

## Review of Operations

### Operating Results

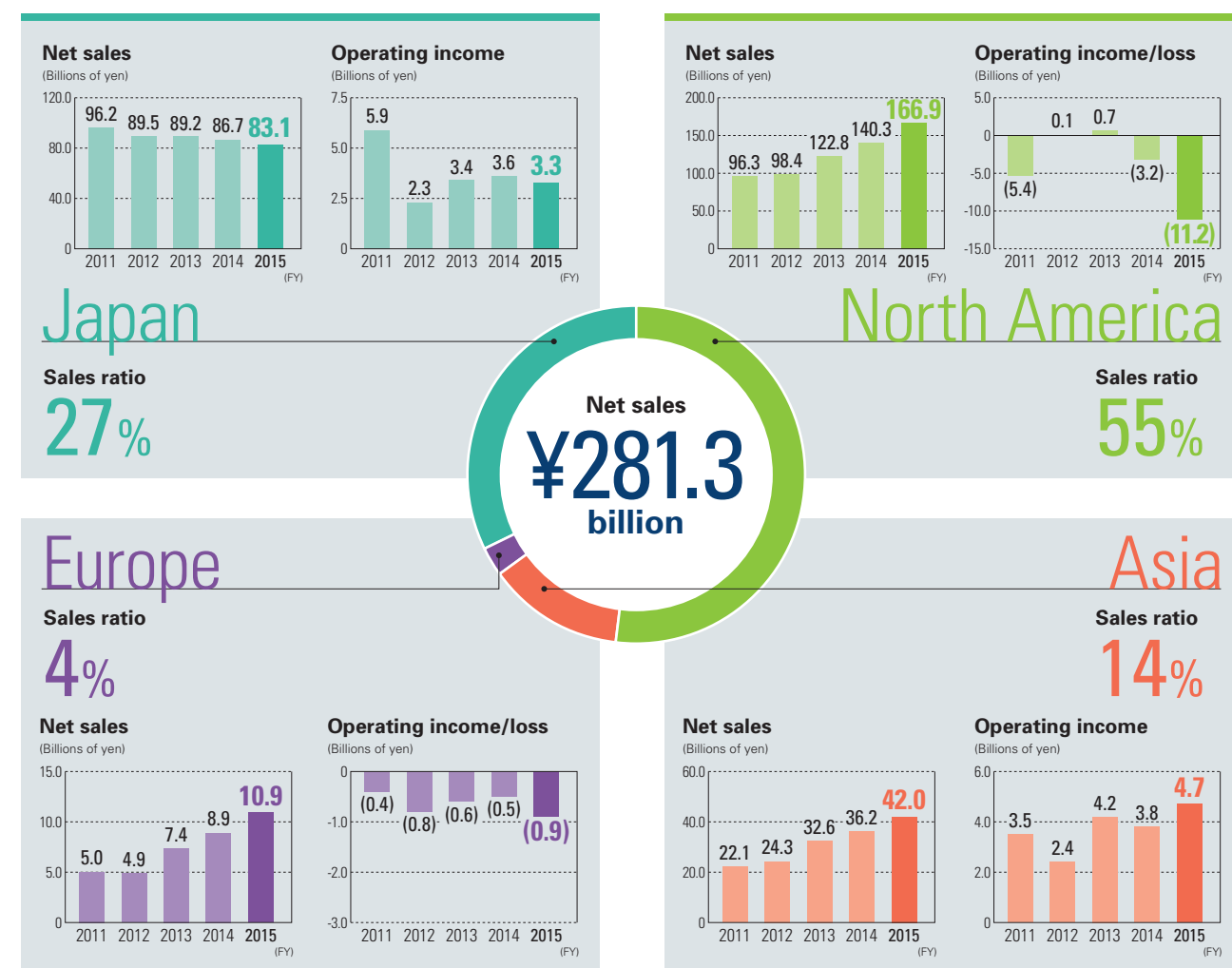
During fiscal 2015<sup>\*1</sup>, Akebono recorded a decline in domestic sales on the back of continued weak automobile production in Japan. Nevertheless, consolidated net sales rose 10.7% year over year to a record-high ¥281.3 billion thanks to a record level of automobile sales in North America, an increase in new orders in China, expansion of the brake caliper business in Europe, and the impact of foreign exchange translation due to the weaker yen, the latter of which contributed ¥22.2 billion to sales growth. On the earnings front, an expansion of orders in China, rationalization of production and procurement functions at sites in Japan and Asia, and efforts to reduce costs were effective in securing positive earnings in those regions. However, the prolonged influence of the production-related problems that occurred in North American operations in 2014 continued to have a significant impact in terms of higher costs of labor and expedited shipment of parts, resulting

in a consolidated operating loss of ¥3.8 billion, (compared with operating income of ¥4.0 billion in the previous fiscal year). The impact of foreign exchange losses and interest payments also contributed to ordinary losses of ¥6.8 billion yen (compared with ordinary income of ¥2.8 billion yen in the previous fiscal year). While the Company posted extraordinary income from the sale of certain investment securities, the posting of impairment losses on tangible assets in North America, primarily at ABE, provision for business structure improvement, and loss on recall issue<sup>\*2</sup> resulted in a loss attributable to owners of parent of ¥19.5 billion (compared to a loss attributable to owners of parent of ¥6.1 billion in the previous fiscal year).

<sup>\*1</sup> (1) January 2015 to December 2015 for North America, China, Thailand and Indonesia  
(2) April 2015 to March 2016 for Japan and Europe

<sup>\*2</sup> As announced in the "General Motors Safety Recall" dated June 12, 2015.

## At a glance



## Japan

### Review of Fiscal 2015

The impact of an additional tax introduced in fiscal 2015 targeting mini cars (displacement less than 660cc) resulted in sluggish demand for those vehicles, affecting the domestic automobile market as a whole. Akebono's business in Japan also saw a significant impact from weak automobile production in the form of lower earnings and a drop in sales of aftermarket products for export, and domestic net sales fell by ¥3.6 billion year on year, or 4.2%, to ¥83.1 billion. Looking at earnings, operating income fell 9.5%, or ¥0.3 billion, year on year to ¥3.3 billion with the

impact of a drop in orders and an increase in R&D expenses for group companies overseas resulting from globalization efforts. This was despite the effects of lower performance-linked bonuses and other labor costs, rationalization of production and procurement, and other cost reductions.

### Fiscal 2016 Strategy and Outlook

While there are uncertainties ahead, including the impact of the Kumamoto Earthquake on domestic demand, we expect both net sales and operating income in Japan to be about level with fiscal 2015.

## TOPICS

### Akebono Exhibits High Performance Brake Calipers for Large SUVs at the 44th Tokyo Motor Show 2015.

Bringing together the expertise in brake technology it has acquired through years of involvement in motorsports, Akebono has developed a 10-pot opposed brake caliper (five to each side, for a total of 10 pistons per caliper) that provides superb brake performance at high speed, under high brake load and high heat conditions, along with the comfortable, low-noise brake experience demanded in luxury high-performance vehicles. Intended for use in the large SUV class, the calipers accommodate larger brake pads to absorb the energy generated by high brake loads, to realize

the industry's first 10-pot production calipers with stable braking performance designed for passenger vehicles. These brakes represent the full-scale launch of Akebono's European business.

The product was first exhibited at the 44th Tokyo Motor Show 2015 held between October and November, 2015. Also on display were a 6-pot opposed high-performance brake caliper, as well as McLaren P1™ super car equipped with the Akebono brake system.



10-pot opposed brake caliper



Akebono's booth at the 44th Tokyo Motor Show 2015

# North America

## Review of Fiscal 2015

Automobile sales in the United States reached record levels, boosted by falling oil prices and aggressive sales financing. Akebono's North American business also saw an increase in orders from major automakers, reflecting soaring demand, and with the impact of foreign currency translation contributing ¥20.1 billion, sales increased 19.0%, or ¥26.7 billion, year on year to ¥166.9 billion. On the other hand, operating loss, including Mexico, increased to a loss of ¥11.2 billion from an operating loss of ¥3.2 billion in the previous fiscal year, significantly below the initial plan, despite the implementation of a variety of measures, including productivity improvements and the transfer of production to other facilities in an effort to resolve production-related problems.

While various effective measures have been undertaken to address production-related problems at ABE that began in 2014, including facilities maintenance support dispatched from Japan and the transfer of some production, due to a continuing high volume of orders, ABE was unable to completely eliminate the three-shift, 24h/7 days a week production schedule. This made it impossible to reduce labor costs, and forced ABE to post a loss for a second consecutive year.

At ABG, a surge in orders at the end of 2014 also led to higher labor costs due to increased work hours, and the plant continued to generate expedited-shipment cost and other additional costs due to the production crunch. In response, production lines were added in May of last year, and a team of specialists in maintenance and production was dispatched from Japan to implement improvements in production efficiency. Measures also included the gradual transfer of some disk brake pad production to Japan and other global production facilities. However, ABG continued to require expedited-shipping in some cases, partly because productivity did not improve as expected.

ABCS also experienced excessive production loads. In addition, to avoid delays in deliveries due to a drastic drop in plant operating rates caused by the failure of aluminum casting equipment, enormous expedited shipping costs were generated (air transportation and other transport fees), and ABCS posted significant losses as a

result. The aluminum casting equipment was eventually repaired, and with the recovery in production capacity expedited-shipping cost dropped significantly; but orders continued to rise, generating additional overtime and other costs as winter holidays were cancelled to handle fourth quarter orders for certain automakers.

Quickly returning its North American operations to stable profitability remains a top priority for Akebono management. To achieve this, the Company has revamped its local management structure, reviewed its product lines, and has begun working on reforms in its North American business, including changes to its production structure. While these efforts have begun to show solid results, to accelerate its reforms, at the end of fiscal 2015 the Company decided to implement impairment accounting on property, plant and equipment of ABE to about US\$69 million. The Company also posted impairment losses against individual non-operational production facilities at ABCS and ABCT. At the same time, it posted ¥0.5 billion in extraordinary losses related to costs associated with structural management reforms in its North American business (provision for business structure improvement, including provision for retirement allowances.)

## Fiscal 2016 Strategy and Outlook

While net sales are forecasted to decline with the transfer of some production from North America to other regions, on the earnings side, losses are expected to shrink. Efforts to prioritize order profitability, reduce production loads and improve productivity via transfer of some production, along with a significant reduction in expedited-shipping cost, will lead to smaller operating losses. In terms of management structure, Akebono has hired a new CEO with a track record in the United States, and subsequently also hired a new CFO. Together with additional consultant support, Akebono is accelerating its management reforms. While fiscal 2016 will not see the complete elimination of operating losses (estimated at ¥4.5 billion), by fiscal 2017 the effects of these and other measures will begin to appear in the operating results (operating profit of ¥1.2 billion), and Akebono aims for ¥3.5 billion in operating profit by fiscal 2018.

## TOPICS

### Dr. Wilm Uhlenbecker Takes Over as CEO at U.S. Subsidiary Tapped to Lead North American Management Reforms

To begin work on fundamental management reforms in the North American business, including resolving production-related problems there and strengthening governance, Dr. Wilm Uhlenbecker has been appointed president and CEO of Akebono Brake Corporation (ABC), the U.S.-based Akebono subsidiary that functions as its headquarters in North America. Dr. Uhlenbecker holds a doctorate in mechanical engineering as well as a master of business administration degree, both from RWTH Aachen University in Germany. His prior experience includes management positions in engineering, quality control, and numerous other fields. He has a successful record of corporate turnarounds through strategic cost reductions

and manufacturing footprint restructuring. Under his leadership, the North American business will move forward with locally-driven efforts to strengthen its management structure.



Dr. Wilm Uhlenbecker

# Europe

## Review of Fiscal 2015

Automobile sales increased over the previous year due to the impact of a gradual economic recovery, although levels remained below those prior to the European debt crisis. In its European operations, the Company saw a drop in some areas of its aftermarket products business, but strong sales of products for global platform cars (common platforms used on a worldwide basis), particularly products imported from the Company's Asian facilities, and of high-performance brakes imported from the Company's North American facilities. As a result, net sales rose ¥2.0 billion, or 22.2%, year on year to ¥10.9 billion. On the earnings front, the Company recorded increased costs generated by added labor and depreciation expenses associated with the start of operations at the Slovakia Plant, and costs associated with

building a sales structure for the caliper business ahead of future expansion. Nevertheless, optimization of disc brake pad pricing and the emerging impact of improvements in production processes combined with the effects of procurement rationalization kept the operating loss to ¥0.9 billion, as compared to an operating loss of ¥0.5 billion in the previous fiscal year.

## Fiscal 2016 Strategy and Outlook

Net sales are forecasted to drop slightly in fiscal 2016. Operating losses are expected to continue, due in part to the change to a product-based structure, as well as to increased costs related to the future launch of high performance brake production.

TOPICS

Manufacturing Subsidiary Akebono Brake Slovakia s.r.o. Begins Mass Production and Supply of Disc Brakes in Europe

To strengthen its operating base in Europe, in 2014 Akebono established disc brake manufacturing subsidiary Akebono Brake Slovakia s.r.o. (ABSK), in Trenčin, the Slovak Republic. While the Company has a presence in Europe with AASA of France, which also manufactures disc brake pads, the addition of ABSK is part of Akebono’s strategy to create a total supply structure for brakes in Europe and strengthen competitiveness on a global basis. An opening ceremony for ABSK was held in June 2015. Approximately 50 guests attended the ceremony, including The First State Secretary of the Ministry of Economy of the Slovak Republic, Mr. Rastislav Chovanec, the Mayor of Trenčin, Mr. Richard Rybníček, and the Ambassador of Japan to the Slovak

Republic, Mr. Akio Egawa. Akebono was represented by the President and CEO of Akebono Brake Industry, Hisataka Nobumoto, along with several executives and associates. Events included a tree planting ceremony, the presentation of commemorative items, and a ribbon cutting ceremony, as well as the plant tour. ABSK currently handles cast-iron brake caliper assembly operations, and plans to start mass production in August of 2016. The company is also considering expanding operations by adding state of the art facilities for manufacturing aluminum brake calipers for high performance vehicles, which will make the new plant a strategic manufacturing location.

(Note: Titles are as of the date of the ceremony.)

Outline of Subsidiary

- (1) Name: Akebono Brake Slovakia s.r.o.
- (2) Location: Trenčin, Slovak Republic  
(110 km northeast of Bratislava, the capital)
- (3) Representative: Jean de Montlau
- (4) Business: Manufacturing and sale of automotive brakes
- (5) Capital: €12,000,000
- (6) Date of establishment: April 1, 2014
- (7) Equity ratio: Akebono Brake Europe N.V.  
(Wholly-owned subsidiary of Akebono Brake Industry) 100%
- (8) Lot area: Approx. 42,000 m<sup>2</sup>
- (9) Building area: Approx. 12,000 m<sup>2</sup>
- (10) Start of production: August 2015



Akebono Brake Slovakia s.r.o. (ABSK) opening ceremony



ABSK office building

Asia

Review of Fiscal 2015

Automobile sales in China in the first half of fiscal 2015 rose only slightly year on year, due to sluggish demand and a build-up of inventory. In the second half, however, demand increased significantly due to the impact of a tax reduction on compact cars (those with a displacement of less than 1600 cc). Operations in China saw an increase in sales of products for global platform cars, expansion of orders, including business with new

customers, and the impact of foreign currency translation (¥2.0 billion). As a result, sales increased 36%, or ¥5.1 billion, year on year to ¥19.4 billion. At the same time, operating income rose by 50.5%, or ¥0.8 billion, year on year to ¥2.5 billion, reflecting increased earnings with the expansion of orders and the impact of production and procurement rationalization and cost reductions, despite increases in depreciation costs and labor costs, among others.

In Thailand, domestic sales of new cars continued to be sluggish, but production of automobiles in Thailand hit a record high, boosted as export numbers reflected the impact of worldwide sales expansion of eco-cars in addition to pickup trucks. In Akebono’s Thailand operations, stagnant domestic demand was compensated by strong exports, and increased aftermarket sales for Middle East markets. As a result, sales rose by 9.8% year on year, or ¥0.5 billion, to ¥6.0 billion. On the earnings side, while depreciation costs increased, the increase in orders for aftermarket products contributed significantly, and operating income rose 81.1% year on year, to ¥0.5 billion, for increases in both sales and profits.

In Indonesia, both production and sales of automobiles and motorcycles in fiscal 2015 fell below those of the previous year, but the domestic sales market is expected to expand further over the medium to long term. Akebono’s operations in Indonesia experienced sluggish domestic demand

and a drop in production as Japanese automobile manufacturers adjusted inventories at the end of the fiscal year, as well as decreased orders from motorcycle manufacturers. However, sales of brake-related products for global platform cars and being marketed in Europe were strong. As a result, sales rose by 1.1% year on year, or ¥0.2 billion, to ¥16.6 billion. Operating income fell 7.6%, or ¥0.1 billion, year on year to ¥1.7 billion, largely due to a drop in orders, a rise in labor costs, and an increase in depreciation costs.

Fiscal 2016 Strategy and Outlook

Akebono will continue its aggressive business expansion centered on China, and expects sales to increase. However, operating income is expected to remain flat due to changes in product mix, persistently high labor costs, and an increase in expenses associated with environmental measures, among other factors.

TOPICS

A&M Casting (Thailand) Co., Ltd., Established as Part of Strengthening Global Competitiveness, Holds Furnace Ignition Ceremony

In October 2014, Akebono established A&M Casting (Thailand) Co., Ltd. for the production of cast-iron automotive parts, in a joint venture with Mohka Manufacturing Co., Ltd. The joint venture’s production will center on cast-iron brake caliper components for Akebono Brake (Thailand) Co., Ltd. Production volume will be 600 tons per month until 2017, and from 2018 is scheduled to rise to 1,300 tons per month

in anticipation of market trends. The new company is also considering sales of cast-iron components to other companies in Thailand. A cornerstone-laying ceremony was held in December 2014, followed by a furnace ignition ceremony in December 2015, attended by executives from both Akebono Brake Industry and Mohka Manufacturing.



Executives and employees attended the ignition ceremony

Outline of Subsidiary

- (1) Name: A&M Casting (Thailand) Co., Ltd.
- (2) Location: Ratchaburi Industrial Estate, Ratchaburi Province, Kingdom of Thailand  
(approx. 100 km west of Bangkok)
- (3) Representative: Masami Nagasaki
- (4) Business: Manufacture and sale of cast-iron automotive components
- (5) Date of establishment: October 2014
- (6) Equity ratios: Akebono Brake Industry Co., Ltd. 74.9%  
Mohka Manufacturing Co., Ltd. 25.1%
- (7) Lot area: approx. 37,000 m<sup>2</sup>
- (8) Building area: approx. 5,000 m<sup>2</sup>
- (9) Start of production: August 2016 (tentative)