



Highlights

Review of Operations

First-Half 2004 Financial Results

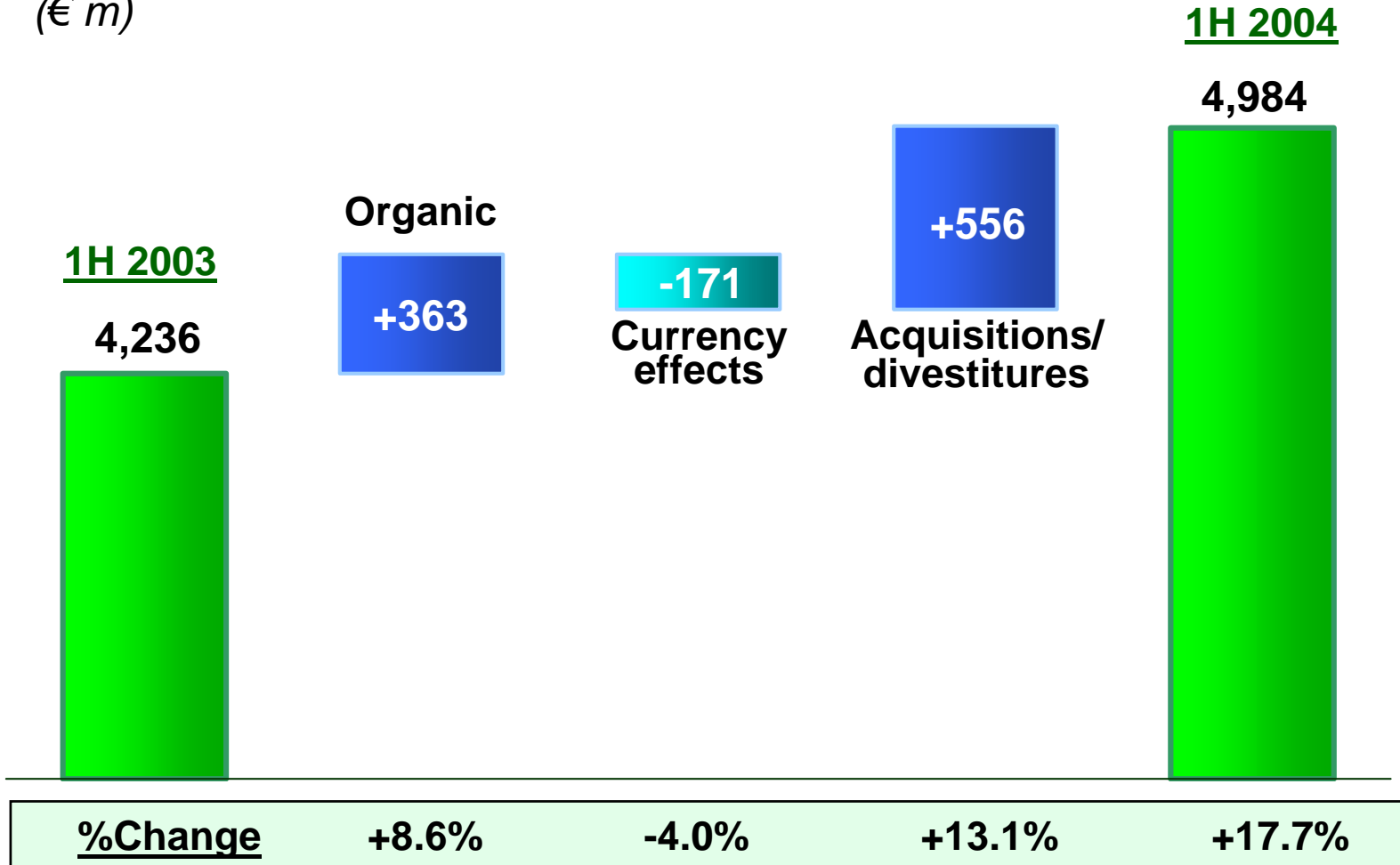
Strategy and Outlook

## First-half 2004 financial highlights

- ➔ **Record growth in sales of +18%**
  - Strong organic growth: +9%
  - Significant contribution from acquisitions: €556 million
  
- ➔ **Clear improvement in operating margin of +1.1pt**
  - Still significant unfavorable currency effects: -0.6 pts
  - Strong industrial productivity gains: €78 million
  - Stepped up marketing investments in growing countries
  - Solid margins of recent acquisitions
  
- ➔ **Strong growth in earnings**
  - Operating income: +30%
  - Net income before goodwill amortization: +23%
  
- ➔ **Free cash flow of more than 5% of sales thanks to disciplined control over capital employed**

# Record sales growth

(€ m)



Average €/ \$ rate: 1.23 (1.10 in 1H 2003)

## Simplified income statement (part 1)

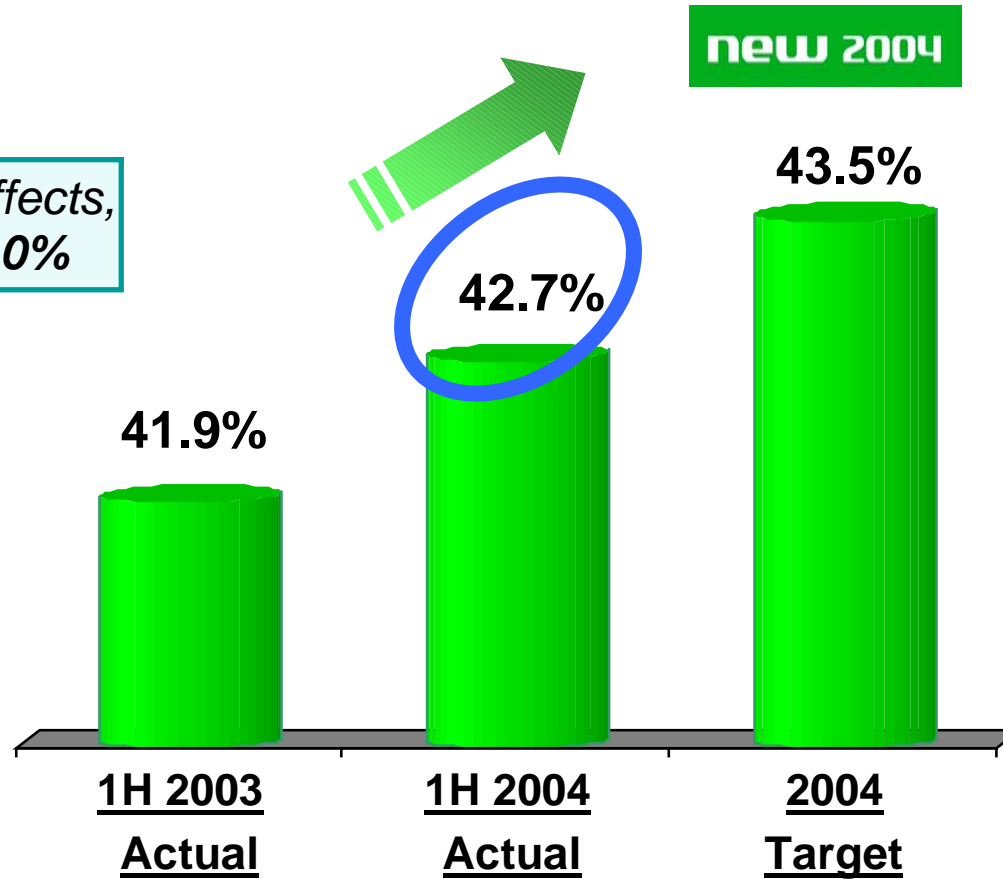
(€ m)	<u>1H 2004</u>	<u>1H 2003</u>	<u>%Change</u>
<b>Sales</b>	<b>4,984</b>	<b>4,236</b>	<b>+18%</b>
<b>Gross margin</b>	<b>2,130</b>	<b>1,776</b>	
<i>as a % of sales</i>	<b>42.7%</b>	<b>41.9%</b>	<b>+0.8 pt</b>
<b>Operating income</b>	<b>571</b>	<b>440</b>	<b>+30%</b>
<i>as a % of sales</i>	<b>11.5%</b>	<b>10.4%</b>	<b>+1.1 pt</b>
<b>Financial expense, net</b>	<b>(28)</b>	<b>(21)</b>	
<b>Income from continuing operations</b>	<b>543</b>	<b>419</b>	<b>+30%</b>
<i>as a % of sales</i>	<b>10.9%</b>	<b>9.9%</b>	<b>+1.0 pt</b>

# Improvement in gross margin in line with the target

new 2004

(% of sales)

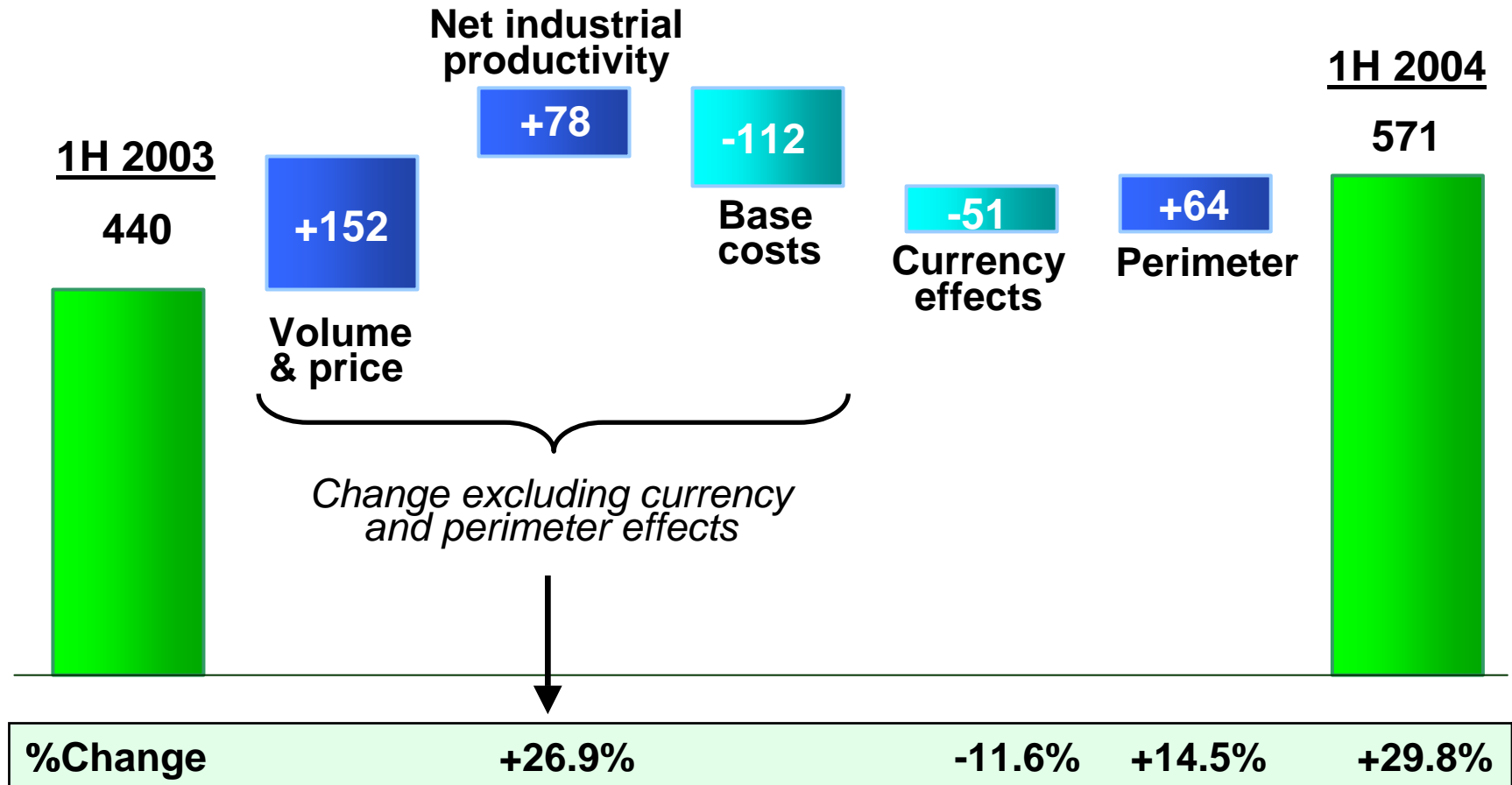
Excluding currency effects,  
gross margin of **43.0%**



Gross margin = sales less cost of sales (including manufacturing base costs)

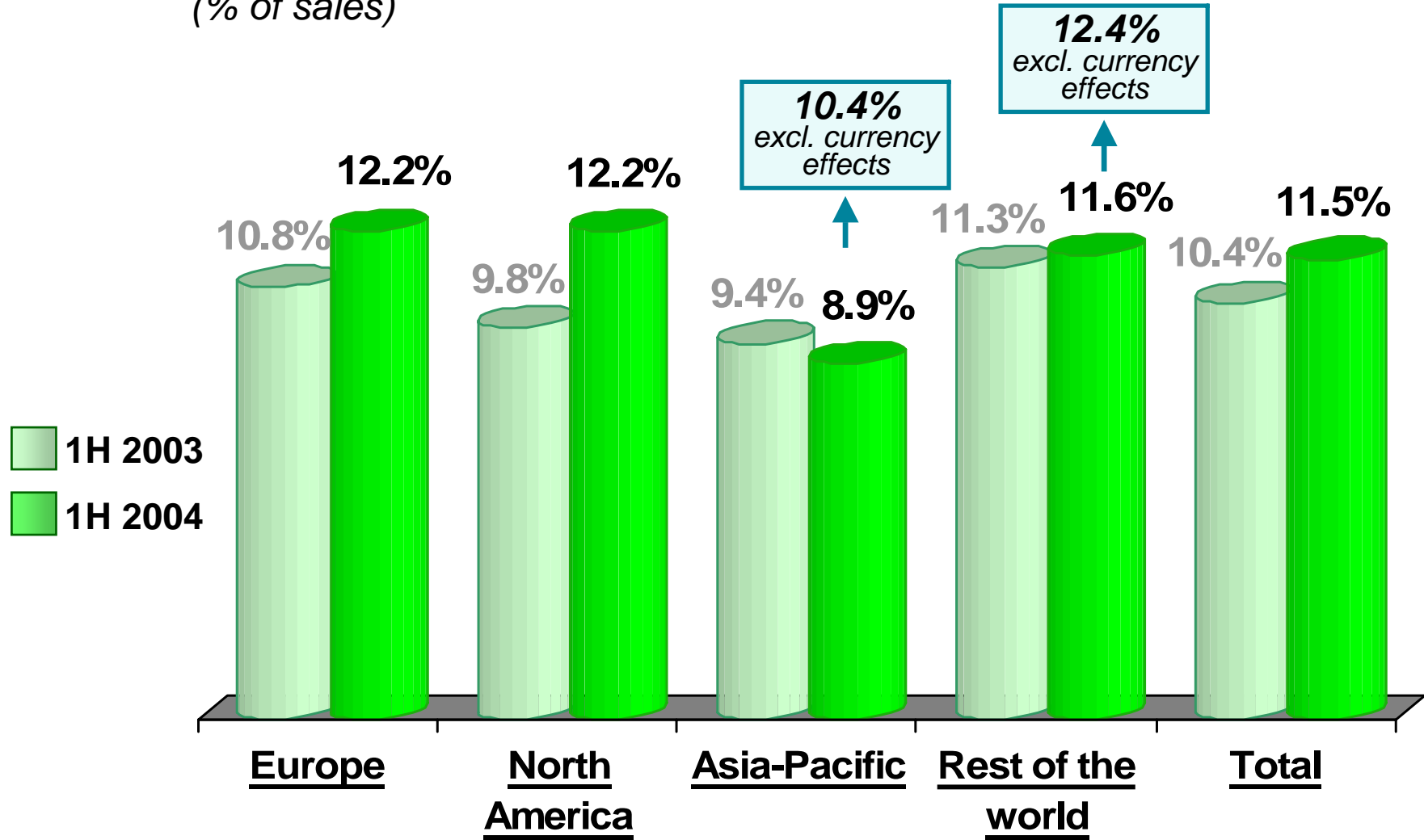
# Strong growth in operating income

(€ m)



# Operating margin by geographic division

(% of sales)



## Simplified income statement (part 2)

(€ m)	<u>1H 2004</u>	<u>1H 2003</u>	<u>%Change</u>
<b>Income from continuing operations</b>	<b>543</b>	<b>419</b>	<b>+30%</b>
<b>Exceptional items</b>	<b>(38)</b>	<b>(31)</b>	
<b>Income taxes</b>	<b>(160)</b>	<b>(106)</b>	
<b>Other</b> (minority interests, affiliates)	<b>(15)</b>	<b>(13)</b>	
<b>Net income before goodwill</b>	<b>330</b>	<b>269</b>	<b>+23%</b>
<b>Amortization of goodwill</b>	<b>(104)</b>	<b>(79)</b>	
<b>Net income after goodwill</b>	<b>226</b>	<b>190</b>	<b>+19%</b>

## Strong growth in earnings per share

(in €)

	<u>1H 2004</u>	<u>1H 2003</u>	<u>% Chg</u>
<b>EPS <u>before</u> goodwill amortization</b>	<b>1.47</b>	<b>1.20</b>	<b>+23%</b>
<b>EPS <u>after</u> goodwill amortization</b>	<b>1.01</b>	<b>0.85</b>	<b>+19%</b>

**Average number of shares (millions) 223.4 224.4**

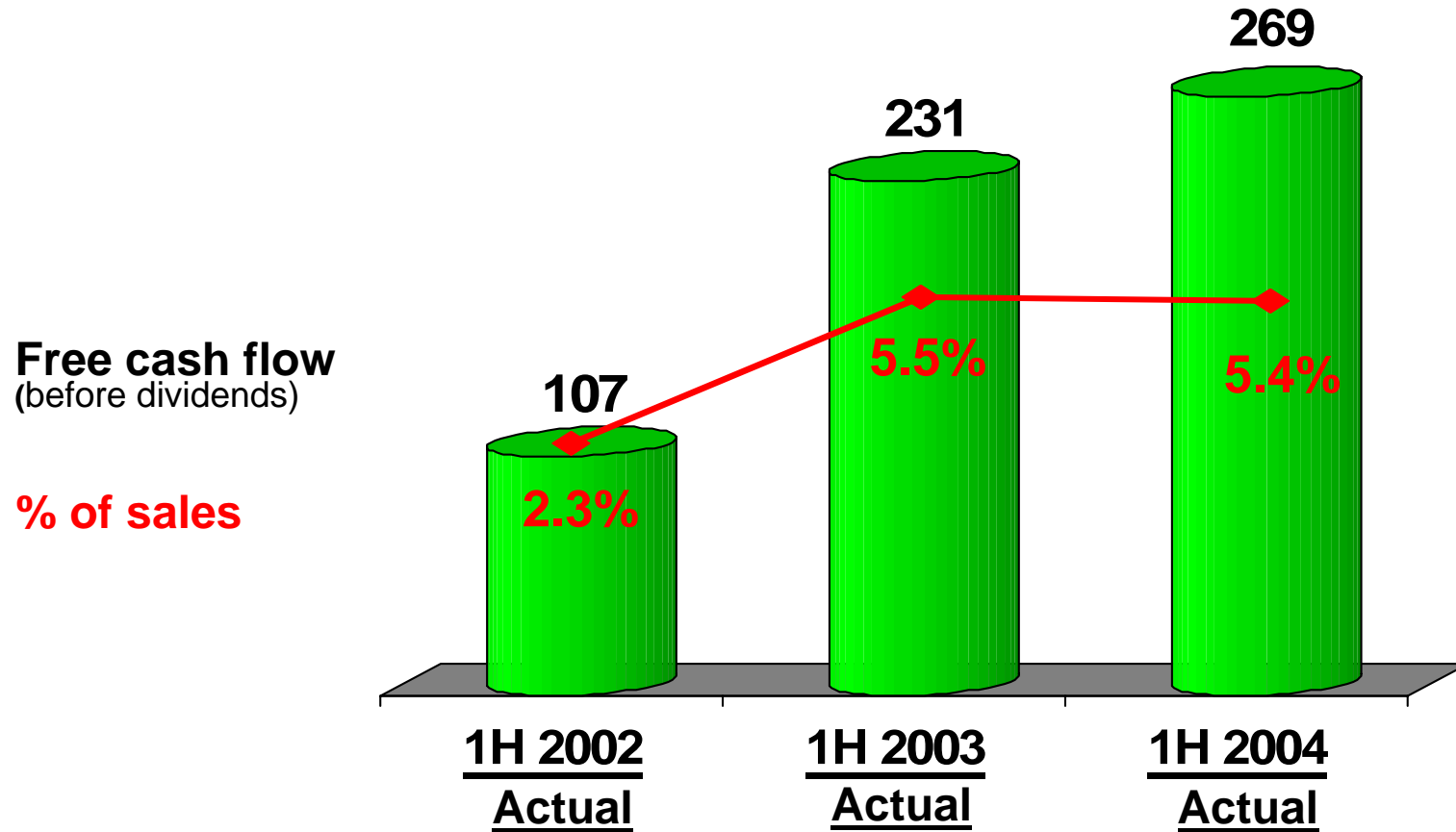
*After having bought back 1.8 million shares in first-half 2004, the Group intends to continue buying back shares and cancel them*

## Solid financials

(€ m)	<u>1H 2004</u>	<u>1H 2003</u>
<b>Net cash provided by operations</b>	<b>543</b>	<b>458</b>
<b>Capital expenditure - net</b>	<b>(123)</b>	<b>(129)</b>
<b>Change in working capital requirement</b>	<b>(151)</b>	<b>(98)</b>
<b>Free cash flow (before dividends)</b>	<b>269</b>	<b>231</b>
	<u>June 30, 2004</u>	<u>Dec. 31, 2003</u>
<b>Shareholders' equity</b>	<b>7,626</b>	<b>7,734</b>
<b>Net debt/(cash)</b>	<b>485</b>	<b>(399)</b>
<b>Debt rating (Standard &amp; Poor's)</b>	<b>A</b>	<b>A</b>

## High free cash flow

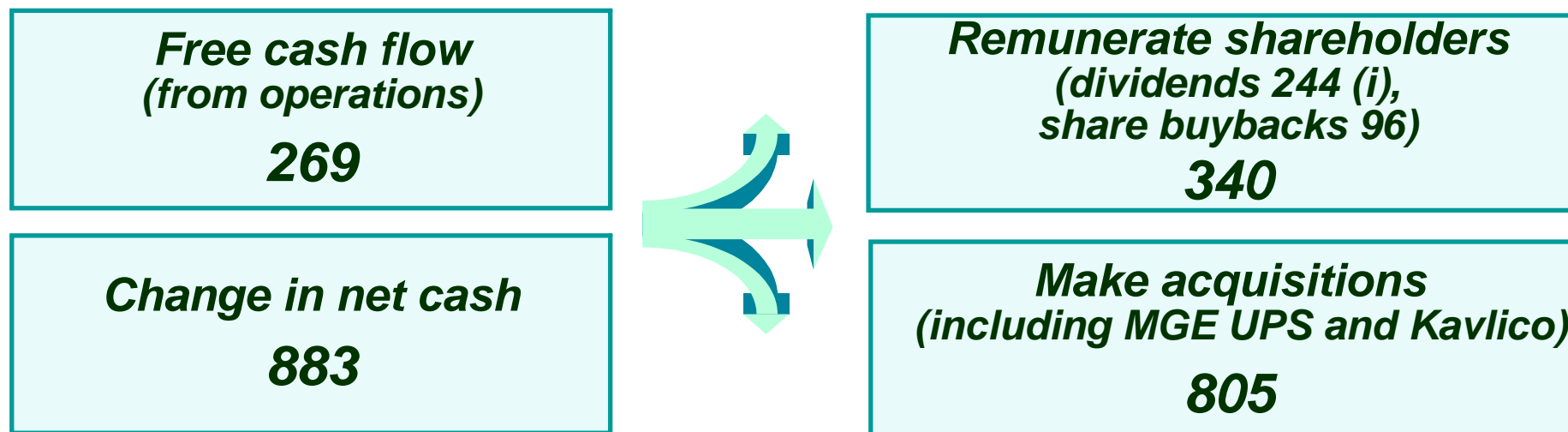
(€ m and % of sales)



Free cash flow: operating cash flow - net capital expenditure - change in working capital

## Solid financial resources to foster growth and remunerate our shareholders

(Main elements of cash flow statement in € m)



(i) excluding the equalization tax to be paid in July 2004



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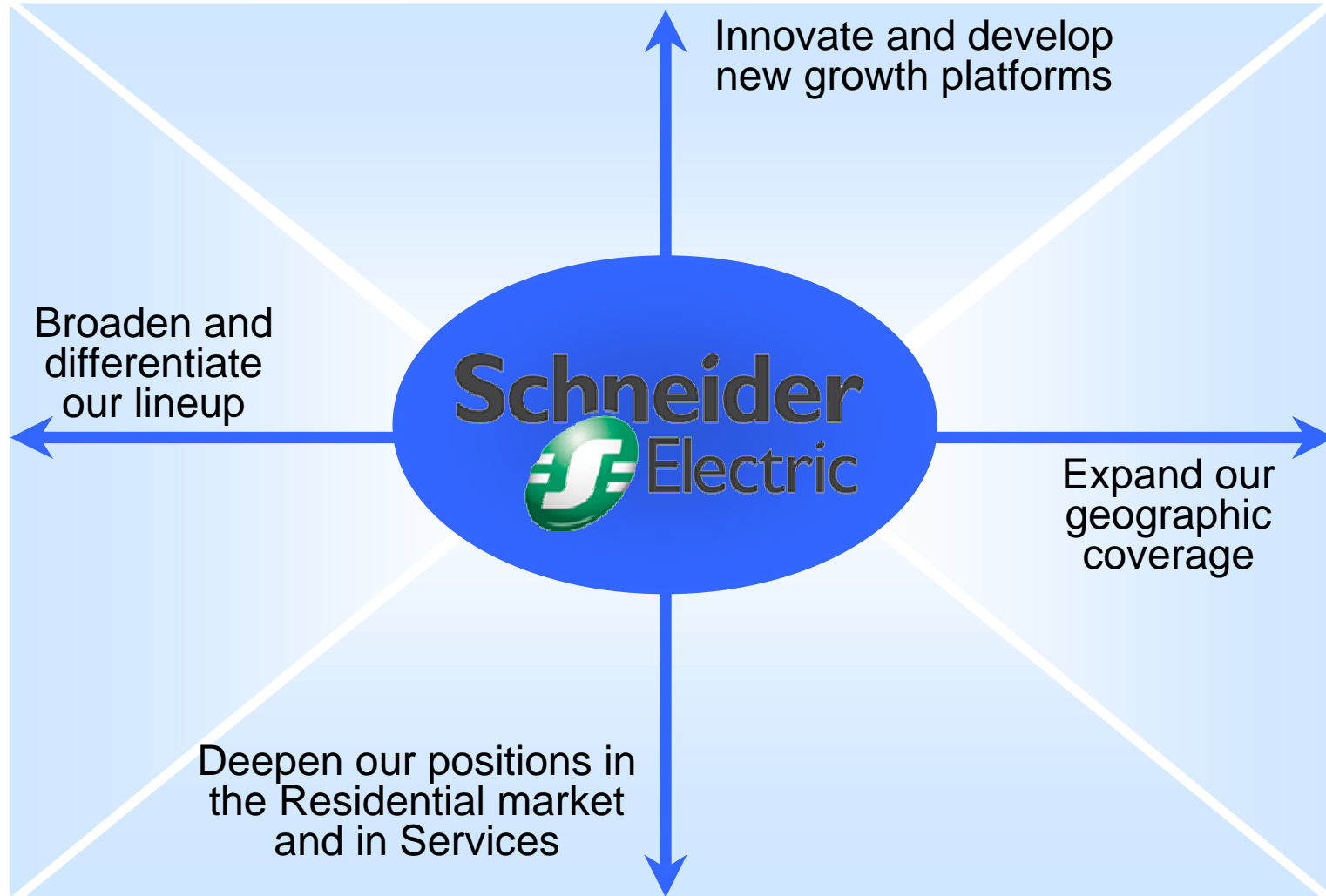
First-Half 2004 Financial Results

Strategy and Outlook

*Our strategy*

**new 2004**

We have an aggressive growth strategy combining innovation and differentiation



## Our growth strategy

- ➔ **Broaden & differentiate our lineup**
  - Industry: reinforce our presence
  - Buildings, Energy & Infrastructure: enhance our coverage through micro segmentation
  
- ➔ **Residential: acquire positions as strong as in the Buildings market**
  - Geographic coverage in Ultra Terminal (e.g. Clipsal)
  - Dedicated lineups (e.g. Duoline range)
  
- ➔ **Expand our geographic coverage by investing in fast-growing countries**
  - China, Eastern Europe, India, Brazil
  
- ➔ **Develop new growth platforms**
  - Building automation & security
  - Secured power
  - Energy management
  - Specific segments in automation

## Our selection criteria for acquisitions

- ➔ **Sector's attractiveness**
  - Long-term growth prospects and profitability
  - Potential for related services
  
- ➔ **Strategic fit with our businesses**
  - Consistent business model and market access channels
  - Ability to integrate and synergies with our operations
  
- ➔ **Target's quality**
  - Well-established market position or specific technology
  - Good level of profitability
  
- ➔ **Ability to create value: return on capital employed covers cost of capital within a maximum of three years**

## Outlook for 2004

- ➔ **We are significantly outperforming our end markets in emerging countries and our growth action plans amplify the rebound of our business in mature countries**
  
- ➔ **Thanks to our excellent fundamentals, we are confident in our strong ability to grow and create value for our shareholders**
  
- ➔ **In light of current market conditions and based on an exchange rate of \$1.25/€, we revise upwards our outlook for 2004:**
  - ↳ **Sales growth > +15%**
  
  - ↳ **Increase in operating income > +25%**  
i.e. +1 point in operating margin

# Building *a New Electric World*

