

Corporate Governance System

Basic Approach to Corporate Governance

Akebono has formulated the following corporate mission: “Through ‘Friction and Vibration, their Control and Analysis,’ we are determined to protect, grow and support every individual life.” Under this corporate mission, we are creating new values through monozukuri (value-added manufacturing) and striving to increase shareholder value and corporate value even further in line with our corporate goals of “Customer needs first”, “Technology realignment”, and “Establishing a global network”. As a maker of essential safety equipment, we believe that it is important to maintain and promote healthy and friendly relationship with all stakeholders including customers, shareholders, suppliers, our associates, and local communities in order to achieve sustainable growth and development.

In line with this conviction, we have positioned the strengthening of corporate governance as an important management issue, establishing a solid governance structure consisting of such bodies as the Board of Directors and the Audit & Supervisory Board, with every Board member committed to maintaining the vigilant oversight of management.

Initiatives to Strengthen Corporate Governance

April 2000	Introduced an Executive Officer System
June 2005	- Reduced the number of directors from 25 to 12 - Introduced an Outside Director System and elected one outside director - Established the Compensation Advisory Committee and introduced a performance-based remuneration system for directors
June 2006	Increased the number of outside Audit & Supervisory Board members from one to two
June 2007	Increased the number of outside directors from one to two
June 2010	Increased the number of outside Audit & Supervisory Board members from two to three
June 2014	Increased the number of outside directors from two to three
December 2015	Established the Director Nomination Advisory Committee

Overview of Corporate Governance System

Akebono has adopted the “company with auditors” governance model. We have built a corporate governance system centered on the Board of Directors, Audit & Supervisory Board members, and the Audit & Supervisory Board. We introduced the Executive Officer System in April 2000 to clarify the responsibility and the authority for business execution, and to enhance management efficiency.

The Board of Directors meets regularly once a month, and extraordinary meetings are held as needed. In order to make prompt and accurate judgments on important management matters through sufficient discussion and reviews, Akebono established various important bodies, including the Management Council and the

Board of Executive Officers. These bodies operate in accordance with prescribed internal rules. Furthermore, to complement the functions of the Board of Directors and strengthen the transparency and soundness of management, the Company has established the Director Nomination Advisory Committee and the Director Compensation Advisory Committee. As regards the selection criteria and candidates for the Board of Directors, the Audit & Supervisory Board, and executive officers, the Board of Directors determines these by resolutions after receiving and considering contributions and advice from the Nomination Advisory Committee.

In order to ensure that the compensation system applied to these officers possesses a high degree of objectivity and transparency, the Company receives reports about the basics of the system from the Compensation Advisory Committee.

Management information and suchlike is shared through electronic media, thereby ensuring efficient information sharing among management officers. The execution status of business matters that have been decided is reported to the Board of Directors or the Board of Executive Officers, as appropriate, by the member of the Board or the executive officer who is in charge. This status is also periodically audited by the Audit & Supervisory Board members and the Internal Audit Department.

The chairperson assigns a certain department (or an individual) as the secretariat of each internal important body. The secretariat is responsible for conducting paperwork such as notices of agenda and minutes.

In order to ensure appropriate business execution by members of management, a three-way audit system is applied by means of the Audit & Supervisory Board members and the Audit & Supervisory Board, the independent auditor, and the Internal Audit Department. Audit & Supervisory Board Members attend essential management meetings, such as the Board of Directors meetings, to monitor the processes of important decision-making and the execution status of business operations. These members also exchange opinions with directors in order to examine without delay any matters that could have a serious impact on Akebono’s management or performance, and then respond promptly.

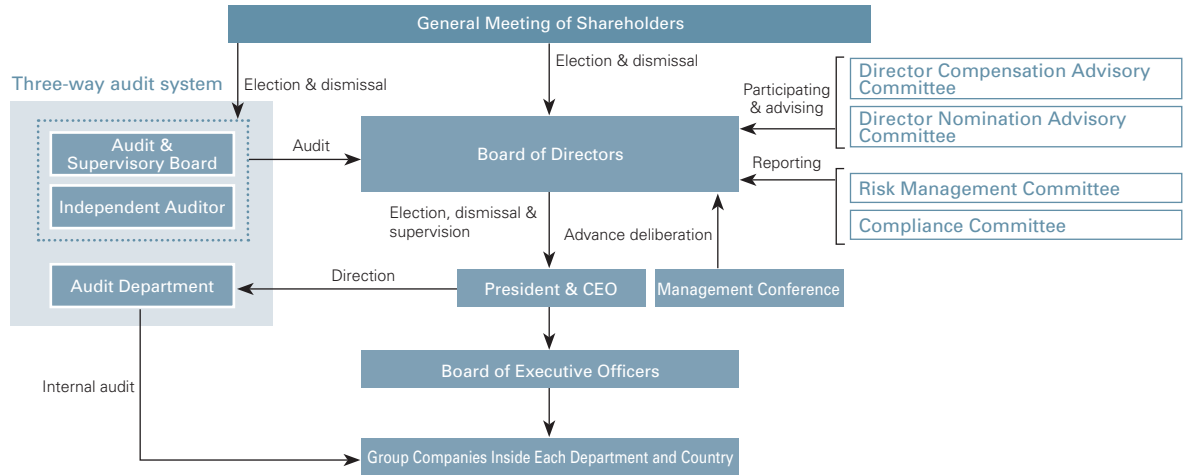
The remuneration for directors and Audit & Supervisory Board members is determined by the Company’s rules and the compensation criteria are clearly disclosed. Compensation for directors consists of fixed remuneration and performance-based remuneration. The fixed portion is basic compensation for duties and is based on positions. The performance-based potion is determined based on the performance of the Company and individual directors. The total amount of directors’ remuneration is determined by the General Meeting of Shareholders, and the individual allocations are decided by the Board of Directors. The total amount of Audit & Supervisory Board members’ remuneration is also determined by the General Meeting

of Shareholders, and the individual allocations are decided through consultation with the Audit & Supervisory Board.

The members of the Audit & Supervisory Board, Akebono’s independent auditor Deloitte Touche

Tohmatsu, and the Internal Audit Department closely cooperate together by mutually exchanging information such as annual plans and audit reports, and by holding regular opinion-exchanging meetings.

Corporate Governance Structure



Outline of Akebono’s Corporate Governance Structure (Fiscal 2015)

Type of governance model	A company with auditors
Executive Officer System	Yes
Director’s term stipulated by the articles of incorporation	Two years
Chairman of the Board	Representative Director, Chairman and President
Number of acting directors	Nine
Of whom, outside directors	Three
Of whom, those registered as independent directors	Three
Number of Board of Directors meetings held during fiscal 2015	15
Outside directors’ average board meeting attendance rate during fiscal 2015	98%
Number of Audit & Supervisory Board members	Five
Of whom, outside members	Three
Of whom, those registered as independent auditors	Three
Outside Audit & Supervisory Board members’ board meeting attendance rate during fiscal 2015	100%
Board of Directors’ advisory committees	Nomination Advisory Committee, Compensation Advisory Committee
Independent auditor	Deloitte Touche Tohmatsu

Board of Directors’ advisory committees

Committee members’ names	Role	Composition	Committee head (Chairperson)	Frequency of meetings
Director Compensation Advisory Committee	Compensation structure of directors (including executive officers), compensation standards, process of compensation determination (including evaluation criteria and allocation) and other setting verifications, and reporting to the Board of Directors	Internal director 2 Outside director 1 Outside expert 1	Internal director	In principle once every three months, with extraordinary meetings as needed
Director Nomination Advisory Committee	Formulation of selection criteria of directors, Audit & Supervisory Board members, including outside members, and executive officers, nomination of candidates, and appropriate involvement in the selection and development plans of successor candidates such as for Chief Executive Officer, together with reporting to the Board of Directors	Internal director 2 Outside director 1 Outside expert 1	Internal director	In principle once every three months, with extraordinary meetings as needed

Corporate Governance System

Outside Directors and Outside Audit & Supervisory Board Members

Of the nine current directors, Akebono has appointed three independent outside directors with a variety of experience and skills. Their role is to strengthen the corporate governance structure by reinforcing the Board of Directors’ management monitoring functions, and contributing advice to management that will help improve medium- and long-term corporate value.

Furthermore, three out of the five Audit & Supervisory Board members are outside Audit & Supervisory Board

members, thereby ensuring that the audit system functions from a more independent perspective, and strengthening the audit function of management.

Akebono aims to collaborate with outside directors and Audit & Supervisory Board members and to strengthen its corporate governance system. It therefore regularly convenes opinion-exchanging meetings between representative directors and outside directors, and between representative directors, outside directors, and outside Audit & Supervisory Board members.

Outside Directors (as of March 31, 2016)

Name	Reasons for Election	Any Important Representation of Other Entities	Attendance at Board of Directors Meetings(Attended/ Convened in Fiscal 2015)
Kunio Ito	Mr. Ito has extensive knowledge and a wealth of experience in corporate management cultivated over his years as a university professor (Accounting & Management) and as an outside director at other companies. He was nominated as an outside director to bring to bear his knowledge and experience when providing advice and recommendations regarding the Company’s business judgments and decision-making processes.	- Adjunct Professor, Graduate School of Commerce and Management, Hitotsubashi University - Director, Center for CFO Education and Research, Hitotsubashi University - Special Appointed Professor, Chuo University Graduate School of Strategic Management - Outside Director, Sumitomo Chemical Company, Limited - Outside Director, Kobayashi Pharmaceutical Co., Ltd. - Outside Director, Seven & i Holdings Co., Ltd. - Outside Director, Toray Industries, Inc.	14/15
Takuo Tsurushima	Mr. Tsurushima served as a corporate leader at a number of companies, including as President & CEO of Tokyo Stock Exchange,Inc. He was nominated as an outside director to bring to bear his extensive knowledge of and experience in corporate management when providing advice and recommendations regarding the Company’s business judgments and decision-making processes.		15/15
Ken Okazaki	Mr. Okazaki has not previously been involved in corporate management. However, he possesses specialized advanced academic knowledge in the fields of environmental protection, energetics and thermal engineering. Mr. Okazaki was nominated as an outside director to bring to bear his knowledge and capability to provide appropriate supervision and advice in aid of the Company’s business operations.	- Institute Professor, Tokyo Institute of Technology - Visiting Professor, World Premier International Research Center Initiative, Kyushu University	15/15

Cooperation among Audit & Supervisory Board Members, the Independent Auditor, and the Internal Audit Department

The Audit & Supervisory Board members and the Audit & Supervisory Board receive appropriate explanations about the audit content from the independent auditor, and provide cooperation, such as witnessing the audits of the independent auditor, if necessary. In addition, they have regular meetings with the independent auditor as regards the audit system, the audit plan, and the audit implementation status.

The Audit & Supervisory Board members and

the Internal Audit Department comprise a mutually complementary system in order to enhance the effectiveness of each audit. They cooperate together in conducting the pre-adjustment of the fiscal year’s activities policy, in arranging the monthly report meeting, and in the mutual distribution of the audit report, together with conducting joint audits. Furthermore, the Internal Audit Department and the independent auditor formulate audit plans related to assessments of internal control over financial reporting. The results of these audit plans are discussed at meetings held from time to time on a regular basis, as necessary.

Outside Audit & Supervisory Board Members (as of March 31, 2016)

Name	Reasons for Election	Attendance at Board of Directors meetings(a)/ Audit & Supervisory Board meetings(b) (Attended/Convened in Fiscal 2015)
Kesao Endo	Mr. Endo has extensive knowledge and experience as a certified public accountant. He was nominated as an outside Audit & Supervisory Board member based on his specialist perspective and highly independent status from management to bring to bear his knowledge and experience in the performance of audits.	(a) 15/15 (b) 15/15
Michiyoshi Homma	A lawyer, Mr. Homma has extensive knowledge and experience in corporate legal affairs. He was nominated as an outside Audit & Supervisory Board member based on his specialist perspective and highly independent status from management to bring to bear his knowledge and experience in the performance of audits.	(a) 15/15 (b) 14/15
Keizo Tannawa	Mr. Tannawa has extensive knowledge and experience as a management, organizational and human resources consultant in addition to as a corporate manager. He was nominated as an outside Audit & Supervisory Board member based on his specialist perspective and highly independent status from management to bring to bear his knowledge and experience in the performance of audits.	(a) 15/15 (b) 14/15

Compensation
■ Basic Policy for Determining Compensation Paid to Directors and Audit & Supervisory Board Members

Akebono has formulated the basic policy for determining the compensation for directors and Audit & Supervisory Board members as follows.

1. Acquire and develop talented human resources
 2. Motivate them to continuously improve corporate performance and value
 3. Maintain a high level of fairness and rationality
- To maintain an objective and fair compensation system for Directors, we have established a Compensation Advisory Committee, which reviews the basic matters relating to director compensation. Based on the results of this review, the amount of compensation for each director will be determined at the Board of Directors’ Meeting within the limit of the total amount approved by the Ordinary General Meeting of Shareholders.
- Compensation for directors (excluding outside directors) consists of fixed remuneration and

performance-based remuneration. The fixed portion is basic compensation for duties and is based on positions. The total amount of fixed remuneration must be approved by the Ordinary General Meeting of Shareholders.

The performance-based portion is determined based on the performance of the Company and individual Directors in the preceding fiscal year. The upper limit for performance-based remuneration is set at 100% of the fixed portion. Of this amount 40% (cash) may be provided as short-term performance-based remuneration; 20% (subscription rights to shares) as medium-term performance-based remuneration; and 40% (subscription rights to shares) as long-term performance-based remuneration.

The compensation for outside directors consists of fixed remuneration only.

The compensation for each Audit & Supervisory Board Member is determined through discussion by the Audit & Supervisory Board, within limits approved by the Ordinary General Meeting of Shareholders.

Total Amount of Compensation Paid to Directors and Audit & Supervisory Board Members (Fiscal 2015)

	Compensation by category (Millions of yen)					Number of directors/Audit & Supervisory Board members
	Amount of compensation (Millions of yen)	Fixed remuneration (Cash)	Performance-based remuneration			
			Short-term (Cash)	Medium-term (subscription rights to shares)	Long-term (subscription rights to shares)	
Directors	254	245	9	—	—	9
Audit & Supervisory Board members	54	54	—	—	—	5
Total	309	300	9	—	—	14
(Outside directors and Audit & Supervisory Board members)	42	42	—	—	—	6

Upper limits of annual compensation for directors and Audit & Supervisory Board members upon resolution of the Ordinary General Meeting of Shareholders (Annual amount)

- (1) Directors Fixed Remuneration 300 million
 Short-term performance-based remuneration 120 million(excluding outside directors)
 Medium-term performance-based remuneration 60 million(excluding outside directors)
 Long-term performance-based remuneration 120 million(excluding outside directors)
- (2) Audit & Supervisory Board members Fixed remuneration 60 million