

# BUSINESS REVIEW

## OVERVIEW

During the 2003 / 04 financial year, demand for Johnson Electric's range of motors and motor system products in many ways reflected the underlying global economic environment. For the first months of the year, macro economic indicators were comparatively weak and a high degree of market uncertainty existed in the wake of the war in Iraq and SARS. Trading conditions, however, improved markedly in the second half with global manufacturing output levels increasing and the global economy displaying clear signs of recovery.

After growing 5% in the first half of the year, Group sales increased by almost 15% in the second half – resulting in an overall year-on-year sales increase of 10% to US\$1,051 million.

On a geographical basis, the sales picture was also mixed. Group sales to Europe were US\$423 million (40% of total sales) growing by over 14%. Sales to the Americas were US\$311 million (30% of total sales), an increase of 4%, and sales to the Asia were US\$317 million (30% of total sales) an increase of 11%.

## DIVISIONAL SALES PERFORMANCE

We manage our business according to customer-focused business units which are grouped under two main operating divisions: Automotive Motors Group (“AMG”) and Commercial Motors Group (“CMG”).

## AUTOMOTIVE MOTORS GROUP

AMG sales to the automotive components sector increased 9% to a record level of US\$662 million, accounting for 63% of total sales.

### Body Climate

*Windowlift regulators*

*Seat adjusters*

*HVAC blowers*

Body Climate Business Unit sales increased 7% over the previous year due to both the strong Euro and product mix changes. While overall unit volumes were essentially flat, higher-priced brushless motors more than doubled in sales. With the complete consolidation of Brushless Technology Motors S.r.l. (BTM) into this business unit, significant activity was focused on cost reduction of this former joint venture's brushless motors to offset market pricing pressure.

### Body Instruments

*Doorlock actuators*

*Windshield washer pumps*

*Head lamp adjusters*

*Mirror adjusters*

*HVAC flap actuators*

*Head lamp washers*

Sales of the Body Instruments Business Unit increased by 9% to US\$138 million on unit volumes which were up by 2%. Changes in product mix, a delay to the launch of a new program, and slower vehicle application rates for window flap regulators resulted in lower than expected unit volumes. These lower unit sales were partially offset by exchange rate gains.

### Powertrain Cooling

*Cooling fan modules*

*Cooling fan motors*

*Electronic speed controllers*

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Sales of the Powertrain Cooling Business Unit increased by 18% to US\$233 million year over year due primarily to the strong Euro currency. Unit volumes were down due to weaker overall European vehicle sales and volume reductions at Fiat.

Ongoing relocation to China of global motor manufacturing activities is set to enhance the medium term competitiveness of our product offering in this business unit. Near term overhead costs, however, were negatively impacted by the temporary duplication of infrastructure as production in China is ramped-up. These transitional costs will be eliminated once the relocation project nears completion.

During the course of the fiscal year, significant new vehicle program wins have also established the foundations for strong sales growth in the coming years.

### Powertrain Management

*Fuel pumps*

*Electronic throttle controls*

*Air pumps*

Powertrain Management Business Unit sales increased by 12% over the previous year to US\$48 million for the fuel system and engine management products. Unit volumes increased by 9%. The increased penetration of electronic throttle control in European vehicles offset the reductions in fuel pump application sales in the relatively weak North American vehicle market. The launch of new air pump applications also fueled growth which is expected to continue into the next fiscal year.

### Chassis Braking

*Anti-lock braking systems pumps*

*Engine starters*

*Windshield wipers*

*Transfer case actuators*

*Electric parking brakes*

*Rear windshield wipers*

The North American-based Chassis Braking Business Unit sales experienced a 2% year-on-year decline in sales to US\$123 million. Lower ABS pump motor sales resulted from reduced vehicle sales in North America and production volume lost at a customer facility, which was seriously damaged in a storm earlier in the year. Lower than expected program launch volumes for new transfer case actuators also reduced overall sales. Stronger starter motor sales for the lawn and garden industry, however, helped to offset these reductions. Production relocation to China of starter motors was launched with a first series of models produced late in the fiscal year.

### Shanghai Ri Yong – JEA Gate Electric Co. Ltd. – Joint Venture

*Cooling fan modules*

*HVAC blowers*

Sales of the 50% owned Shanghai Ri Yong – JEA Gate Electric Co. Ltd. joint venture increased 42% due to the exceptional growth in vehicle sales in the mainland China automotive market. The joint venture's profitability also improved due to the increase in unit volumes and related efficiency gains.

## COMMERCIAL MOTORS GROUP

CMG achieved strong sales growth of almost 25% in the second half of the year compared to a flat performance in the first half. For the full year CMG's sales increased over 12% to a record level of US\$389 million, accounting for 37% of total Group sales.

## Home Appliances

<i>Floor care products</i>	<i>Can openers</i>	<i>Electric knives</i>
<i>Blenders</i>	<i>Juice extractors</i>	<i>Slicers</i>
<i>Mixers</i>	<i>Grinders</i>	<i>Coffee makers</i>
<i>Fans</i>	<i>Vacuum sealers</i>	<i>Dish washer actuators</i>

Sales increased 18% to a record level of US\$147 million, on unit volume growth of 14%. All major products within the Home Appliance Business Unit continued to make positive progress during the year, with particularly strong sales growth experienced for blender and fan motor products. A series of new products for the white goods market was also successfully launched and this segment represents a significant growth opportunity in the coming years.

## Power Tools

<i>Drills</i>	<i>Screw drivers</i>	<i>Heat guns</i>
<i>Gardening tools</i>	<i>Rotary sanders</i>	<i>Machines actuators</i>
<i>Hand vacuums</i>	<i>Bilge pumps</i>	<i>Ratchet wrench</i>
<i>Saws systems</i>	<i>Angle grinders</i>	<i>Auto polishers</i>

Sales increased over 4% to US\$109 million, with unit volume down 5%. This was driven by the sales of larger motors with higher average selling prices primarily in gardening tools and saws. Other initiatives included the launch of a range of motors targeted at professional grade power tools, as well as new gardening tool motor applications such as hedge clippers, leaf blowers and weed trimmers. Efforts to grow sales to the lawn and garden segment are continuing as its peak buying season is opposite to that of power tools.

## Business Equipment and Personal Products

### Business Equipment

<i>Printer products</i>	<i>Joysticks</i>	<i>Shredders</i>
<i>Gear box products</i>	<i>Paper cutters</i>	<i>Projectors</i>
<i>Copiers</i>	<i>Scanners</i>	<i>Bill validators</i>

### Personal Products

<i>Hair dryers</i>	<i>Massagers</i>	<i>Liquid dispensers</i>
<i>Toys</i>	<i>Tooth brushes</i>	<i>Blood pressure pumps</i>
<i>Hair trimmer/Hair curlers</i>	<i>Shavers</i>	<i>Aquarium products</i>

Sales to the Business Equipment and Personal Products sectors combined, increased 8% to US\$97 million, with all major product areas achieving growth. Unit volumes increased by 18%. For printer motor products, the largest sales contributor to this business unit, we continue to work closely with key customers to develop new motor control technologies to support new generations of printers.

## Audio-Visual

<i>CD-ROM applications</i>	<i>DVD product applications</i>	<i>Game controllers</i>
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Sales increased by 24% to US\$36 million, with unit volume growth of 38%. The business strategy has focused on higher-end applications where price pressure in this sector tends to be less. In March 2004, Johnson Electric acquired Nidec Corporation's 50% stake in the Nidec Johnson Electric joint venture.

### **Nihon Mini Motor**

Johnson Electric originally acquired a 49% interest in Nihon Mini Motor in April 2003. It is a leading motor supplier to the fast growing digital camera market and has recently launched a new series of stepper micromotors that are smaller and more powerful than any others currently offered in the marketplace.

Integration with the Johnson Electric Group has been progressing smoothly and in April 2004, after the financial year end, it was agreed that the Group would acquire the remaining shares in Nihon Mini Motor that it did not already own.

## **QUALITY AND RELIABILITY**

Johnson Electric constantly drives for improvements in quality and reliability and its systems and processes in these areas were further enhanced during the course of 2003/04.

All of Johnson Electric's facilities worldwide remain ISO 9001:2000 certified for commercial business and passed the certification audit of TS-16949 standard for automotive businesses. This upgrading will ensure Johnson Electric's continued commitment to high quality products and customer success.

Application Based Reliability ("ABR") test facilities are also being added to our comprehensive reliability monitoring program in the product development and qualification stages. Its purpose is to identify potential design improvement opportunities at earlier stages in the development and fabrication process. The ABR program is also backed by the use of Highly Accelerated Life Tests.

Our comprehensive Johnson Continuous Improvement Program ("JCIP") covers the deployment of various business improvement tools such as Total Cycle Time Reduction (TCT), Gemba Kaizen and Six Sigma. In particular, significant progress in the deployment of Gemba Kaizen programs has been achieved over the course of the past year. This has resulted in reductions in materials inventory, reduction in capital expenditures, reduction in manufacturing lead-times, improvements in production space utilization and overall improvements in productivity. These improvement programs will continue as key initiatives in the coming years to enhance Johnson Electric's operational competitiveness.

## **INVESTING IN PEOPLE**

At financial year-end, Johnson Electric Group employed approximately 32,000 people globally.

### **Simplify, Standardize and Globalize**

We made a commitment to Simplify, Standardize and Globalize (SS&G) our people processes across all regions, and we have successfully delivered. With the exception of where local legislation and employment practices need to prevail, our people processes, such as hiring, selection and performance management are now aligned and virtually identical across all regions.

### **Leadership Competencies**

Following our development of a set of Johnson Electric leadership (behavioral) competencies, we have built, or re-engineered as appropriate, the Group's people processes around these leadership competencies. Our key people processes include recruitment and selection, management succession, performance management, leadership development and people calibration.

### **Performance Management Process**

In order to achieve the Group's objectives as a high performance organization, it is essential to review and upgrade the caliber of people on a continuing basis. In the Johnson Electric context, performance is measured according to a blend of "hard" achievements (typically quantitative) and "soft" achievements (typically related to leadership style and people development). The Performance Management Process (PMP) identifies both top performers and underperformers across the organization and helps determine the training needs and career path of these individuals.

### **Learning Organization**

The Group has developed a specially-tailored leadership program for developing younger managers that we have termed the "JENESIS" program. Several dozen emerging talents have already participated in the program – and a number of these individuals have been accelerated into more challenging corporate assignments.

A broader management curriculum is also being rolled out through "Johnson University" which was established in 1998 and now has seven colleges. The JU Master of Science (M.Sc.) degree in motor engineering is among the first in our industry.

### **Responsible Corporate Citizen**

The pilot program for our safety initiative (Safety Is Job One) launched in Johnson City in Shajing, China, a year ago has successfully reduced the lost time accident frequency in our Components and Services (C&S) group by over 50%. The initiative is being rolled out to the rest of the business units in China.

As part of our long-standing commitment to continuously improve our Environmental Health & Safety standards (and also in response to customer requirements), we have continued to maintain and, where applicable, secure ISO 14001 and OHSAS 18001 registrations in our various manufacturing and assembly sites around the world.