

We Take Our Performance Results Seriously, and to Achieve Sustainable Growth, Will Devote All of Our Efforts to Executing Our New Midterm Business Plan



Review of the akebono New Frontier 30 - 2013 Midterm Business Plan

"akebono New Frontier 30 - 2013" midterm business plan, covering the three year period from fiscal 2013, was concluded at the end of March, 2016. However, due primarily to the continuing impact of production-related problems that arose in our North American operations in 2014, this year marked the second consecutive period of consolidated losses, and most unfortunately resulted in a failure to meet our quantitative targets by a significant margin.

Aside from those quantitative targets, however, we made progress with three main goals. In "making a difference with next-generation technologies," we began providing brakes to European manufacturers of high-performance vehicles. Another achievement was the creation of an organization for developing electro-mechanical brakes. Under the strategy of "continuous drastic cost reduction and its global implementation," we successfully shifted drum brake production from Iwatsuki Manufacturing to Sanyo Manufacturing. Overseas, however, we were unable to achieve our targets due to production problems in North America. In terms of "acceleration of globalization encompassing Japan, North America, Europe and Asia," in addition to plants in Mexico and Vietnam, in 2015 we established and began production at a new high performance brake plant in Slovakia. We expect to see profits improve as the plant ramps up to full production going forward.

Major Losses in North America

In response to the changing economic environment in North America since 2005, Akebono has worked to strengthen the competitiveness of its North American operations by restructuring the business. In 2008, we scaled down our production capacity in North America. In 2009, we acquired two North American manufacturing locations from Robert Bosch LLC, which was, at that time, reducing its production capacity in response to rapid sales declines caused by a US financial crisis. This acquisition transformed Akebono into a truly global company. While the acquisition price for the assets fairly reflected certain loss-making products at those plants, Akebono focused on quickly improving profitability by taking orders for new products at more favorable pricing. Just as we had proceeded to rebuild the business by scaling down production capacity and acquiring new business, around 2013, the economic recovery in North America accelerated, and with that recovery came a rapid increase in automobile sales, leaving us with more orders than our production capacity could handle. Because we were forced to move to a round-the-clock, three-shift labor system (operating seven days a week, 24 hours a day) to meet orders, labor costs increased significantly. Furthermore, continuous operation of equipment resulted in more breakdowns, and to meet delivery deadlines, products had to be shipped by air, resulting in additional logistics costs. The convergence of these and multiple other issues resulted in significant operating losses for fiscal 2015.

In addition, in our endeavor to enter a new field by providing high-performance brakes to European manufacturers, our products were so highly regarded that we won more orders than anticipated. Because we had expected to launch production on a small scale, we were unable to build out our production capacity in Europe in time to handle these large-scale orders, forcing us to take on production at our plant in Columbia, South Carolina, with a resulting increase in transportation costs as products were shipped from North America to Europe.

akebono New Frontier 30 – 2016 Midterm Business Plan

Given these results, and to return Akebono once again to a path to growth, we have established a new midterm business plan, akebono New Frontier 30 – 2016, covering the three years through fiscal 2018. The plan aims to break away from an emphasis on achieving sales targets, and focus on rebuilding our management foundations for the future.

Goals of the new midterm plan include "rebuilding the North American operations", "establishing global networks based on product-based business units", and "expanding high performance brake business and recreating European operations". By achieving these goals, Akebono aims to return the company to a sound financial condition and facilitate sustainable growth.

In terms of rebuilding our North American operations, we strengthened our management structure with local leadership, first by welcoming a new CEO with experience in corporate turnarounds to Akebono Brake Corporation in April 2016, and then by hiring a new CFO as well. With the assistance of outside consultants, we also began working to understand a wide range of management and financial data and identify issues. Going forward, we will tie this information into efforts to optimize our production sites, reduce SG&A expenses, develop human resources management and rationalize personnel.

Establishing global networks based on product-based business units essentially means shifting from a region-centric to a product-centric business. By establishing



five product-specific business units, each with its own sales, R&D, purchasing, production and manufacturing engineering capabilities, and by formulating a global strategy not limited by region, we will enhance product-by-product profitability and strengthen our global competitiveness. While this represents a major challenge for Akebono, we believe that restructuring our business this way is imperative.

As for the third goal of expanding the high performance brake business and recreating European operations, ramping the Slovakia Plant up to full production will enable us to create an integrated structure for producing and supplying disc brakes in Europe. By applying the technology we have accumulated in the development and production of high-performance brakes to brakes for other vehicles, we hope to further differentiate our products.

Leveraging Our Unique Position as a Small, Specialized, Independent Manufacturing Company

We will work to rebuild our business as quickly as possible and achieve sustainable growth, by devoting all of our energies to creating a new structure in response to market changes, and to implementing strategies designed to enhance corporate value. The entire group is working together to quickly return to be profitable and earn back the trust of our stakeholders. To accomplish this, we must take full advantage of our unique position as a small, specialized, independent manufacturing company. By taking advantage of the swift decision-making capability that comes with our small organization. We will leverage our deep, specialized knowledge of friction and vibration as we take on the challenge of further expanding the range of our business. We will attempt to break into new fields by taking advantage of the freedom that comes with being independent, creating something from nothing through a focus on manufacturing. And because human resources are so important to the company, we will work to develop truly global personnel.

With an unwavering commitment to delivering safety and peace of mind, Akebono is poised to take on the challenge of a new phase in global management. We ask for your understanding and ongoing support with those efforts.

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Hisataka Nobumoto, President and CEO