 19                   | 20                   |
| Employee profit sharing                                     | 6                    | 5                    |
| Short-term portion of convertible and non-convertible bonds | (110)                | (749)                |
| Short-term portion of long-term debt                        | (71)                 | (105)                |
| <b>Non current financial liabilities</b>                    | <b>4,639</b>         | <b>3,786</b>         |

Current financial liabilities break down as follows:

|   | <b>Dec. 31, 2008</b> | <b>Dec. 31, 2007</b> |
|---|----------------------|----------------------|
| Commercial paper  | 190                  | -                    |
| Accrued interest  | 106                  | 80                   |
| Drawdown of funds from lines of credit                      | 752                  | 1,158                |
| Bank overdrafts   | 135                  | 110                  |
| Other short-term borrowings                                 | 202                  | 199                  |
| Short-term portion of convertible and non-convertible bonds | 110                  | 749                  |
| Short-term portion of long-term debt                        | 71                   | 105                  |
| <b>Current financial liabilities</b>                        | <b>1,566</b>         | <b>2,401</b>         |
| <b>Total current and non current financial liabilities</b>  | <b>6,205</b>         | <b>6,187</b>         |

### 16.1 Breakdown by maturity

|                 | Dec. 31, 2008 |              |           | Dec. 31, 2007 |     |
|-----------------|---------------|--------------|-----------|---------------|-----|
|                 | Nominal       | Interest     | Swaps     | Nominal       |     |
| 2008            |               |              |           | 2,401         |     |
| 2009            | 1,566         | 205          | 22        | 142           |     |
| 2010            | 1,016         | 183          | 16        | 948           |     |
| 2011            | 778           | 156          | 10        | 549           |     |
| 2012            | 60            | 139          | 6         | 56            |     |
| 2013            | 548           | 132          | 4         | 2,091         | (*) |
| 2014 and beyond | 2,237         | 192          | 2         |               |     |
| <b>Total</b>    | <b>6,205</b>  | <b>1,007</b> | <b>60</b> | <b>6,187</b>  |     |

(\*) : 2013 and beyond

### 16.2 Breakdown by currency

|                    | Dec. 31, 2008 | Dec. 31, 2007 |
|--------------------|---------------|---------------|
| Euro               | 4,749         | 4,907         |
| US dollar          | 1,084         | 1,049         |
| Indian rupee       | 53            | 72            |
| New Zealand dollar | 1             | 0             |
| Japanese yen       | 159           | 24            |
| Other              | 159           | 135           |
| <b>Total</b>       | <b>6,205</b>  | <b>6,187</b>  |

### 16.3 Ordinary bonds

|                            | Dec. 31, 2008 | Dec. 31, 2007 | Effective interest rate | Maturity |
|----------------------------|---------------|---------------|-------------------------|----------|
| Schneider Electric SA 2008 | -             | 749           | 3.875% fixed            | Oct 2008 |
| Schneider Electric SA 2009 | 110           | 109           | 3.375% fixed            | Jan 2009 |
| Schneider Electric SA 2010 | 899           | 899           | 3.125% fixed            | Aug 2010 |
| Schneider Electric SA 2011 | 499           | 499           | EUR + 0.2% variable     | Jul 2011 |
| Schneider Electric SA 2013 | 100           |               | CMS 10+1%               | Jul 2013 |
| Schneider Electric SA 2014 | 498           | 497           | 4.500% fixed            | Jan 2014 |
| Schneider Electric SA 2015 | 593           | 598           | 5.375% fixed            | Jan 2015 |
| Schneider Electric SA 2016 | 26            |               | EUR + 0.6% variable     | Jul 2016 |
| Schneider Electric SA 2017 | 752           | 595           | 4.000% fixed            | Aug 2017 |
| <b>Total</b>               | <b>3,477</b>  | <b>3,946</b>  |                         |          |

Schneider Electric SA has made several bond issues as part of its Euro Medium Term notes (EMTN) program over the past few years. Issues that were not yet due as of December 31, 2008 were as follows:

- €100 million worth of bonds indexed to the Constant Maturity Swap (CMS) rate, issued in July 2008 and due July 31, 2013.
- €180 million worth of bonds issued in April 2008 to top up the €600 million twelve-year tranche at 4% issued in August 2005, raising the total issue to €780 million.
- €26 million corresponding to the discounted present value of future interest payments on a €177 million 8-year bond issue (July 25, 2008 to July 25, 2016) indexed to the 3-month Euribor. The nominal value of the bonds is not recognized in debt because the bond holder has waived its right to repayment of the principal in exchange for the transfer by Schneider Electric, on a no-recourse basis, of the future cash flows corresponding to the requested refund of a tax receivable.
- €600 million worth of 5.375% bonds issued in October 2007 and due October 8, 2015.
- €110 million worth of 3.275% bonds issued in January 2007 and due January 26, 2009.
- €1 billion worth of bonds issued in July 2006, comprising a €500 million 5-year variable rate tranche and a €500 million 7 ½-year 4.5% tranche.
- €1.5 billion worth of bonds issued in August 2005, comprising a €900 million 5-year tranche at 3.125% and a €600 million 12-year tranche at 4%.

These bonds are traded on the Luxembourg stock exchange. The issue premium and issue costs are amortized according to the effective interest method.

Lastly, the Group redeemed €750 million worth of October 2003 bonds at maturity on October 31, 2008.

#### 16.4 Other information

At December 31, 2008, Schneider Electric had confirmed credit lines of €3 billion, of which €2.3 billion was unused. In addition, the Group has access to a \$300 million in bank financing available from January 15, 2009.

Loan agreements and committed credit lines do not include any financial covenants nor credit rating triggers.

#### Note 17 - Other non-current liabilities

|  | Dec. 31, 2008 | Dec. 31, 2007 |
|--|---------------|---------------|
| Clipsal acquisition debt                   | 12            | 54            |
| Delixi Electric acquisition debt           | -             | 15            |
| Elite Engineering Limited acquisition debt | -             | 1             |
| Din Elektro Kraft acquisition debt         | -             | 1             |
| Other                                      | 8             | 6             |
| <b>Other non-current liabilities</b>       | <b>20</b>     | <b>77</b>     |

The agreement for the acquisition of Clipsal includes a seller's warranty providing for part of the acquisition price to be withheld. This amount has been placed in escrow (note 7.2).

#### Note 18 - Commitments and contingent liabilities

##### 18.1 Guarantees given and received

|   | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---------------|---------------|
| Contract counterguarantees <sup>(1)</sup> | 303           | 207           |
| Mortgages and collateral <sup>(2)</sup>   | 23            | 24            |
| Guarantees                                | 0             | 2             |
| Other commitments given <sup>(3)</sup>    | 123           | 189           |
| <b>Guarantees given</b>                   | <b>449</b>    | <b>422</b>    |
| Other guarantees received                 | 53            | 43            |
| <b>Guarantees received</b>                | <b>53</b>     | <b>43</b>     |

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

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

(3) Other guarantees given comprise guarantees to certain lessors that rental payments will be made until the end of the lease.

##### 18.2 Purchase commitments

###### • Shares in subsidiaries and affiliates

Commitments to purchase equity investments correspond to put options given to minority shareholders in consolidated companies or relate to earn-out payments. The amount of these commitments was not material at December 31, 2008.



- **Information technology services**

In 2004, the Group signed an agreement with Capgemini to outsource its European IT functions and to develop and deploy shared management applications using SAP in Europe. The first pilot version was deployed in India in April 2007 and a second version was rolled out in several European countries in mid-2008. The global system will be deployed across the Group from 2009 onwards.

Payments to Capgemini replace the cost of the IT function, which was previously managed internally. In early 2006, the duration of the reciprocal commitments between Capgemini and Schneider Electric was extended from ten to twelve years.

In 2008, IT operations in certain European countries and network operations were brought back in house with a view to continuously improving quality and cost effectiveness for both parties.

The 2008 expense related to this outsourcing agreement contractually amounted to €133 million, including volume and indexation effects provided for in the contract. This compares with €147 million in 2007.

Schneider Electric capitalized development costs relating to the SAP contract in a net amount of €155 million at end-2008.

### 18.3 Contingent liabilities

Management is confident that balance sheet provisions for known disputes in which the Group is involved are sufficient to ensure that these disputes do not have a material impact on its financial position or profit. This is notably the case for the potential consequences of a current dispute in Belgium involving former senior executives and managers of the Group.

The Group has also signed an agreement concerning statutory employee training rights in France (DIF). In accordance with French national accounting board (CNC) opinion 2004-F, the related costs are treated as an expense for the period when the training is received and no provision is set aside in the periods when the training rights accrue. As of December 31, 2008, accrued rights corresponded to around 900,000 hours.

## Note 19 - Financial instruments

The Group uses financial instruments to manage its exposure to fluctuations in interest rates, exchange rates and metal prices. Exposure to these risks is described in the chapter on Risk Factors in the Registration Document.

### 19.1 Carrying amount and nominal amount of derivative financial instruments

|  | IFRS Designation | Dec. 31, 2007   |                              | Dec. 31, 2008 |             | Dec. 31, 2008   |                              |
|--|------------------|-----------------|------------------------------|---------------|-------------|-----------------|------------------------------|
|  |                  | Carrying amount | Other income and expense (1) | Equity (2)    | Other       | Carrying amount | Nominal amount Purchase Sale |
| <b>Foreign exchange</b>                  |                  |                 |                              |               |             |                 |                              |
| Futures - cash flow hedges               | CFH*             | 16              | (64)                         | -             | 9           | (39)            | 1,018 -                      |
| Futures - hedges of balance sheet items  | Trading          | 25              | 24                           | -             | (24)        | 25              | 1,122 1,060                  |
| <b>Metal prices</b>                      |                  |                 |                              |               |             |                 |                              |
| Futures and options                      | CFH*             | (9)             | -                            | (89)          | -           | (98)            | 175 -                        |
| <b>Interest rates</b>                    |                  |                 |                              |               |             |                 |                              |
| Swaps on credit lines                    | CFH*/FVH*        | (1)             | (1)                          | (53)          | -           | (55)            | 1,178 -                      |
| <b>Derivatives financial instruments</b> |                  | <b>31</b>       | <b>(41)</b>                  | <b>(142)</b>  | <b>(15)</b> | <b>(167)</b>    | - -                          |

\* Cash flow hedge / Fair value hedge

(1) Gains and losses on hedging instruments for the period are offset by changes in the fair value of the underlying, which are also recognized in "Other financial income and expense".

(2) Reported in equity under "Other reserves".

The market value of financial instruments, which corresponds to their carrying amount, is estimated either internally by discounting future differential cash flows at current market interest rates or by third party banks.

## 19.2 Carrying amount and fair value of financial instruments other than derivatives

|  | Dec. 31, 2008                  |                | Dec. 31, 2007                  |                |
|--|--------------------------------|----------------|--------------------------------|----------------|
|  | Notional amount <sup>(1)</sup> | Fair value     | Notional amount <sup>(1)</sup> | Fair value     |
| Available-for-sale financial assets                | 200                            | 200            | 323                            | 323            |
| Other non-current financial assets                 | 113                            | 113            | 124                            | 124            |
| Marketable securities                              | 997                            | 997            | 511                            | 511            |
| Bonds  | (3,477)                        | (3,414)        | (3,946)                        | (3,796)        |
| Other short and long-term debt                     | (2,728)                        | (2,728)        | (2,241)                        | (2,241)        |
| <b>Financial instruments excluding derivatives</b> | <b>(4,895)</b>                 | <b>(4,832)</b> | <b>(5,229)</b>                 | <b>(5,079)</b> |

(1) the notional amount corresponds to either amortized cost or fair value.

## 19.3 Currency risk

### Forward hedging positions by currency

|              | Dec. 31, 2008 |                |             |
|--------------|---------------|----------------|-------------|
|              | Sales         | Purchases      | Net         |
| USD          | 500           | (730)          | (230)       |
| SEK          | 82            | (57)           | 25          |
| DKK          | 194           | (91)           | 103         |
| RUB          | 24            | (1)            | 23          |
| HUF          | 77            | (5)            | 72          |
| AUD          | 17            | (29)           | (12)        |
| CZK          | 25            | (9)            | 16          |
| JPY          | -             | (43)           | (43)        |
| AED          | 6             | (14)           | (8)         |
| GBP          | 37            | (46)           | (9)         |
| HKD          | 27            | (17)           | 10          |
| Other        | 71            | (80)           | (9)         |
| <b>Total</b> | <b>1,060</b>  | <b>(1,122)</b> | <b>(62)</b> |

Forward currency hedging positions include €222 million loss in hedges of intragroup loans and borrowings (net purchases) and €160 million in hedges of operating cash flows (net sales).

## 19.4 Impact of financial instruments

| December 31, 2008                                | Impact on financial income and expense | Impact on Equity |                        |        |
|--|--|------------------|------------------------|--------|
|  |  | Fair value       | Translation adjustment | Others |
| Available-for-sale financial assets              | 33                                     | (113)            | 5                      |        |
| Loans and accounts receivable                    | 59                                     |                  | (39)                   |        |
| Financial liabilities measured at amortized cost | (321)                                  |                  | (20)                   |        |
| Derivative instruments                           | (12)                                   | (136)            | (4)                    |        |
| <b>Total</b>                                     | <b>(241)</b>                           | <b>(249)</b>     | <b>(58)</b>            |        |

| December 31, 2007                                | Impact on financial income and expense | Impact on Equity |                        |            |
|--|--|------------------|------------------------|------------|
|  |  | Fair value       | Translation adjustment | Others     |
| Available-for-sale financial assets              | 12                                     | (32)             | 1                      |            |
| Loans and accounts receivable                    | 133                                    |                  | (50)                   | (5)        |
| Financial liabilities measured at amortized cost | (380)                                  |                  | (150)                  | 2          |
| Derivative instruments                           | 41                                     | 52               |                        |            |
| <b>Total</b>                                     | <b>(194)</b>                           | <b>20</b>        | <b>(199)</b>           | <b>(3)</b> |

The impact of financial instruments, by category, on profit and equity was as follows:

- The main impact on profit concerned interest income and expense.
- The impact on equity primarily stemmed from the measurement of available-for-sale financial assets and derivative instruments at fair value and from translation adjustments to foreign currency loans, receivables and liabilities.

### 19.5 Maturities of financial assets and liabilities

|                                    | Up to 1 year | 1 to 5 years   | > 5 years      |
|------------------------------------|--------------|----------------|----------------|
| Financial liabilities              | (1 566)      | (2 402)        | (2 237)        |
| Financial assets                   | 1 652        | 157            | -              |
| <b>Net position before hedging</b> | <b>86</b>    | <b>(2 245)</b> | <b>(2 237)</b> |

### 19.6 Balance sheet amounts for financial instruments by category

| ASSETS                               | Dec. 31, 2008  |              | Breakdown by category                     |                             |  |                        |
|--------------------------------------|----------------|--------------|---|-----------------------------|--|------------------------|
|                                      | Carrying value | Fair value   | Available-for-sale financial assets (AFS) | Loans and receivables (LAR) | Financial liabilities at amortized cost (FLAC) | Derivative instruments |
| Available-for-sale financial assets  | 200            | 200          | 200                                       | -                           | -  | -                      |
| Other non-current financial assets   | 113            | 113          | -   | 113                         | -  | -                      |
| <b>Total non-current assets</b>      | <b>313</b>     | <b>313</b>   | <b>200</b>                                | <b>113</b>                  | <b>-</b>                                       | <b>-</b>               |
| <b>Current assets:</b>               |                |              |   |                             |  |                        |
| Trade accounts receivable            | 3,537          | 3,537        | -   | 3,537                       | -  | -                      |
| Other receivables                    | 95             | 95           | -   | -                           | -  | 95                     |
| Current financial assets             | 78             | 78           | -   | 78                          | -  | -                      |
| Cash and cash equivalents            | 1,652          | 1,652        | -   | 1,652                       | -  | -                      |
| <b>Total current assets</b>          | <b>5,362</b>   | <b>5,362</b> | <b>-</b>                                  | <b>5,267</b>                | <b>-</b>                                       | <b>95</b>              |
| <b>LIABILITIES</b>                   |                |              |   |                             |  |                        |
| <b>Non-current liabilities</b>       |                |              |   |                             |  |                        |
| Other long-term debt                 | 4,639          | 4,576        | -   | -                           | 4,639  | -                      |
| <b>Total non-current liabilities</b> | <b>4,639</b>   | <b>4,576</b> | <b>-</b>                                  | <b>-</b>                    | <b>4,639</b>                                   | <b>-</b>               |
| <b>Current liabilities</b>           |                |              |   |                             |  |                        |
| Trade accounts payable               | 2,312          | 2,312        | -   | -                           | 2,312  | -                      |
| Other current liabilities            | 271            | 271          | -   | -                           | 14   | 257                    |
| Short-term debt                      | 1,566          | 1,566        | -   | -                           | 1,566  | -                      |
| <b>Total current liabilities</b>     | <b>4,149</b>   | <b>4,149</b> | <b>-</b>                                  | <b>-</b>                    | <b>3,892</b>                                   | <b>257</b>             |

| ASSETS                               | Dec. 31, 2007  |              | Breakdown by category                     |                             |  |                        |
|--------------------------------------|----------------|--------------|---|-----------------------------|--|------------------------|
|                                      | Carrying value | Fair value   | Available-for-sale financial assets (AFS) | Loans and receivables (LAR) | Financial liabilities at amortized cost (FLAC) | Derivative instruments |
| Available-for-sale financial assets  | 323            | 323          | 323                                       | 0                           | -  | -                      |
| Other non-current financial assets   | 124            | 124          | -   | 124                         | -  | -                      |
| <b>Total non-current assets</b>      | <b>447</b>     | <b>447</b>   | <b>323</b>                                | <b>124</b>                  | -  | -                      |
| <b>Current assets:</b>               |                |              |   |                             |  |                        |
| Trade accounts receivable            | 3,463          | 3,463        | -   | 3,463                       | -  | -                      |
| Other receivables                    | 45             | 45           | -   | 0                           | -  | 45                     |
| Current financial assets             | 84             | 84           | -   | 84                          | -  | -                      |
| Cash and cash equivalents            | 1,269          | 1,269        | -   | 1,269                       | -  | -                      |
| <b>Total current assets</b>          | <b>4,861</b>   | <b>4,861</b> | -   | <b>4,816</b>                | -  | <b>45</b>              |
| <b>LIABILITIES</b>                   |                |              |   |                             |  |                        |
| <b>Non-current liabilities</b>       |                |              |   |                             |  |                        |
| Other long-term debt                 | 3,785          | 3,635        | -   | -                           | 3,785  | -                      |
| <b>Total non-current liabilities</b> | <b>3,785</b>   | <b>3,635</b> | -   | -                           | <b>3,785</b>                                   | -                      |
| <b>Current liabilities</b>           |                |              |   |                             |  |                        |
| Trade accounts payable               | 2,133          | 2,133        | -   | -                           | -  | -                      |
| Other current liabilities            | 22             | 22           | -   | -                           | -  | 14                     |
| Short-term debt                      | 2,401          | 2,401        | -   | -                           | -  | -                      |
| <b>Total current liabilities</b>     | <b>4,556</b>   | <b>4,556</b> | -   | -                           | -  | <b>14</b>              |

## Note 20 - Related party transactions

### 20.1 Associates

These are primarily companies over which the Group has significant influence. They are accounted for by the equity method. Transactions with these related parties are carried out on arm's length terms.

Related party transactions were not material in 2008.

### 20.2 Related parties with significant influence

No transactions were carried out during the year with members of the Supervisory Board or Management Board.

Compensation and benefits paid to the Group's top senior executives are described in note 27.3.

## Note 21 - Segment information

First-level segment information is broken down according to the Group's four operating divisions on the basis of asset location. Performance assessments and management decisions are notably based on Earnings Before Interest, Taxes and Amortization of purchase accounting intangibles (EBITA).

Data by region includes the contribution from Critical Power and Cooling Services. Data concerning General Management that cannot be allocated to a particular segment are presented under "Holding company". Details are provided in Chapter 4 of the Registration Document (Business Review).

Segment assets include net goodwill; net intangible assets and property, plant and equipment; inventories and work in process; trade accounts receivable and other receivables.

Segment liabilities include long and short-term provisions, trade accounts payable and other current liabilities.

**December 31, 2008**

|                          | <b>Europe</b> | <b>North America</b> | <b>Asia-Pacific</b> | <b>Rest of the<br/>World</b> | <b>Holding (1)</b> | <b>Total</b>  |
|--------------------------|---------------|----------------------|---------------------|------------------------------|--------------------|---------------|
| Revenue                  | 8,101         | 5,053                | 3,395               | 1,762                        |                    | <b>18,311</b> |
| EBITA                    | 1,412         | 824                  | 539                 | 290                          | (311)              | <b>2,754</b>  |
| Segment Assets           | 8,135         | 7,577                | 4,083               | 910                          | 506                | <b>21,211</b> |
| <i>of which goodwill</i> | 3,463         | 3,063                | 1,869               | 147                          |                    | <b>8,542</b>  |
| Segment Liabilities      | 2,457         | 1,627                | 794                 | 304                          | 870                | <b>6,052</b>  |
| Capital employed, gross  | 426           | 108                  | 101                 | 6                            | 86                 | <b>727</b>    |

(1) including a €155 million of asset and a €38 million of investment in the SAP core model.

**December 31, 2007**

|                          | <b>Europe</b> | <b>North America</b> | <b>Asia-Pacific</b> | <b>Rest of the<br/>World</b> | <b>Holding (1)</b> | <b>Total</b>  |
|--------------------------|---------------|----------------------|---------------------|------------------------------|--------------------|---------------|
| Revenue                  | 7,846         | 4,770                | 3,233               | 1,460                        |                    | <b>17,309</b> |
| EBITA                    | 1,349         | 787                  | 440                 | 232                          | (246)              | <b>2,562</b>  |
| Segment Assets           | 7,956         | 7,347                | 3,667               | 792                          | 423                | <b>20,185</b> |
| <i>of which goodwill</i> | 3,379         | 2,867                | 1,767               | 128                          |                    | <b>8,141</b>  |
| Segment Liabilities      | 2,328         | 1,204                | 738                 | 261                          | 891                | <b>5,422</b>  |
| Capital employed, gross  | 327           | 101                  | 101                 | 6                            | 101                | <b>636</b>    |

(1) including a €118 million of asset and a €54 million of investment in the SAP core model.

The second level of segment information is broken down according to the Group's three main businesses.

| <b>Revenue</b>          | <b>2008</b>   | <b>2007</b>   |
|-------------------------|---------------|---------------|
| Electrical Distribution | 10,343        | 9,869         |
| Automation & Control    | 5,313         | 4,937         |
| Critical Power          | 2,655         | 2,503         |
| Holding                 | -             | -             |
|                         | <b>18,311</b> | <b>17,309</b> |
| <b>EBITA margin (%)</b> | <b>2008</b>   | <b>2007</b>   |
| Electrical Distribution | 18.6%         | 18.1%         |
| Automation & Control    | 14.5%         | 14.2%         |
| Critical Power          | 14.2%         | 12.7%         |
| Holding                 | (1.7%)        | (1.4%)        |
|                         | <b>15.0%</b>  | <b>14.8%</b>  |

**Note 22 - Research and Development**

Research and development costs break down as follows:

|  | <b>2008</b> | <b>2007</b> |
|--|-------------|-------------|
| Research and development costs recognised as an expense <sup>(1)</sup> | 605         | 601         |
| Capitalized development costs <sup>(2)</sup>                           | 195         | 131         |
| <b>Total Research and Development costs - Gross value</b>              | <b>800</b>  | <b>732</b>  |
| Research and development Tax Credit                                    | (26)        | (9)         |
| <b>Total Research and Development costs of the year - Net</b>          | <b>774</b>  | <b>723</b>  |

*(1) of which, € 161 million recognised in cost of sales, 16 millions euros in selling expenses and 428 millions euros in R&D costs in 2008.*

*of which, 153 millions euros recognised in cost of sales, 22 millions euros in selling expenses and 426 millions euros in R&D costs in 2007.*

*(2) of which, in 2007, €2 million recognised in software and €0 million in 2008*

Amortization of capitalized development costs came to €61 million in 2008 and €42 million in 2007. In addition, exceptional impairment losses of €2 million were recorded on capitalized development costs in 2008, compared with €6 million in 2007.

## Note 23 - Depreciation, amortization and provision expense

Depreciation, amortization and provision expenses recognized in operating expenses were as follows:

|  | <b>2008</b>  | <b>2007</b>  |
|--|--------------|--------------|
| <b>Included in cost of sales:</b>                                |              |              |
| Depreciation and amortization                                    | (305)        | (283)        |
| Provisions   | (38)         | (16)         |
| <b>Included in selling, general and administrative expenses:</b> |              |              |
| Depreciation and amortization                                    | (147)        | (139)        |
| Provisions   | (18)         | (27)         |
| <b>Depreciation, amortization and provision expense</b>          | <b>(508)</b> | <b>(465)</b> |

In 2008, provisions in an amount of €79 million were recorded in other operating income/expense (note 24). Impairment of other non-current assets represented a net charge of €72 million.

## Note 24 - Other operating income and expenses

Other operating income and expenses break down as follows:

|  | <b>2008</b>  | <b>2007</b>  |
|--|--------------|--------------|
| Restructuring  | (164)        | (98)         |
| Impairment losses on property, plant and equipment and intangible assets | (9)          | (40)         |
| Gains on asset disposals   | 17           | 38           |
| Losses on asset disposals  | (7)          | (6)          |
| Other  | 24           | (36)         |
| <b>Other operating income and expenses</b>                               | <b>(139)</b> | <b>(142)</b> |

Operating profit included €173 million in non-recurring impairment losses (€9 million) and restructuring costs (€164 million). Restructuring costs primarily stemmed from ongoing reorganization in Europe, for €102 million, North America, for €14 million, and Asia-Pacific, for €14 million, as well as the integration of Pelco, for €13 million.

Gains on asset disposals mainly reflect assets transferred to the new Fuji Electric FA Components & Systems joint venture in Japan.

The Group received €11 million in settlement of a dispute with Panasonic during the year. This item, along with a €9 million reversal of a provision for IT contracts, is recorded in "Other" above.

## Note 25 - Amortization and impairment of purchase accounting intangibles

|   | <b>2008</b>  | <b>2007</b> |
|---|--------------|-------------|
| Amortization of purchase accounting intangibles                       | (93)         | (73)        |
| Impairment of purchase accounting intangibles                         | (22)         | 0           |
| Goodwill impairment   | (59)         | (6)         |
| <b>Amortization and impairment of purchase accounting intangibles</b> | <b>(174)</b> | <b>(79)</b> |

In 2008, the CST Business Unit's management decided to discontinue the Systron Donner Automotive (SDA) business. An impairment loss of €43 million was recorded on SDA assets to align the carrying amount with their value in use, corresponding to expected cash flows from the operation and subsequent liquidation of the business. In addition, an impairment test on CST's remaining business led to the recognition of an additional loss in an amount of €27 million.

Lastly, an impairment loss of €11 million was recognized on a non-material business in China.

As concerns the impairment loss of €27 million stemming from impairment tests on all the CGUs making up the CST business unit, a 0.5-point increase in the discount rate would have increased the loss by €74 million, and a 0.5-point decrease would have reduced the loss to zero.

## Note 26 - Finance costs and other financial income and expense, net

This item consists solely of income and expense relating to financial assets (including cash and cash equivalents) and debt.

|  | <b>2008</b>  | <b>2007</b>  |
|--|--------------|--------------|
| Interest income  | 95           | 93           |
| Interest expense   | (376)        | (380)        |
| Net gains/(losses) on the sale of marketable securities          | 35           | 40           |
| <b>Finance costs, net</b>  | <b>(246)</b> | <b>(247)</b> |
| Dividend income  | 18           | 11           |
| Exchange gains and losses, net                                   | (87)         | (21)         |
| Impairment losses on financial assets                            | 4            | 12           |
| Net gains/(losses) on disposal of long-term investments          | 11           | (11)         |
| Discounting adjustments to non-current assets and liabilities    | (1)          | (1)          |
| Fair value adjustments   | 0            | 0            |
| Other financial expense, net                                     | (13)         | (9)          |
| <b>Finance costs and other financial income and expense, net</b> | <b>(314)</b> | <b>(266)</b> |

In 2008, net interest expense included interest income of €25 million corresponding to interest on a tax receivable.

## Note 27 - Employees

### 27.1 Number of employees

The average number of permanent and temporary employees was as follows in 2008 and 2007:

| (number of employees)                    | 2008           | 2007           |
|--|----------------|----------------|
| Production                               | 59,963         | 52,360         |
| Administration                           | 66,518         | 66,980         |
| <b>Total average number of employees</b> | <b>126,481</b> | <b>119,340</b> |

*By region:*

|                   |        |        |
|-------------------|--------|--------|
| Europe            | 52,524 | 51,047 |
| North America     | 29,909 | 28,179 |
| Asia-Pacific      | 34,519 | 32,010 |
| Rest of the world | 9,529  | 8,104  |

The increase in employee numbers primarily reflects the effect of the acquisitions for the past two years.

## 27.2 Employee benefits expense

|  | 2008           | 2007           |
|--|----------------|----------------|
| Payroll costs <sup>(1)</sup>           | (4,814)        | (4,506)        |
| Profit-sharing and incentive bonuses   | (86)           | (79)           |
| Stock options                          | (26)           | (24)           |
| WESOP                                  | (5)            | (12)           |
| <b>Total employee benefits expense</b> | <b>(4,931)</b> | <b>(4,621)</b> |

(1) Of which €55 million for pension and other post-employment benefit obligations and €21 million for other employee benefit obligations (note 14).

## 27.3 Management compensation and benefits

In 2008, directors' fees of €0.7 million were paid to the members of the Board of Directors.

Total gross compensation paid to members of senior management (excluding corporate officers) amounted to €9.6 million, of which €4.6 million invariable bonuses.

A total of 1,649,100 stock options and 15,301 stock grants have been granted to members of senior management through plans set up since 2001.

Pension obligations with respect to members of senior management amounted to €62 million at December 31, 2008 versus €65 million at December 31, 2007.

More detailed information on senior management is provided in Chapter 2, Paragraph 9 of the Registration Document.

## Note 28 - Subsequent events

### 28.1 Bond issue

On January 7, 2009, Schneider Electric issued €750 million worth of bonds due July 2013.

### 28.2 Stock option and stock grant plans and SARs

On January 5, 2009, the Management Board set up stock option plan no. 31, granting 679,000 options to subscribe new shares or purchase existing shares of Company stock at a price of €52.12 exercisable between January 5, 2013 and January 4, 2019. For US employees, the plan awards 654,800 Stock



Appreciation Rights (SARs) with a benchmark price of €52.12, with the same vesting period and expiration date as the options in plan 31.

On January 5, 2009, the Management Board also set up stock grant plans no. 5 and no. 6. Plan no. 5 grants 143,710 shares to French employees, with a vesting period of three years and a lock-up period of two years. Plan no. 6 grants 212,351 shares, with a vesting period of four years and no lock-up period.

For stock options, stock grants and SARs to vest, the grantee must be an employee or corporate officer of the Group. In addition, vesting of half of the stock options, stock grants and SARs is conditional on the achievement of annual objectives based on revenue and EBITA margin (vesting of all the stock options and stock grants as far as the Management Board is concerned).

## Note 29 - Auditors' Fees

Fees paid to the Auditors and members of their networks in 2008 and 2007 were as follows:

| (€ thousand)   | 2008                  |             |                       |             |               |
|--|-----------------------|-------------|-----------------------|-------------|---------------|
|  | Ernst & Young         | %           | Mazars                | %           | TOTAL         |
| <b>Audit</b>   |                       |             |                       |             |               |
| Statutory auditing<br>o/w Schneider Electric SA<br>o/w subsidiaries  | 9,463<br>100<br>9,363 | 85%         | 5,534<br>100<br>5,434 | 99%         | 14,997        |
| Related engagements<br>o/w Schneider Electric SA<br>o/w subsidiaries | 1,230<br>1,230        | 11%         | 28<br>28              | 1%          | 1,258         |
| <b>Sub-total</b>   | <b>10,693</b>         | <b>96%</b>  | <b>5,562</b>          | <b>100%</b> | <b>16,255</b> |
| <b>Other services</b>  |                       |             |                       |             |               |
| <b>Legal and tax</b>   | 401                   | 4%          |                       |             | 401           |
| <b>Total</b>   | <b>11,094</b>         | <b>100%</b> | <b>5,562</b>          | <b>100%</b> | <b>16,656</b> |
| (€ thousand)   | 2007                  |             |                       |             |               |
|  | Ernst & Young         | %           | Mazars                | %           | TOTAL         |
| <b>Audit</b>   |                       |             |                       |             |               |
| Statutory auditing<br>o/w Schneider Electric SA<br>o/w subsidiaries  | 8,981<br>100<br>8,881 | 81%         | 5,877<br>100<br>5,777 | 89%         | 14,858        |
| Related engagements<br>o/w Schneider Electric SA<br>o/w subsidiaries | 1,476<br>146<br>1,330 | 13%         | 643<br>40<br>603      | 10%         | 2,119         |
| <b>Sub-total</b>   | <b>10,457</b>         | <b>95%</b>  | <b>6,520</b>          | <b>99%</b>  | <b>16,977</b> |
| <b>Other services</b>  |                       |             |                       |             |               |
| <b>Legal and tax</b>   | 594                   | 5%          | 50                    | 1%          | 644           |
| <b>Total</b>   | <b>11,051</b>         | <b>100%</b> | <b>6,570</b>          | <b>100%</b> | <b>17,621</b> |

## Note 30 - Consolidated companies

The main companies included in the Schneider Electric Group scope of consolidation are listed below.

|  |          | % interest<br>Dec. 31, 2008 | % interest<br>Dec. 31, 2007 |
|--|----------|-----------------------------|-----------------------------|
| <b>Europe</b>                                      |          |                             |                             |
| <i>Fully consolidated</i>                          |          |                             |                             |
| APC Deutschland GmbH                               | Germany  | 100.0                       | 100.0                       |
| Aseantics GmbH                                     | Germany  | -                           | 80.0                        |
| Aseantics GmbH & Co. KG                            | Germany  | -                           | 80.0                        |
| Berger Lahr Positec GmbH                           | Germany  | 100.0                       | 100.0                       |
| Citect GmbH  | Germany  | 100.0                       | 100.0                       |
| Crouzet GmbH                                       | Germany  | 100.0                       | 100.0                       |
| Drive Tech GmbH                                    | Germany  | -                           | 100.0                       |
| Elau Elektronik Automations AG                     | Germany  | 100.0                       | 100.0                       |
| Elau Engineering GmbH                              | Germany  | -                           | 100.0                       |
| Elau Systems GmbH                                  | Germany  | -                           | 100.0                       |
| Elsco GmbH   | Germany  | 100.0                       | 100.0                       |
| Kavlico GmbH                                       | Germany  | 100.0                       | 100.0                       |
| Merten GmbH  | Germany  | 100.0                       | 100.0                       |
| MERTEN Holding GmbH                                | Germany  | 100.0                       | 100.0                       |
| Messner Gebäudetechnik GmbH                        | Germany  | 100.0                       | 100.0                       |
| MGE USV-Systeme GmbH                               | Germany  | 100.0                       | 100.0                       |
| Pulsotronic Merten GmbH & Co. KG                   | Germany  | -                           | 100.0                       |
| Ritto GmbH & Co.KG                                 | Germany  | 100.0                       | 100.0                       |
| Sarel GmbH   | Germany  | -                           | 99.0                        |
| Schneider Electric Automation Deutschland GmbH     | Germany  | 100.0                       | -                           |
| Schneider Electric Automation GmbH                 | Germany  | 100.0                       | -                           |
| Schneider Electric Beteiligungs GmbH               | Germany  | -                           | 100.0                       |
| Schneider Electric Deutschland GmbH                | Germany  | 100.0                       | 100.0                       |
| Schneider Electric GmbH                            | Germany  | 100.0                       | 100.0                       |
| Schneider Electric Motion Deutschland GmbH & Co KG | Germany  | 100.0                       | 100.0                       |
| Schneider Electric Motion GmbH                     | Germany  | 100.0                       | 100.0                       |
| Schneider Electric Motion Real Estate GmbH         | Germany  | 100.0                       | 100.0                       |
| Schneider Electric Motion Services GmbH & Co KG    | Germany  | 100.0                       | 100.0                       |
| Schneider Electric Power Drives GmbH               | Germany  | -                           | 100.0                       |
| Stago Deutschland GmbH                             | Germany  | 100.0                       | 100.0                       |
| Svea Building Control System GmbH & Co. KG         | Germany  | 100.0                       | 100.0                       |
| Tac GmbH   | Germany  | 100.0                       | 100.0                       |
| Verwaltung SVEA Building Control Systems GmbH      | Germany  | 100.0                       | 100.0                       |
| Vitrum Beteiligungs GmbH                           | Germany  | 100.0                       | 100.0                       |
| Xantrex Technology GmbH                            | Germany  | 100.0                       | -                           |
| Berger Lahr Positec GmbH                           | Austria  | 51.0                        | 51.0                        |
| HGA Haus und Gebäudeautomation GmbH                | Austria  | 100.0                       | -                           |
| Merten GmbH & Co. KG                               | Austria  | 100.0                       | 100.0                       |
| MGE UPS Systems Vertriebs GmbH                     | Austria  | 100.0                       | 100.0                       |
| Schneider Electric Austria GmbH                    | Austria  | 100.0                       | 100.0                       |
| Schneider Electric Power Drives GmbH               | Austria  | 100.0                       | 100.0                       |
| STI Power Drives GmbH                              | Austria  | 60.0                        | 60.0                        |
| Cofibel  | Belgium  | 100.0                       | 100.0                       |
| Cofimines  | Belgium  | 100.0                       | 100.0                       |
| Crouzet SA   | Belgium  | 100.0                       | 100.0                       |
| Sarel Belgique                                     | Belgium  | -                           | 99.0                        |
| Schneider Electric NV/SA                           | Belgium  | 100.0                       | 100.0                       |
| Schneider Electric Services International          | Belgium  | 100.0                       | 100.0                       |
| Delixi Electric SEE EOOD                           | Bulgaria | 100.0                       | -                           |
| Schneider Electric Bulgaria                        | Bulgaria | 100.0                       | 100.0                       |
| Schneider Electric d.o.o                           | Croatia  | 100.0                       | 100.0                       |
| American Power Conversion Denmark ApS              | Denmark  | 100.0                       | 100.0                       |
| Elmat ApS  | Denmark  | -                           | 100.0                       |
| JO-EL Electric A/S                                 | Denmark  | 100.0                       | 100.0                       |
| Schneider Electric Denmark A/S                     | Denmark  | 100.0                       | 100.0                       |
| Schneider Nordic Baltic A/S                        | Denmark  | 100.0                       | 100.0                       |
| Tac A/S  | Denmark  | 100.0                       | 100.0                       |

|  |         | % interest<br>Dec. 31, 2008 | % interest<br>Dec. 31, 2007 |
|--|---------|-----------------------------|-----------------------------|
| AEM SA   | Spain   | -                           | 100.0                       |
| APC Spain S.L.   | Spain   | 100.0                       | 100.0                       |
| EFI Electronics Europe SL                                | Spain   | 100.0                       | 100.0                       |
| Hispano Mecano-Electrica SA                              | Spain   | 100.0                       | 100.0                       |
| Manufacturas Electricas SA                               | Spain   | 100.0                       | 100.0                       |
| MGE UPS Espana SA  | Spain   | 100.0                       | 100.0                       |
| Schneider Electric Espana SA                             | Spain   | 100.0                       | 100.0                       |
| Xantrex Technology SL                                    | Spain   | 100.0                       | -                           |
| Schneider Electric EESTI AS                              | Estonia | 100.0                       | 100.0                       |
| Elari Oy   | Finland | 100.0                       | 100.0                       |
| I-Valo Oy  | Finland | 100.0                       | 100.0                       |
| JO-EL Electric Oy  | Finland | 100.0                       | 100.0                       |
| Pelco Finland Oy   | Finland | 100.0                       | 100.0                       |
| Oy Lexel Finland AB                                      | Finland | 100.0                       | 100.0                       |
| Elko Suomi Oy  | Finland | 100.0                       | 100.0                       |
| Schneider Electric Finland Oy                            | Finland | 100.0                       | 100.0                       |
| Strömfors Electric Oy                                    | Finland | 100.0                       | 100.0                       |
| Tac Finland Oy   | Finland | 100.0                       | 100.0                       |
| Alombard   | France  | 100.0                       | 100.0                       |
| Analyse et Energie                                       | France  | 100.0                       | -                           |
| APC Europe SARL  | France  | 100.0                       | 100.0                       |
| APC France SARL  | France  | 100.0                       | 100.0                       |
| Ateliers de Constructions Electriques de Grenoble - ACEG | France  | 100.0                       | 100.0                       |
| Auxibati SCI   | France  | 100.0                       | 100.0                       |
| BCV Technologies   | France  | 100.0                       | 100.0                       |
| Behar-Sécurité Sarl                                      | France  | 100.0                       | 100.0                       |
| BEI Ideacod  | France  | 100.0                       | 100.0                       |
| Berger Lahr Positec                                      | France  | 100.0                       | 100.0                       |
| Boissière Finance  | France  | 100.0                       | 100.0                       |
| Citect Sarl  | France  | 100.0                       | 100.0                       |
| Construction Electrique du Vivarais                      | France  | 100.0                       | 100.0                       |
| Crouzet Automatismes                                     | France  | 100.0                       | 100.0                       |
| DINEL  | France  | 100.0                       | 100.0                       |
| Distrelec  | France  | 100.0                       | 100.0                       |
| Elau SARL  | France  | 100.0                       | 100.0                       |
| Electro Porcelaine                                       | France  | 100.0                       | 100.0                       |
| Elkron France  | France  | 100.0                       | 100.0                       |
| Epsys  | France  | 100.0                       | 100.0                       |
| Euromatel  | France  | 100.0                       | 100.0                       |
| France Transfo   | France  | 100.0                       | 100.0                       |
| Infraplus  | France  | 100.0                       | 100.0                       |
| Machines Assemblage Automatique                          | France  | 100.0                       | 100.0                       |
| Materlignes  | France  | 100.0                       | 100.0                       |
| Merlin Gerin Alès  | France  | 100.0                       | 100.0                       |
| Merlin Gerin Alpes                                       | France  | -                           | 100.0                       |
| Merlin Gerin Loire                                       | France  | 100.0                       | 100.0                       |
| Merlin Gerin SAS   | France  | 100.0                       | -                           |
| MGE Finances SAS   | France  | 100.0                       | 100.0                       |
| MGE UPS Systems  | France  | 100.0                       | 100.0                       |
| Muller & Cie   | France  | 100.0                       | 100.0                       |
| Newlog   | France  | 100.0                       | 100.0                       |
| Normabarre   | France  | 100.0                       | 100.0                       |
| Prodipact  | France  | 100.0                       | 100.0                       |
| Rectiphase   | France  | 100.0                       | 100.0                       |
| SA2E   | France  | 100.0                       | 100.0                       |
| SAE Gardy  | France  | 100.0                       | 100.0                       |
| SAEI   | France  | 100.0                       | 100.0                       |
| Sarel Appareillage Electrique                            | France  | 99.0                        | 99.0                        |
| Scanelec   | France  | 100.0                       | 100.0                       |
| Schneider Automation                                     | France  | 100.0                       | 100.0                       |
| Schneider Electric Consulting                            | France  | 100.0                       | 100.0                       |
| Schneider Electric Foncière                              | France  | 100.0                       | 100.0                       |
| Schneider Electric France                                | France  | 100.0                       | 100.0                       |
| Schneider Electric Holding Amérique du Nord              | France  | 100.0                       | 100.0                       |
| Schneider Electric Holding Asie Pacifique                | France  | 100.0                       | 100.0                       |
| Schneider Electric Holding Europe                        | France  | 100.0                       | 100.0                       |
| Schneider Electric Industries SAS                        | France  | 100.0                       | 100.0                       |
| Schneider Electric International                         | France  | 100.0                       | 100.0                       |
| Schneider Electric Manufacturing Bourguebus              | France  | 100.0                       | -                           |
| Schneider Electric SA (Société mère)                     | France  | 100.0                       | 100.0                       |
| Schneider Electric Telecontrol                           | France  | 100.0                       | 100.0                       |
| Schneider Toshiba Inverter Europe SAS                    | France  | 60.0                        | 60.0                        |
| Schneider Toshiba Inverter SAS                           | France  | 60.0                        | 60.0                        |
| SCI du Pré Blanc   | France  | 100.0                       | 100.0                       |
| SEP Le Guavio  | France  | 100.0                       | 100.0                       |

|   |             | % interest<br>Dec. 31, 2008 | % interest<br>Dec. 31, 2007 |
|---|-------------|-----------------------------|-----------------------------|
| Septra Tecame   | France      | 100.0                       | -                           |
| Société Dauphinoise Electrique - SDE                                  | France      | -                           | 100.0                       |
| Société du Rebauchet  | France      | 100.0                       | 100.0                       |
| Société Electrique d'Aubenas SA - SEA                                 | France      | 100.0                       | 100.0                       |
| Société Française Gardy SA  | France      | 100.0                       | 100.0                       |
| Société pour l'équipement des industries chimiques (SPEI)             | France      | 100.0                       | 100.0                       |
| Spie-Capag  | France      | 100.0                       | 100.0                       |
| Sté Française de Constructions Mécaniques et Electriques - SFCME      | France      | 100.0                       | 100.0                       |
| Sté Rhodanienne d'Etudes et de Participations - SREP                  | France      | 100.0                       | 100.0                       |
| Systèmes Equipements Tableaux Basse Tension - SETBT                   | France      | 100.0                       | 100.0                       |
| Tecame Nord Est   | France      | 100.0                       | -                           |
| Transfo Services  | France      | 100.0                       | 100.0                       |
| Usibati SCI   | France      | 100.0                       | 100.0                       |
| Varilec   | France      | 100.0                       | 100.0                       |
| MGE UPS Systems Hellas Abe  | Greece      | 100.0                       | 100.0                       |
| Schneider Electric AE   | Greece      | 100.0                       | 100.0                       |
| Advance Power Elektronikai KFT  | Hungary     | 100.0                       | 100.0                       |
| BEI Automative Hungary Manufacturing Inc                              | Hungary     | 100.0                       | 100.0                       |
| Merlin Gerin Zala   | Hungary     | -                           | 100.0                       |
| MGE UPS Systems Hungary   | Hungary     | 100.0                       | -                           |
| Prodax Elektromos   | Hungary     | -                           | 100.0                       |
| Schneider Electric Hungaria Villamassagi RT                           | Hungary     | 100.0                       | 100.0                       |
| Schneider Electric Közép-Kelet Europai Korlatolt Felelősségű Tarsasag | Hungary     | 100.0                       | -                           |
| APC (EMEA) Limited  | Ireland     | 100.0                       | 100.0                       |
| APC Distribution Limited  | Ireland     | 100.0                       | 100.0                       |
| APC Dublin Limited  | Ireland     | 100.0                       | 100.0                       |
| Schneider Electric Ireland  | Ireland     | 100.0                       | 100.0                       |
| Square D Company Ireland Ltd  | Ireland     | 100.0                       | 100.0                       |
| Tac Satchwell Ireland Ltd   | Ireland     | 100.0                       | 100.0                       |
| Thorsman Sales Ireland Ltd  | Ireland     | 100.0                       | 100.0                       |
| APC Italia S.r.l.   | Italy       | 100.0                       | 100.0                       |
| Controlli Srl   | Italy       | 100.0                       | 100.0                       |
| Crouzet Componenti Srl  | Italy       | 100.0                       | 100.0                       |
| Elau Systems Italia Srl   | Italy       | 100.0                       | 100.0                       |
| Et.Ts. Entreprise Technologies Srl                                    | Italy       | 70.0                        | 70.0                        |
| MGE Italia SpA  | Italy       | 100.0                       | 100.0                       |
| OVA Bargellini SpA  | Italy       | 100.0                       | 100.0                       |
| Pamoco Srl  | Italy       | 100.0                       | 100.0                       |
| SAIP & Schyller Srl   | Italy       | 100.0                       | 100.0                       |
| Schneider Electric Industrie Italia Spa                               | Italy       | 100.0                       | 100.0                       |
| Schneider Electric Spa  | Italy       | 100.0                       | 100.0                       |
| Schneider Italia Spa  | Italy       | 100.0                       | 100.0                       |
| Lexel Fabrika SIA   | Latvia      | 100.0                       | 100.0                       |
| Schneider Electric Baltic Distribution Center                         | Latvia      | 100.0                       | -                           |
| Schneider Electric Latvija SIA  | Latvia      | 100.0                       | 100.0                       |
| UAB Schneider Electric Lietuva (ex UAB Lexel Electric)                | Lituania    | 100.0                       | 100.0                       |
| Comodot   | Luxemburg   | 100.0                       | 100.0                       |
| SGBT European Major Investments SA                                    | Luxemburg   | 100.0                       | 100.0                       |
| Sté industrielle de réassurance (SIRR)                                | Luxemburg   | 100.0                       | 100.0                       |
| ELKO A/S  | Norway      | 100.0                       | 100.0                       |
| ESMI A/S  | Norway      | -                           | 100.0                       |
| JO-EL Electric AS   | Norway      | 100.0                       | -                           |
| Lexel Holding Norway AS   | Norway      | 100.0                       | 100.0                       |
| Merten Norge AS   | Norway      | -                           | 100.0                       |
| MGE UPS Systemer AS   | Norway      | 100.0                       | 100.0                       |
| Schneider Electric Norge A/S  | Norway      | 100.0                       | 100.0                       |
| TAC AS  | Norway      | 100.0                       | 100.0                       |
| American Power Conversion Corp (A.P.C.) B.V.                          | Netherlands | 100.0                       | 100.0                       |
| APC Benelux B.V.  | Netherlands | 100.0                       | 100.0                       |
| APC Europe BV   | Netherlands | 100.0                       | 100.0                       |
| APC Holdings B.V.   | Netherlands | 100.0                       | 100.0                       |
| APC International Corporation B.V.                                    | Netherlands | 100.0                       | 100.0                       |
| APC International Holdings BV   | Netherlands | 100.0                       | -                           |
| Citect BV   | Netherlands | 100.0                       | 100.0                       |
| Crouzet BV  | Netherlands | 100.0                       | 100.0                       |
| ELAU BV   | Netherlands | 100.0                       | 100.0                       |
| Pelco Europe B.V  | Netherlands | 100.0                       | 100.0                       |
| Pro Face HMI (sous-groupe)  | Netherlands | 99.9                        | 99.9                        |
| Sandas Montage BV   | Netherlands | 100.0                       | 100.0                       |
| Sarel BV  | Netherlands | -                           | 99.0                        |
| Schneider Electric BV   | Netherlands | 100.0                       | 100.0                       |
| Schneider Electric Logistic Centre BV                                 | Netherlands | 100.0                       | 100.0                       |
| Stago BV  | Netherlands | 100.0                       | 100.0                       |

|   |                | % interest<br>Dec. 31, 2008 | % interest<br>Dec. 31, 2007 |
|---|----------------|-----------------------------|-----------------------------|
| UPS Systems MGE B.V.                      | Netherlands    | 100.0                       | 100.0                       |
| APC Poland Sp. Zoo                        | Poland         | 100.0                       | 100.0                       |
| Elda Eltra S.A. (ex Eltra SA)             | Poland         | 100.0                       | 100.0                       |
| Merten Polska Sp. z o.o.                  | Poland         | 100.0                       | 100.0                       |
| MGE UPS Systems Polska Sp.z.o.o           | Poland         | 100.0                       | 100.0                       |
| Schneider Electric Industries Polska SP   | Poland         | 100.0                       | 100.0                       |
| Schneider Electric Polska SP              | Poland         | 100.0                       | 100.0                       |
| TAC Sp zoo                                | Poland         | 100.0                       | 100.0                       |
| APC Portugal, LTDA                        | Portugal       | 100.0                       | 100.0                       |
| MGE Portugal Ondulatores                  | Portugal       | 100.0                       | 100.0                       |
| Schneider Electric Portugal LDA           | Portugal       | 100.0                       | 100.0                       |
| Merten Czech s.r.o.                       | Czech Republic | 100.0                       | 100.0                       |
| Schneider Electric AS                     | Czech Republic | 98.3                        | 98.3                        |
| Schneider Electric CZ sro                 | Czech Republic | 100.0                       | 100.0                       |
| Schneider Electric Romania SRL            | Romania        | 100.0                       | 100.0                       |
| Advance Cayson Limited                    | United Kingdom | 100.0                       | 100.0                       |
| Advance Dormant No. 1 Ltd.                | United Kingdom | 100.0                       | 100.0                       |
| Ajax Electrical Ltd                       | United Kingdom | 100.0                       | 100.0                       |
| APC DC Network Solutions UK Limited       | United Kingdom | 100.0                       | 100.0                       |
| APC Holdings (UK) Limited                 | United Kingdom | 100.0                       | 100.0                       |
| APC Power and Cooling, UK Limited         | United Kingdom | 100.0                       | 100.0                       |
| APC UK Limited                            | United Kingdom | 100.0                       | 100.0                       |
| Berger Lahr Positec Ltd                   | United Kingdom | 100.0                       | 100.0                       |
| Capacitors Ltd                            | United Kingdom | 100.0                       | 100.0                       |
| CBS Group Limited                         | United Kingdom | 100.0                       | 100.0                       |
| Citect Ltd                                | United Kingdom | 100.0                       | 100.0                       |
| Crouzet Ltd                               | United Kingdom | 100.0                       | 100.0                       |
| Crydom SSR Ltd                            | United Kingdom | 100.0                       | 100.0                       |
| E-GETIT Limited                           | United Kingdom | 100.0                       | 100.0                       |
| Elau Ltd                                  | United Kingdom | 100.0                       | 100.0                       |
| Electric City Limited                     | United Kingdom | 100.0                       | 100.0                       |
| GET Group PLC                             | United Kingdom | 100.0                       | 100.0                       |
| GET Pension Scheme Limited                | United Kingdom | 100.0                       | 100.0                       |
| GET PLC                                   | United Kingdom | 100.0                       | 100.0                       |
| Grawater Ltd                              | United Kingdom | 100.0                       | 100.0                       |
| Grawater of Wakefield Ltd                 | United Kingdom | 100.0                       | 100.0                       |
| Intelligent Motion Systems UK Ltd         | United Kingdom | 90.0                        | -                           |
| JO EL Electric Ltd                        | United Kingdom | 100.0                       | 100.0                       |
| JO JO (UK) Ltd                            | United Kingdom | 100.0                       | 100.0                       |
| Lexel Holdings (UK) Limited               | United Kingdom | 100.0                       | 100.0                       |
| MGE UPS Systems Ltd                       | United Kingdom | 100.0                       | 100.0                       |
| MITA (NW) Ltd                             | United Kingdom | 100.0                       | 100.0                       |
| MITA (UK) Ltd                             | United Kingdom | 100.0                       | 100.0                       |
| Nestfarm Limited                          | United Kingdom | 100.0                       | 100.0                       |
| Newall Measurement Systems Ltd            | United Kingdom | 100.0                       | 100.0                       |
| Pelco UK Limited                          | United Kingdom | 100.0                       | 100.0                       |
| Sarel Ltd                                 | United Kingdom | 100.0                       | 100.0                       |
| Satchwell Controls Systems Ltd            | United Kingdom | 100.0                       | 100.0                       |
| Schneider Electric (UK) Ltd               | United Kingdom | 100.0                       | 100.0                       |
| Schneider Electric Ltd                    | United Kingdom | 100.0                       | 100.0                       |
| Tac Satchwell Northern Ireland Ltd        | United Kingdom | 100.0                       | 100.0                       |
| TAC UK Ltd                                | United Kingdom | 100.0                       | 100.0                       |
| Thorsman Ltd                              | United Kingdom | 100.0                       | 100.0                       |
| Tower Forged Products Ltd                 | United Kingdom | 100.0                       | 100.0                       |
| Tower Manufacturing Ltd                   | United Kingdom | 100.0                       | 100.0                       |
| Xantrex Technology Ltd.                   | United Kingdom | 100.0                       | -                           |
| Yorkshire Switchgear Group Ltd            | United Kingdom | 100.0                       | 100.0                       |
| DIN Elektro Kraft OOO                     | Russia         | 100.0                       | 100.0                       |
| OOO "TAC"                                 | Russia         | 100.0                       | 100.0                       |
| OOO Lexel Elektromaterialy (SPB)          | Russia         | 100.0                       | 100.0                       |
| OOO Merten Russland                       | Russia         | 100.0                       | 100.0                       |
| OOO RusEl                                 | Russia         | 100.0                       | -                           |
| OOO Schneider Electric Kaliningrad        | Russia         | 100.0                       | 100.0                       |
| OOO UralElektroKontaktor                  | Russia         | 100.0                       | 100.0                       |
| OOO Wessen                                | Russia         | 100.0                       | -                           |
| OOO Wextro                                | Russia         | 100.0                       | -                           |
| Schneider Electric Equipment Kazan Ltd    | Russia         | 100.0                       | -                           |
| Schneider Electric Zavod ElectroMonoblock | Russia         | 75.0                        | 75.0                        |
| ZAO Potential                             | Russia         | 100.0                       | -                           |
| ZAO Schneider Electric                    | Russia         | 100.0                       | 100.0                       |
| Schneider Electric Srbija doo             | Serbia         | 100.0                       | 100.0                       |
| Schneider Electric Slovakia Spol SRO      | Slovakia       | 100.0                       | 100.0                       |
| Schneider Electric d.o.o.                 | Slovenia       | 100.0                       | 100.0                       |
| AB Crahftere 1                            | Sweden         | 100.0                       | 100.0                       |

|   |             | % interest<br>Dec. 31, 2008 | % interest<br>Dec. 31, 2007 |
|---|-------------|-----------------------------|-----------------------------|
| AB Wibe   | Sweden      | 100.0                       | 100.0                       |
| APC Sweden AB                                       | Sweden      | 100.0                       | 100.0                       |
| Elektriska Aktiefbolaget Delta                      | Sweden      | 100.0                       | 100.0                       |
| ELJO AB   | Sweden      | -                           | 100.0                       |
| Elko AB   | Sweden      | 100.0                       | 100.0                       |
| Informations System AB                              | Sweden      | 100.0                       | 100.0                       |
| JO - EL ELECTRIC AB                                 | Sweden      | 100.0                       | 100.0                       |
| Lexel AB  | Sweden      | 100.0                       | 100.0                       |
| Merten Svenska AB                                   | Sweden      | -                           | 100.0                       |
| MGE System AB                                       | Sweden      | 100.0                       | -                           |
| Pelco Sweden AB                                     | Sweden      | 100.0                       | 100.0                       |
| Pisara AB   | Sweden      | 100.0                       | -                           |
| ProAcess AB   | Sweden      | 100.0                       | 100.0                       |
| Schneider Electric Distribution Center AB           | Sweden      | 100.0                       | 100.0                       |
| Schneider Electric Powerline Communications AB      | Sweden      | 100.0                       | 100.0                       |
| Schneider Electric Sverige AB                       | Sweden      | 100.0                       | 100.0                       |
| T.A.C. AB   | Sweden      | 100.0                       | 100.0                       |
| T.A.C. Holding AB                                   | Sweden      | -                           | 100.0                       |
| TAC Svenska AB                                      | Sweden      | 100.0                       | 100.0                       |
| Thorsman & Co AB                                    | Sweden      | 100.0                       | 100.0                       |
| Crouzet AG  | Switzerland | 100.0                       | 100.0                       |
| Elau AG   | Switzerland | 100.0                       | 100.0                       |
| Feller AG   | Switzerland | 83.7                        | 83.7                        |
| Gutor Electronic GmbH                               | Switzerland | 100.0                       | 100.0                       |
| MGE UPS Systems AG                                  | Switzerland | 100.0                       | 100.0                       |
| Sarel AG  | Switzerland | 97.8                        | 97.8                        |
| Schneider Electric Finances                         | Switzerland | 100.0                       | 100.0                       |
| Schneider Electric Motion AG                        | Switzerland | 100.0                       | 100.0                       |
| Schneider Electric Suisse AG                        | Switzerland | 100.0                       | 100.0                       |
| Selectron Systems AG                                | Switzerland | 100.0                       | 100.0                       |
| Schneider Electric Ukraine                          | Ukraine     | 100.0                       | 100.0                       |
| Smart Electric                                      | Ukraine     | 100.0                       | 100.0                       |
| <i>Accounted for by the equity method</i>           |             |                             |                             |
| Delta Dore Finance SA (sous-groupe)                 | France      | 20.0                        | 20.0                        |
| Möre Electric Group A/S                             | Norway      | 34.0                        | 34.0                        |
| <b>North America</b>                                |             |                             |                             |
| <i>Fully consolidated</i>                           |             |                             |                             |
| Cofimines Overseas Corporation                      | Canada      | 100.0                       | 100.0                       |
| Inde Electronics Inc.                               | Canada      | 99.8                        | 99.8                        |
| Juno Lighting Ltd                                   | Canada      | 100.0                       | 100.0                       |
| Power Measurement Ltd                               | Canada      | 100.0                       | 100.0                       |
| Schneider Canada Inc.                               | Canada      | 100.0                       | 100.0                       |
| Xantrex Technology Inc.                             | Canada      | 100.0                       | -                           |
| APC Mexico, S.A. de C.V.                            | Mexico      | 100.0                       | 100.0                       |
| Automatismo Crouzet De Mexico, SA de CV             | Mexico      | 100.0                       | 100.0                       |
| Custom Sensors & Technologies Mexico S.A de C.V     | Mexico      | 100.0                       | 100.0                       |
| Industrias Electronicas Pacifico SA de CV           | Mexico      | 100.0                       | 100.0                       |
| MGE Systems Mexico SA de CV                         | Mexico      | 100.0                       | 100.0                       |
| Ram Tech Manufacturing de Mexico S. de R.L. de C.V. | Mexico      | 100.0                       | -                           |
| Ram Tech Services de Mexico S. de R.L. de C.V.      | Mexico      | 100.0                       | -                           |
| Schneider Electric Administracion S.A. de C.V.      | Mexico      | 100.0                       | 100.0                       |
| Schneider Electric Mexico SA de CV                  | Mexico      | 100.0                       | 100.0                       |
| Schneider Industrial Tlaxcala SA de CV              | Mexico      | 100.0                       | 100.0                       |
| Schneider Mexico SA de CV                           | Mexico      | 100.0                       | 100.0                       |
| Schneider R&D, S.A. de C.V.                         | Mexico      | 100.0                       | 100.0                       |
| Schneider Recursos Humanos S.A. de C.V.             | Mexico      | 100.0                       | 100.0                       |
| Square D Company Mexico SA de CV                    | Mexico      | 100.0                       | 100.0                       |
| A.B.L. Electronics Corporation                      | USA         | -                           | 100.0                       |
| APC America Inc.                                    | USA         | 100.0                       | 100.0                       |
| APC Corporation                                     | USA         | 100.0                       | 100.0                       |
| APC DC Network Solutions Inc.                       | USA         | -                           | 100.0                       |
| APC Holdings Inc.                                   | USA         | 100.0                       | 100.0                       |
| APC Sales & Service Corp.                           | USA         | 100.0                       | 100.0                       |
| BEI Precisions Systems & Space Co. Inc              | USA         | 100.0                       | 100.0                       |
| BEI Sensors & Systems Company, Inc.                 | USA         | 100.0                       | 100.0                       |
| Berger Lahr Motion Technology Inc.                  | USA         | -                           | 100.0                       |
| Citect, Inc   | USA         | 100.0                       | 100.0                       |
| Crydom, Inc   | USA         | 100.0                       | 100.0                       |
| Custom Sensors & Technologies, Inc                  | USA         | 100.0                       | 100.0                       |
| EFI Electronics Inc                                 | USA         | 100.0                       | 100.0                       |

|   |           | % interest<br>Dec. 31, 2008 | % interest<br>Dec. 31, 2007 |
|---|-----------|-----------------------------|-----------------------------|
| Elau Inc.   | USA       | 100.0                       | 100.0                       |
| Electrical South Inc  | USA       | 100.0                       | 100.0                       |
| Hyde Park Electronics LLC                                       | USA       | 100.0                       | 100.0                       |
| Indy Lighting Inc.  | USA       | 100.0                       | 100.0                       |
| Intelligent Motion Systems, Inc.                                | USA       | 90.0                        | -                           |
| Juno Lighting Inc.  | USA       | 100.0                       | 100.0                       |
| Juno Manufacturing Inc.   | USA       | 100.0                       | 100.0                       |
| Kavlico Corp  | USA       | 100.0                       | 100.0                       |
| MGE UPS Systems Inc   | USA       | 100.0                       | 100.0                       |
| Neovasys Inc  | USA       | 100.0                       | 100.0                       |
| Netbotz, Inc  | USA       | 100.0                       | 100.0                       |
| Newall Electronics Inc  | USA       | 100.0                       | 100.0                       |
| P.H.L. Four, Inc.   | USA       | 80.0                        | 80.0                        |
| P.H.L. One, Inc.  | USA       | 80.0                        | 80.0                        |
| P.H.L. Three, Inc.  | USA       | 80.0                        | 80.0                        |
| Pacsena LP  | USA       | 100.0                       | -                           |
| Palatine Hills Leasing Inc.                                     | USA       | 80.0                        | 80.0                        |
| Pelco, Inc  | USA       | 100.0                       | 100.0                       |
| Power Measurement Inc.  | USA       | 100.0                       | 100.0                       |
| Schneider Automation Inc.                                       | USA       | -                           | 100.0                       |
| Schneider Electric Engineering Services, LLC                    | USA       | 100.0                       | 100.0                       |
| Schneider Electric Holdings Inc.                                | USA       | 100.0                       | 100.0                       |
| Schneider Electric Relays LLC                                   | USA       | 100.0                       | -                           |
| Schneider Electric Vermont Ltd                                  | USA       | 100.0                       | 100.0                       |
| SNA Holdings Inc.   | USA       | 100.0                       | 100.0                       |
| Square D Company  | USA       | 100.0                       | 100.0                       |
| Square D Holdings One, Inc.                                     | USA       | 100.0                       | 100.0                       |
| Square D Investment Company                                     | USA       | 100.0                       | 100.0                       |
| ST Inverter Americas Inc  | USA       | 60.0                        | 60.0                        |
| TAC Americas Inc.   | USA       | 100.0                       | 100.0                       |
| TAC-Critical Systems, Inc.                                      | USA       | 100.0                       | 100.0                       |
| TAC LLC   | USA       | 100.0                       | 100.0                       |
| Veris Industries LLC  | USA       | 100.0                       | 100.0                       |
| Xantrex Technology Inc.   | USA       | 100.0                       | -                           |
| Xycom Automation, LLC   | USA       | 100.0                       | 100.0                       |
| <b>Asia-Pacific</b>   |           |                             |                             |
| <i>Fully consolidated</i>                                       |           |                             |                             |
| APC Australia Pty Limited                                       | Australia | 100.0                       | 100.0                       |
| Australian Electrical Supplies Pty Ltd                          | Australia | 100.0                       | 100.0                       |
| Citect Corporation Ltd  | Australia | 100.0                       | 100.0                       |
| Citect Pty Ltd  | Australia | 100.0                       | 100.0                       |
| Clipsal Australia Holdings Pty Ltd                              | Australia | 100.0                       | 100.0                       |
| Clipsal Australia Pty Ltd                                       | Australia | 100.0                       | 100.0                       |
| Clipsal Integrated Systems Pty Ltd                              | Australia | 100.0                       | 100.0                       |
| Clipsal Pacific Holdings Pty Ltd                                | Australia | 100.0                       | 100.0                       |
| Clipsal Technologies Australia Pty Ltd                          | Australia | 100.0                       | 100.0                       |
| Efficient Energy Systems Pty Ltd                                | Australia | 100.0                       | 100.0                       |
| MGE UPS Systems Australia Pty Ltd                               | Australia | 100.0                       | 100.0                       |
| Moduline Holdings   | Australia | 100.0                       | 100.0                       |
| Moduline Pty Ltd  | Australia | 100.0                       | 100.0                       |
| Nu-Lec Industries Pty Ltd                                       | Australia | 100.0                       | 100.0                       |
| Parkside Laboratories Australia Pty Ltd                         | Australia | 100.0                       | 100.0                       |
| PDL Holdings Australia Pty Ltd                                  | Australia | 100.0                       | 100.0                       |
| PDL Industries Australia Pty Ltd                                | Australia | 100.0                       | 100.0                       |
| Pelco Australia Pty. Limited                                    | Australia | 100.0                       | 100.0                       |
| Power Measurement Ltd   | Australia | -                           | 100.0                       |
| Proface Australia Pty Ltd                                       | Australia | 100.0                       | 100.0                       |
| Schneider Electric (Australia) Pty Ltd                          | Australia | 100.0                       | 100.0                       |
| Schneider Electric Australia Holdings Pty Ltd                   | Australia | 100.0                       | 100.0                       |
| TAC (IBS) Australia Pty   | Australia | 100.0                       | 100.0                       |
| TAC Control Systems International Pty Ltd                       | Australia | 100.0                       | 100.0                       |
| TAC Pacific (Australia) Pty Ltd                                 | Australia | 100.0                       | 100.0                       |
| TAC Pacific Pty Ltd   | Australia | 100.0                       | 100.0                       |
| Tarway Pty Ltd  | Australia | 100.0                       | 100.0                       |
| Three Products Pty Ltd  | Australia | 100.0                       | 100.0                       |
| Two Plastics Pty Ltd  | Australia | 100.0                       | 100.0                       |
| APC (Suzhou) Uninterrupted Power Supply Co., Ltd.               | China     | 100.0                       | 100.0                       |
| APC (Xiamen) Power Infrastructure Co., Ltd.                     | China     | 100.0                       | 100.0                       |
| APC International Trade (Shanghai) Co. Ltd.                     | China     | 100.0                       | 100.0                       |
| Beijing Merlin Great Wall Computer Room Equipment & Engineering | China     | 75.0                        | 75.0                        |
| Citect Controls Systems (Shanghai) Ltd                          | China     | 100.0                       | 100.0                       |
| Clipsal China Company Limited                                   | China     | 100.0                       | 100.0                       |

|  |             | % interest<br>Dec. 31, 2008 | % interest<br>Dec. 31, 2007 |
|--|-------------|-----------------------------|-----------------------------|
| Clipsal Manufacturing (Huizhou) Ltd                              | China       | 100.0                       | 100.0                       |
| Custom Sensors & Technologies Asia (Shanghai) Ltd                | China       | 100.0                       | 100.0                       |
| East Electric System Technology Co. Ltd                          | China       | 60.0                        | 60.0                        |
| Foshan Gaoming TAC Electronic & Electrical Products Company Ltd  | China       | 100.0                       | 100.0                       |
| Foshan Wilco Electrical Trading Co Ltd                           | China       | 100.0                       | 100.0                       |
| MERTEN Shanghai Electric Technology Co. Ltd                      | China       | 100.0                       | 100.0                       |
| MGE China Ltd  | China       | 100.0                       | 100.0                       |
| MGE Manufacturing Shanghai Co. Ltd                               | China       | 100.0                       | 100.0                       |
| Proface China International Trading (Shanghai) Co. Ltd           | China       | 99.9                        | 99.9                        |
| Schneider (Beijing) Medium & Low Voltage Co., Ltd                | China       | 95.0                        | 95.0                        |
| Schneider (Shaanxi) Baoguang Electrical Apparatus Co. Ltd        | China       | 70.0                        | 70.0                        |
| Schneider (Shanghai) Supply Co. Ltd                              | China       | 100.0                       | 100.0                       |
| Schneider (Suzhou) Drives Company Ltd                            | China       | 90.0                        | 90.0                        |
| Schneider (Suzhou) Transformers Co. Ltd                          | China       | 100.0                       | 100.0                       |
| Schneider Beijing Medium Voltage Co. Ltd                         | China       | 95.0                        | 95.0                        |
| Schneider Busway (Guangzhou) Ltd                                 | China       | 95.0                        | 95.0                        |
| Schneider Electric (China) Investment Co. Ltd                    | China       | 100.0                       | 100.0                       |
| Schneider Electric Building Systems (Shanghai) Co., Ltd          | China       | 100.0                       | 100.0                       |
| Schneider Electric International Trading (Shanghai) Co., Ltd.    | China       | 100.0                       | 100.0                       |
| Schneider Electric Low Voltage (Tianjin) Co. Ltd                 | China       | 75.0                        | 75.0                        |
| Schneider Electric Supply Beijing Co Ltd                         | China       | 100.0                       | 100.0                       |
| Schneider Electric Devices (Dong Guan) Co.Ltd                    | China       | 100.0                       | 100.0                       |
| Schneider Fuji Breakers (Dalian) Co. Ltd                         | China       | -                           | 60.0                        |
| Schneider Shanghai Apparatus Parts Manufacturing Co. Ltd         | China       | 100.0                       | 100.0                       |
| Schneider Shanghai Industrial Control Co. Ltd                    | China       | 80.0                        | 80.0                        |
| Schneider Shanghai Low Voltage Term. Apparatus                   | China       | 75.0                        | 75.0                        |
| Schneider Shanghai Power Distribution Electric Apparatus Co. Ltd | China       | 80.0                        | 80.0                        |
| Schneider Suzhou Enclosure Systems Co Ltd                        | China       | 100.0                       | 100.0                       |
| Schneider Wingoal (Tianjin) Electric Equipment Co.               | China       | 100.0                       | 100.0                       |
| Silcon (qingdao) Power Electronics Co. Ltd.                      | China       | -                           | 100.0                       |
| Tianjin Merlin Gerin Co. Ltd                                     | China       | 75.0                        | 75.0                        |
| Wuxi Proface Electronic Co.Ltd                                   | China       | 99.9                        | 99.9                        |
| APC Korea Corporation  | South Korea | 100.0                       | 100.0                       |
| Clipsal Korea Co. Ltd  | South Korea | 100.0                       | 100.0                       |
| MGE UPS Systems Korea Co. Ltd                                    | South Korea | 100.0                       | 100.0                       |
| Pro Face Korea Co. Ltd   | South Korea | 99.9                        | 99.9                        |
| Samwha EOCR Co. Ltd  | South Korea | 100.0                       | 100.0                       |
| Schneider Electric Korea Ltd                                     | South Korea | 100.0                       | 100.0                       |
| APC Hong Kong Limited  | Hong Kong   | 100.0                       | 100.0                       |
| Clipsal Asia Holdings Limited                                    | Hong Kong   | 100.0                       | 100.0                       |
| Clipsal Asia Limited   | Hong Kong   | 100.0                       | 100.0                       |
| Clipsal Electrical Limited                                       | Hong Kong   | 100.0                       | 100.0                       |
| Clipsal Hong Kong Limited  | Hong Kong   | 100.0                       | 100.0                       |
| Clipsal Industries HK Ltd  | Hong Kong   | 100.0                       | 100.0                       |
| Clipsal Integrated Systems (HK) Limited                          | Hong Kong   | 100.0                       | 100.0                       |
| Custom Sensors & Technologies Asia (Hong Kong) Limited           | Hong Kong   | 100.0                       | 100.0                       |
| CVH Industries Ltd   | Hong Kong   | 100.0                       | 100.0                       |
| Full Excel (Hong Kong) Ltd                                       | Hong Kong   | 100.0                       | 100.0                       |
| GET Asia Limited   | Hong Kong   | 100.0                       | 100.0                       |
| GET Santai Limited   | Hong Kong   | 100.0                       | 100.0                       |
| Invensys Building System Hong Kong Ltd                           | Hong Kong   | 100.0                       | 100.0                       |
| Jansweet Ltd   | Hong Kong   | 100.0                       | 100.0                       |
| Linkpoint Investments Ltd  | Hong Kong   | -                           | 100.0                       |
| MGE China / Hong Kong Ltd  | Hong Kong   | 100.0                       | 100.0                       |
| Schneider Busway Limited   | Hong Kong   | 100.0                       | 100.0                       |
| Schneider Electric (Hong Kong) Ltd                               | Hong Kong   | 100.0                       | 100.0                       |
| Schneider Electric Asia Pacific Limited                          | Hong Kong   | 100.0                       | 100.0                       |
| TAC Pacific (Hong Kong) Ltd                                      | Hong Kong   | 100.0                       | 100.0                       |
| APC India Private Limited  | India       | 100.0                       | 100.0                       |
| CST Sensors India Private Limited                                | India       | 100.0                       | -                           |
| LK India Private Ltd   | India       | 100.0                       | 100.0                       |
| MGE UPS SYSTEMS INDIA PVT. LTD                                   | India       | 100.0                       | 100.0                       |
| Schneider Electric India Private Ltd                             | India       | 100.0                       | 100.0                       |
| PT Bowden Industries Indonesia                                   | Indonesia   | 100.0                       | 100.0                       |
| PT Clipsal Manufacturing Jakarta                                 | Indonesia   | 100.0                       | 100.0                       |
| PT Mega Gelar Elektronil Ometraco                                | Indonesia   | 100.0                       | 100.0                       |
| PT Merten Intec Indonesia  | Indonesia   | 100.0                       | 100.0                       |
| PT Schneider Electric Indonesia                                  | Indonesia   | 100.0                       | 100.0                       |
| PT Schneider Electric Manufacturing Batam                        | Indonesia   | 100.0                       | 100.0                       |
| APC Japan, Inc.  | Japan       | 100.0                       | 100.0                       |
| Arrow Co., Ltd   | Japan       | 100.0                       | -                           |
| Digital Electronics Corporation                                  | Japan       | 99.9                        | 99.9                        |
| Schneider Electric Japan Holdings Ltd                            | Japan       | 100.0                       | 100.0                       |
| Schneider Electric Japan Ltd                                     | Japan       | -                           | 100.0                       |



|   |              | % interest<br>Dec. 31, 2008 | % interest<br>Dec. 31, 2007 |
|---|--------------|-----------------------------|-----------------------------|
| Toshiba Schneider Inverter Corp.                            | Japan        | 60.0                        | 60.0                        |
| Clipsal (Malaysia) Sdn Bhd                                  | Malaysia     | 100.0                       | 100.0                       |
| Clipsal Integrated Systems (M) Sdn Bhd                      | Malaysia     | 100.0                       | 100.0                       |
| Clipsal Manufacturing (M) Sdn Bhd                           | Malaysia     | 100.0                       | 100.0                       |
| DESEA SDN. BHD.   | Malaysia     | 100.0                       | 100.0                       |
| Gutor Electronic Asia Pacific Sdn Bhd                       | Malaysia     | 100.0                       | 100.0                       |
| Huge Eastern Sdn Bhd  | Malaysia     | 100.0                       | 100.0                       |
| KSLA Energy & Power Solutions (M) Sdn Bhd                   | Malaysia     | 100.0                       | 100.0                       |
| MGE UPS Systems Malaysia SDN BHD                            | Malaysia     | 100.0                       | 100.0                       |
| PDL Electric (M) Sdn Bhd                                    | Malaysia     | 100.0                       | 100.0                       |
| PDL Electronics (Malaysia) Sdn Bhd                          | Malaysia     | 100.0                       | 100.0                       |
| PDL Industries (Asia) Sdn Bhd                               | Malaysia     | 100.0                       | 100.0                       |
| PDL Switchgear (Asia) Sdn Bhd                               | Malaysia     | 100.0                       | 100.0                       |
| Schneider Electric (Malaysia) Sdn Bhd                       | Malaysia     | 30.0                        | 30.0                        |
| Schneider Electric Industries (M) Sdn Bhd                   | Malaysia     | 100.0                       | 100.0                       |
| Citect NZ 2005 Ltd  | New-Zealand  | 100.0                       | 100.0                       |
| Clipsal Industries (NZ) Ltd                                 | New-Zealand  | -                           | 100.0                       |
| Schneider Electric (NZ) Limited                             | New-Zealand  | 100.0                       | 100.0                       |
| American Power Conversion Land Holdings Inc.                | Philippines  | 100.0                       | 100.0                       |
| American Power Conversion, Inc                              | Philippines  | 100.0                       | 100.0                       |
| Clipsal Philippines   | Philippines  | 100.0                       | 100.0                       |
| MGE UPS Philippines Inc.                                    | Philippines  | 100.0                       | 100.0                       |
| Schneider Electric (Philippines) Inc.                       | Philippines  | 100.0                       | 100.0                       |
| APC Singapore Pte Ltd                                       | Singapore    | 100.0                       | 100.0                       |
| Citect Pte  | Singapore    | 100.0                       | 100.0                       |
| Clipsal International PTE Ltd                               | Singapore    | 100.0                       | 100.0                       |
| Clipsal Singapore Technology Pte Ltd                        | Singapore    | 100.0                       | 100.0                       |
| Invensys Building Systems Pte Ltd                           | Singapore    | 100.0                       | 100.0                       |
| KSLA Energy & Power Solution Pte Ltd                        | Singapore    | 100.0                       | 100.0                       |
| Merten Asia Pte Ltd   | Singapore    | 100.0                       | 100.0                       |
| MGE Asia Pte Ltd  | Singapore    | 100.0                       | 100.0                       |
| MGE Logistics South East Asia pacific Pte Ltd               | Singapore    | 100.0                       | 100.0                       |
| PDL Electric (S) Pte Ltd                                    | Singapore    | 100.0                       | 100.0                       |
| Pelco Asia Pacific PTE Ltd                                  | Singapore    | 100.0                       | 100.0                       |
| Schneider Electric Export Services                          | Singapore    | 100.0                       | 100.0                       |
| Schneider Electric Industrial Development Singapore Pte Ltd | Singapore    | 100.0                       | 100.0                       |
| Schneider Electric ISC Pte. Ltd.                            | Singapore    | 100.0                       | 100.0                       |
| Schneider Electric Logistics Asia Pte Ltd                   | Singapore    | 100.0                       | 100.0                       |
| Schneider Electric Overseas Asia Pte Ltd                    | Singapore    | 100.0                       | 100.0                       |
| Schneider Electric Services Singapore Pte Ltd               | Singapore    | 100.0                       | 100.0                       |
| Schneider Electric Singapore Pte Ltd                        | Singapore    | 100.0                       | 100.0                       |
| Schneider Electric South East Asia (HQ) Pte Ltd             | Singapore    | 100.0                       | 100.0                       |
| TAC Control Asia Pte Ltd                                    | Singapore    | 100.0                       | 100.0                       |
| TAC Controls Pte Ltd  | Singapore    | 100.0                       | 100.0                       |
| Schneider Electric Lanka (Private) Limited                  | Sri Lanka    | 100.0                       | 100.0                       |
| Clipsal (Taiwan) Co., Ltd                                   | Taiwan       | 82.0                        | 82.0                        |
| Pro Face Taiwan Co. Ltd                                     | Taiwan       | 99.9                        | 99.9                        |
| Schneider Electric Taiwan Co Ltd                            | Taiwan       | 100.0                       | 100.0                       |
| Clipsal (Thailand) Co. Ltd                                  | Thailand     | 95.1                        | 95.1                        |
| MGE UPS Systems S.A. (Thailand) Co. Ltd                     | Thailand     | 100.0                       | 100.0                       |
| Pinnacle Supplier Company Limited                           | Thailand     | 100.0                       | 100.0                       |
| Pro Face South East Asia Pacific Co. Ltd                    | Thailand     | 99.9                        | 99.9                        |
| Schneider (Thailand) Ltd                                    | Thailand     | 100.0                       | 100.0                       |
| Square D Company (Thailand) Ltd                             | Thailand     | 100.0                       | 100.0                       |
| Clipsal Vietnam Co. Ltd                                     | Vietnam      | 100.0                       | 100.0                       |
| Schneider Electric Vietnam Co. Ltd                          | Vietnam      | 100.0                       | 100.0                       |
| <i>Accounted for by the equity method</i>                   |              |                             |                             |
| Delixi Electric Ltd   | China        | 50.0                        | 50.0                        |
| Fuji Electric FA Components & Systems Co., LTD.             | Japan        | 37.0                        | -                           |
| Schneider Electric Engineering Ltd                          | Japan        | 40.0                        | 40.0                        |
| Shanghai Electric Xantrex Power Electronics Co. Ltd.        | China        | 49.0                        | -                           |
| <b>Rest of the world</b>                                    |              |                             |                             |
| <i>Fully consolidated</i>                                   |              |                             |                             |
| Alight Investment Holding Pty Ltd                           | South Africa | 100.0                       | 100.0                       |
| Citect (PTY) Ltd  | South Africa | 100.0                       | 100.0                       |
| Clipsal Industries Pty Ltd                                  | South Africa | 100.0                       | 100.0                       |
| Clipsal Manufacturing (Pty) Ltd                             | South Africa | 100.0                       | 100.0                       |
| Clipsal South Africa (Pty) Ltd                              | South Africa | 100.0                       | 100.0                       |
| Clipsal Electronics Systems (Pty) Ltd                       | South Africa | 100.0                       | 100.0                       |
| Hoist-Tec (Pty) Ltd   | South Africa | 100.0                       | 100.0                       |

|  |                      | % interest<br>Dec. 31, 2008 | % interest<br>Dec. 31, 2007 |
|--|----------------------|-----------------------------|-----------------------------|
| Merlin Gerin SA (Pty) Ltd  | South Africa         | 60.0                        | 60.0                        |
| MGE UPS Systems (SA) Pty Ltd   | South Africa         | 100.0                       | 100.0                       |
| Nu-Lec Africa (Pty) Ltd  | South Africa         | 49.0                        | 49.0                        |
| Pelco Video Security South Africa Ltd  | South Africa         | 100.0                       | 100.0                       |
| RBF Technology (Pty) Ltd.  | South Africa         | 74.0                        | -                           |
| Schneider Electric South Africa Pty Ltd  | South Africa         | 100.0                       | 100.0                       |
| Valortrade 27 (Pty) Ltd  | South Africa         | 52.0                        | 52.0                        |
| Schneider Electric Algeria   | Algeria              | 100.0                       | 100.0                       |
| EPS Ltd  | Saudi Arabia         | 51.0                        | 51.0                        |
| MGE UPS Systems Argentina S.A  | Argentina            | 100.0                       | 100.0                       |
| Schneider Electric Argentina   | Argentina            | 100.0                       | 100.0                       |
| Clipsal Middle East  | Bahrain              | 80.0                        | 60.0                        |
| Xantrex Holding Ltd.   | Barbados             | 100.0                       | -                           |
| Xantrex International Partnership  | Barbados             | 100.0                       | -                           |
| Xantrex International SRL  | Barbados             | 100.0                       | -                           |
| Palatine Ridge Insurance Company Ltd   | Bermuda              | 100.0                       | 100.0                       |
| Standard Holdings Ltd  | Bermuda              | 100.0                       | 100.0                       |
| APC Brasil Ltda.   | Brazil               | 100.0                       | 100.0                       |
| Atos Automacao Industrial Ltda   | Brazil               | -                           | 100.0                       |
| CDI Power - Sistemas De Automacao Ltda   | Brazil               | 100.0                       | 100.0                       |
| CST Latino America Comercio E Representacao de Produtos Electricos E Electronicos Ltda | Brazil               | 99.8                        | 99.8                        |
| MGE UPS Systems Do Brasil Ltda   | Brazil               | 100.0                       | 100.0                       |
| Ram Do Brasil, Ltda  | Brazil               | 100.0                       | -                           |
| Schneider Electric Brasil LTDA   | Brazil               | 100.0                       | 100.0                       |
| Inversiones Schneider Electric Uno Limitada  | Chile                | 100.0                       | -                           |
| Marisio SA   | Chile                | 100.0                       | -                           |
| Schneider Electric Chile SA  | Chile                | 100.0                       | 100.0                       |
| Schneider de Colombia SA   | Colombia             | 80.0                        | 80.0                        |
| Schneider Centroamerica SA   | Costa Rica           | 100.0                       | 100.0                       |
| Schneider Electric Distribution Company  | Egypt                | 87.4                        | 87.4                        |
| Schneider Electric Egypt SA  | Egypt                | 91.0                        | 91.0                        |
| Clipsal Middle East FZC  | United Arab Emirates | 80.0                        | 60.0                        |
| Clipsal Middle East FZCO   | United Arab Emirates | 100.0                       | 100.0                       |
| Delan Electric Fze   | United Arab Emirates | 100.0                       | -                           |
| Schneider Electric FZE   | United Arab Emirates | 100.0                       | 100.0                       |
| Schneider Electric RAK FZE   | United Arab Emirates | 100.0                       | -                           |
| Xantrex Technology (BVI) Inc.  | Virgin Islands       | 100.0                       | -                           |
| Schneider Electric Industries Iran   | Iran                 | 89.0                        | 89.0                        |
| Telemecanique Iran   | Iran                 | 100.0                       | 100.0                       |
| Schneider Electric LLP   | Kazakhstan           | 100.0                       | 100.0                       |
| Schneider Electric East Mediterranean SAL  | Lebanon              | 96.0                        | 96.0                        |
| Crouzet SA   | Morocco              | 100.0                       | 100.0                       |
| Delixi Maroc   | Morocco              | 100.0                       | -                           |
| MGE UPS Maroc SA   | Morocco              | 100.0                       | 100.0                       |
| Schneider Electric Maroc   | Morocco              | 100.0                       | 100.0                       |
| Delixi Nigeria   | Nigeria              | 100.0                       | -                           |
| Schneider Electric Nigeria   | Nigeria              | 100.0                       | 100.0                       |
| Schneider Electric Peru SA   | Peru                 | 100.0                       | 100.0                       |
| Metesan Elektrik Malzemeleri Ticaret Ve Pazarlama A.S                                  | Turkey               | 100.0                       | 100.0                       |
| Metesan Lexel Elektrik Malzemeleri Sanayi Ve Ticaret AS                                | Turkey               | -                           | 100.0                       |
| MGE UPS Systems Bilgisayar Sistemleri Ticaret A.S                                      | Turkey               | 100.0                       | 100.0                       |
| Profiluks Plastik ve Elektrik San. Tic. A.S  | Turkey               | 100.0                       | -                           |
| Schneider Elektrik Sanayi Ve Ticaret A.S.  | Turkey               | 100.0                       | 100.0                       |
| APC Uruguay S.A.   | Uruguay              | 100.0                       | 100.0                       |
| Schneider Electric Venezuela SA  | Venezuela            | 91.9                        | 91.9                        |

# *Consolidated financial statements*

## ***Business and Statement of Income highlights***

### Changes in the scope of consolidation

The dates below correspond to the dates on which the Group gained control of the acquired companies. On January 11, 2008, the Group completed the acquisition of US-based IMS, a company that designs and manufactures integrated motor and drive products. In 2007, IMS generated revenue of around \$20 million.

On February 1, 2008, the Group acquired Arrow in Japan, a world leading manufacturer of signaling products (indicating banks, sirens and rotating lights) with 2007 revenue of around €15 million.

On April 13, 2008 Schneider Electric acquired ECP Tech Services (ECP), a US-based company that is a provider of power system testing, maintenance and commissioning services to industrial, utility and commercial customers. ECP reported revenue of around \$36 million in 2007.

On May 7, 2008, the Group acquired Marisio, a Chilean company with 2007 revenue of €11 million that manufactures and markets installation systems and control components.

On June 15, 2008, Schneider Electric acquired Wessen, a leading Russian manufacturer of wiring accessories, primarily switches and sockets with 2007 revenue of nearly €24 million.

On August 12, 2008, Schneider Electric acquired RAM Industries, a US manufacturer of control solutions for OEMs with 750 employees worldwide.

On September 29, 2008, the Group completed the acquisition of Canada-based Xantrex, a world leader in inverters for solar and wind power systems, for \$412 million after disposal by Xantrex of its programmable power business..

These companies have been fully consolidated from their respective acquisition dates.

On September 30, 2008, Schneider Electric contributed its electrical distribution and industrial control operations in Japan and €60 million in cash to its new Fuji Electric FA Components & Systems joint venture with Fuji Electric, for a stake of 37%. For its part, Fuji Electric contributed its electrical distribution and industrial control operations in Japan and other Asian countries to the joint venture. Fuji Electric FA Components & Systems is accounted for by the equity method.

The following companies acquired in 2007 and consolidated over the full year in 2008 had an impact on the scope of consolidation in relation to 2007:

- American Power Conversion (APC), consolidated as from February 15, 2007,
- Ritto, consolidated as from July 16, 2007,
- Atos, Grant and Yamas, consolidated as from August 1, 2007,
- Pelco, consolidated as from October 16, 2007.

The divestment of MGE Office Protection Systems (less than 10kVA) to Eaton Corp. on October 31, 2007 also had an impact on the scope of consolidation in 2008.

Together, these changes in scope of consolidation added €538 million, or 3.1%, to revenue and €45 million, or 1.8%, to EBITA<sup>1</sup> for the year.

### Exchange rate changes

Changes in the euro exchange rate had a significant impact in 2008, reducing consolidated revenue by €666 million and EBITA by €89 million (translation effect only). However, exchange rate changes had no impact on EBITA margin rate.

### Revenue

Consolidated revenue totaled €18,311 million for the year ended December 31, 2008, up 5.8% on a current structure and currency basis from the year before.

---

<sup>1</sup> 1) The Group measures operating performance on the basis of EBITA (Earnings Before Interest, Taxes and Amortization of purchase accounting intangibles).

Organic growth accounted for 6.6%, acquisitions net of disposals 3.1% and the currency effect a negative 3.9%.

### ***Breakdown by region***

Revenue from Europe increased 3.3% to €8,101 million on a reported basis. On a constant structure and currency basis, the increase came to 6.0%.

Revenue from Europe was boosted by sharply higher demand for data center and energy efficiency solutions. Growth was led by services and projects, while product sales contracted in most countries in the second half. In Western Europe, the downturn in residential markets dampened growth, as expected, in Spain, the United Kingdom and Scandinavia. Revenue from Russia was up by more than 15%, despite a sharp loss of momentum at the end of the year.

In North America, revenue totaled €5,053 million, an increase of 5.9% including 1.5% organic growth. The region's performance was weakened by the 14% fall in CST revenue over the year, while revenue from data center solutions was up slightly on 2007. Canada and Mexico reported close to double-digit growth and demand for projects and services remained strong across the region.

Revenue from the Asia-Pacific region totaled €3,395 million, up 5.0% on a current basis and 9.6% on a constant structure and currency basis. Revenue grew by over 15% in China and over 10% in Australia and India, despite the slowdown observed from the end of the third quarter.

Revenue from the Rest of the World rose 20.7% on a current basis, to €1,762 million, and 19.2% on a constant basis. Business remained strong in every region, notably in the Middle East and Africa, thanks to the vibrant trend in oil and gas, as well as in construction and infrastructure.

### ***Breakdown by business***

Electrical Distribution generated revenue of €10,343 million, or 57% of the consolidated total. This represents an increase of 4.8% on a current basis and 7.9% like-for-like.

Automation & Control revenue rose 7.6% on a reported basis to €5,313 million. Like-for-like growth came to 3.3%.

Revenue from Critical Power and Cooling Services totaled €2,655 million, up 6.1% on a current basis and 7.8% on a constant basis.

### **EBITA and operating profit**

EBITA (Earnings Before Interest, Taxes and Amortization of purchase accounting intangibles) rose a reported 7.5% to €2,754 million from €2,562 million in 2007. On a constant structure and currency basis, the increase came to 9.3%. Operating margin widened 0.2 points over the year to 15.0% from 14.8%.

In 2008, operating profit (EBIT) included a €174 million charge for amortization and impairment of purchase accounting intangibles, compared with €79 million in the year-earlier period. The increase was primarily attributable to a €70 million impairment loss on assets allocated to the CST cash-generating unit, and to the amortization of purchase accounting intangibles recognized on business combinations carried out in the past two years (APC, Pelco, EPC and Xantrex).

The €255 million increase in raw material and manufacturing labor costs over the year was amply offset by higher selling prices (impact of €375 million) and productivity gains in manufacturing operations (impact of €331 million). Changes in exchange rates, higher support function costs and product mix reflecting strong growth of lower margin activities had negative impacts of €159 million, €199 million, and €145 million, respectively.

Operating profit included €173 million in non-recurring impairment losses (€9 million) and restructuring costs (€164 million). Restructuring costs primarily stemmed from ongoing reorganization in Europe, for €102 million, North America, for €14 million, and Asia-Pacific, for €14 million, as well as the integration of Pelco, for €13 million. In 2007, non-recurring impairment losses and restructuring costs totaled €138 million.

Other operating income and expense also included a capital gain of €15 million on the assets transferred to the new Fuji Electric FA Components & Systems joint venture in Japan and €11 million received in settlement of a dispute with Panasonic.

In 2008, capitalization of development costs had a positive net impact on operating profit of €134 million, up from €89 million in 2007.

### **EBITA margin by region**

The ratio of EBITA to revenue does not include general management and corporate function expenses that cannot be allocated to a particular segment.

In Europe, the EBITA margin came to 17.4%, up by 0.2 point compared to 2007.

North America reported an EBITA margin of 16.3% in 2008, slightly narrowing by 0.2 point compared to 2007.

EBITA margin in the Asia-Pacific region strongly increased by 2.3 points to end the year at 15.9%.

EBITA margin in the Rest of the World came to 16.5% in 2008, increasing by 0.6 point.

### **EBITA margin by business**

EBITA margin in the Electrical Distribution business rose by 0.5 points to 18.6%.

The Automation & Controls business achieved an EBITA margin of 14.5% in 2008, up by 0.3 point from 2007.

In Critical Power & Cooling Services, the EBITA margin strongly increased by 1.5 points to 14.2%, including MGE UPS's small systems business until October 31, 2007.

### **Finance costs and other financial income and expense, net**

Finance costs and other financial income and expense, net represented a net expense of €314 million compared with a €266 million net expense in 2007.

Net finance costs amounted to €246 million, virtually unchanged from the €247 million recorded in 2007.

Net finance costs are stated after deducting interest income of €25 million corresponding to interest on a tax receivable.

Changes in exchange rates after hedging added €87 million to financial expense in 2008 compared with €21 million in 2007, reflecting the exceptional volatility of exchange rates in the last months of the year and the reimbursement of long-term internal financing, which had a non-recurring negative impact of €13 million.

Changes in the fair value of financial instruments did not have any impact on this item in 2008.

### **Income tax**

The effective tax rate stood at 24.5% compared with 27.1% in 2007.

### **Share of profit/(losses) of associates**

The Group's share of profits of associates came to €12 million in 2008 versus €4 million the year before, thanks to the contribution from Delixi Electric, which was accounted for by the equity method from November 1, 2007.

### **Minority interests**

Minority interests totaled €41 million in 2008. Minority interests mainly correspond to the share of profit attributable to minority shareholders of Feller, STIE and a number of Chinese companies.

### **Profit attributable to equity holders of the parent**

Profit attributable to equity holders of the parent grew 6.3% to €1,682 million.

### **Earnings per share**

The 3.5% increase to €7.02 from €6.78 reflects growth in profit for the period, partially offset by dilution from the employee share issue.

## Change in financial situation

### *Balance sheet and cash flow statement items*

Total assets stood at €24,807 million at December 31, 2008, up 7% from the previous year-end. Non current assets amounted to €16,029 million and represented 65% of total assets.

### Goodwill

Goodwill rose by €401 million over the period to €8,542 million, or 34% of total assets.

Acquisitions in 2008 added €415 million.

An impairment test on CST led to a €53 million write-down of the related goodwill at December 31, 2008.

### Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets came to €5,961 million, or 24% of total assets, up 7% from end-2007.

#### ➤ **Intangible assets**

Trademarks rose by €84 million over the year to €2,331 million. The currency effect had a positive impact of €74 million and the acquisition of the Xantrex trademark added €26 million, while the recognition of an impairment loss on a CST trademark had a negative impact of €11 million.

Gross capitalized development costs totaled €637 million (€477 million net), reflecting the capitalization of costs related to current projects in an amount of €195 million.

Other intangible assets, net, consisting primarily of customer lists recognized on business combinations, software and patents, rose by €72 million over the year. Year-on-year changes included the recognition of Xantrex customer lists (€70 million), capitalization of SAP system development costs (€39 million), amortization and impairment expense (€114 million) and translation adjustments (€51 million).

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

Property, plant and equipment came to €1,970 million versus €1,856 million the year before. Acquisitions added €435 million, while depreciation reduced the total by €330 million.

### Investments in associates

Investments in associates rose by €109 million to €281 million. This includes €84 million from the creation of 37%-owned Fuji Electric FA Components & Systems on September 30, 2008.

### Non-current financial assets

Non-current financial assets, primarily equity instruments quoted in an active market and loans and receivables related to investments, totaled €313 million at December 31, 2008, on a par with €447 million at end-2007. This decrease in 2008 was mainly due to a €113 million decline in the fair value of AXA shares.

### Cash and net debt

Net cash provided by operating activities before changes in operating assets and liabilities rose 13.0% to €2,500 million, representing 13.7% of revenue.

Changes in operating working capital represented a negative €72 million, reflecting well-managed business growth over the year. Working capital to revenue declined by 1.0 point to 20.8%.

In all, net cash provided by operating activities totaled €2,428 million, up 16.1% from €2,090 million in 2007.

Net capital expenditure, which includes capitalized development projects, represented an outlay of €693 million, or 3.8% of revenue, compared with €560 million in 2007.

Acquisitions used a total of €598 million, net of the cash acquired.

The sale of treasury stock on exercise of stock options represented a net outflow of €70 million compared with a net inflow of €15 million in 2007 related to disposals. Dividends paid totalled €832 million, of which €36 million to minority interests.

At December 31, 2008, net debt totaled €4,553 million or 41.2% of equity attributable to equity holders of the parent. This represents a decrease of €383 million from the year before.

The Group ended the period with cash and cash equivalents of €1,652 million, of which €642 million in cash, €997 million in cash equivalents and €13 million in short-term instruments such as commercial paper, money market mutual funds and equivalents.

Total current and non-current financial liabilities amounted to €6,205 million. Of this, bonds represented €3,477 million, bank loans €1,318 million and drawdowns on lines of credit €752 million. Three new bond issues, in an aggregate amount of €305 million, were launched in 2008 and €750 million worth of bonds were redeemed.

### Equity

Equity attributable to equity holders of the parent came to €10,906 million, or 44% of the balance sheet total. The €721 million increase over the year was the net result of the following:

- o Payment of the 2007 dividend, in an amount of €796 million.
- o Profit for the year of €1,682 million.
- o The employee share issue, which increased equity by €134 million.
- o Changes in treasury stock, which reduced equity by €70 million.
- o The recognition of a €152 million tax receivable.
- o Fair value adjustments to hedging instruments and available-for-sale financial assets, which reduced equity by €147 million.
- o Changes in actuarial gains and losses on employee benefit obligations, which reduced equity by €271 million.

Minority interests rose by €16 million to €145 million, reflecting the €41 million of minority interests in profit for the period and translation adjustments of €10 million, partially offset by dividend payments of €36 million.

### Provisions for contingencies

Current and non-current provisions totaled €2,303 million, or 9% of the balance sheet total. Of this, €538 million covered items that are expected to be paid out in less than one year.

This item primarily comprises provisions for pensions and healthcare costs in an amount of €1,463 million. The €499 million increase over the period corresponds to changes in actuarial assumptions (€436 million) and translation adjustments (€24 million).

Other provisions totaled €839 million at December 31, 2008. These provisions cover product risks (warranties, disputes over identified defective products), for €207 million, economic risks (tax risks, financial risks generally corresponding to seller's warranties), for €324 million, customer risks (customer disputes and losses on long-term contracts), for €28 million, and restructuring, for €132 million.

The year's acquisitions added €24 million to provisions in the balance sheet.

### Deferred taxes

Deferred tax assets came to €932 million, reflecting unused tax losses, in an amount of €282 million, future tax savings on provisions for pensions, in an amount of €486 million, and non-deductible provisions and accruals in an amount of €164 million.

Deferred tax liabilities totaled €888 million and primarily comprised deferred taxes recognized on trademarks, customer lists and patents acquired in connection with business combinations.

The €266 million change over the year stemmed primarily from a €183 million increase in provisions for pensions and the use of €56 million in tax loss carryforwards.

## *Parent company financial statements*

Schneider Electric SA posted total portfolio revenues of €952 million in 2008 compared with €21 million the previous year. Schneider Electric Industries SAS, the main subsidiary, paid dividends of €902 million in 2008 compared with zero in 2007. Interest income amounted to €431 million versus €403 million the year before. Profit before tax came to €1,080 million versus €134 million in 2007. Net profit stood at €1,148 million versus €227 million in 2007.

Equity before appropriation of net profit amounted to €8,613 million at December 31, 2008 versus €8,120 million at the previous year-end, after taking into account 2008 profit, dividend payments of €796 million, and share issues in an amount of €141 million.

### *Subsidiaries*

#### Schneider Electric Industries SAS

Revenue totaled €3.5 billion versus €3.3 billion in 2007.  
Operating profit increased to €124 million from €87 million in 2007.  
Net profit came to €550 million compared with €443 million in 2007.

#### Cofibel

Cofibel's portfolio consists entirely of Schneider Electric SA shares.  
Profit before tax came to €5.2 million compared with €5.4 million in 2007.  
Cofibel posted an after-tax profit of €5.2 million, compared with an after-tax loss of €2.5 million in 2007.

#### Cofimines

Profit before tax came to €2.5 million compared with €2.0 million in 2007.  
After taking into account corporate income tax, net profit stood at €1.6 million versus €1.8 million in 2007.

### *Compensation and benefits paid to corporate officers*

Details on compensation and benefits paid to corporate officers are provided in paragraph 9 of chapter 2 Corporate Governance.

## *OUTLOOK FOR 2009*

### **Launch of ONE company program**

The purpose of the new company program 2009-2011 is to set the potential EBITA margin between 13% and 16% in an ordinary course of business, as well as setting the potential growth equivalent the world's GDP plus 3 points, also on an ordinary course of business.

### **Outlook for 2009**

Because of the lack of visibility stemming from the global economic crisis, it is difficult to provide an estimate for organic growth in 2009. Our various scenarios point to negative organic growth of between five and fifteen percent, with a minimum EBITA margin in the worst case scenario of 12% before restructuring costs thanks to stepped-up reductions in support function costs. Conservative cash management should allow the Group to achieve a free cash flow to net profit ratio of 100%.



**MAZARS**

Tour Exaltis  
61, rue Henri-Regnault  
92400 Courbevoie  
S.A. au capital de € 8.320.000

Commissaire aux Comptes  
Membre de la compagnie  
régionale de Versailles

**ERNST & YOUNG et Autres**

41, rue Ybry  
92576 Neuilly-sur-Seine Cedex  
S.A.S. à capital variable

Commissaire aux Comptes  
Membre de la compagnie  
régionale de Versailles

**Schneider Electric S.A.**

Year ended December 31, 2008

*(This is a free translation into English of the statutory auditors' report issued in French language and is provided solely for the convenience of English-speaking readers. This report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the financial statements. This information includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting matters. These assessments were made for the purpose of issuing an opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside the consolidated financial statements. This report also includes information relating to the specific verification of information in the group management report. This report, should be read in conjunction with and is construed in accordance with French law and professional auditing standards applicable in France.)*

**Statutory Auditors' Report on the consolidated financial statements**

To the Shareholders,

In compliance with the assignment entrusted to us by your annual shareholders' meeting, we hereby report to you, for the year ended December 31, 2008, on:

- the audit of the accompanying consolidated financial statements of Schneider Electric S.A.;
- the justification of our assessments;
- the specific verification required by French law.

These consolidated financial statements have been approved by the executive board. Our role is to express an opinion on these financial statements based on our audit.

## **I. Opinion on the consolidated financial statements**

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes verifying, by audit sampling and other selective testing procedures, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used, the significant estimates made by management and the overall financial statements presentation. We believe that the evidence we have gathered in order to form our opinion is adequate and relevant.

In our opinion, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and results of the consolidated group in accordance with the accounting rules and principles applicable under IFRS, as adopted by the EU.

## **II. Justification of assessments**

In accordance with the requirements of article L. 823-9 of French commercial code (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

- Note 1.8 to the consolidated financial statements explains the method for recognizing research and development costs and describes the criteria under which development costs may be capitalized. We reviewed the data and assumptions used to identify development costs that qualify for capitalization, as well as the group's calculations, and obtained assurance that adequate disclosure is made in the notes to the consolidated financial statements.
- As explained in notes 1.10 and 25 to the consolidated financial statements, intangible assets and goodwill are tested for impairment at least once a year and when factors exist indicating that the related assets may have suffered a loss of value. We reviewed, on a test basis, the indicators of a loss of value and the other information evidencing the absence of any loss of value other than those indicated in note 25. We reviewed the data, assumptions used, and calculations made, and obtained assurance that adequate disclosure is made in the notes to the consolidated financial statements.
- As indicated in notes 1.15 and 11.3 to the consolidated financial statements, future tax benefits arising from the utilization of tax loss carry forwards are recognized only when they can reasonably be expected to be realized. We obtained assurance about the reasonableness of the assumptions used to produce the estimate of future taxable income used to support assessments of the recoverability of these deferred tax assets.
- Notes 1.18 and 14 describe the method for valuing pensions and other post-employment obligations. Actuarial valuations were performed for these commitments. We reviewed the data, assumptions used, and calculations made, and obtained assurance that adequate disclosure is made in the notes to the consolidated financial statements.
- Note 24 ("Other operating income / expenses") states the amount of restructuring costs recorded in 2008. We verified that, based on currently available information, these costs concern restructuring measures initiated or announced before December 31, 2008, for which provisions have been recorded based on an estimate of the costs to be incurred. We also reviewed the data and assumptions used by the group to make these estimates.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole and, therefore, served in forming our audit opinion expressed in the first part of this report.

## **III. Specific verification**

We have also verified the information given in the group management report as required by French law.

We have no matters to report regarding its fair presentation and conformity with the consolidated financial statements.

Courbevoie and Neuilly-sur-Seine, February 18, 2009

The Statutory Auditors  
*French original signed by*

MAZARS

ERNST & YOUNG et Autres

Pierre Sardet

Pierre Jouanne