Review of Operations

Net sales in fiscal 2017* were JPY264.9 billion (0.4% year-on-year decrease) reflecting decreases in sales in North America despite strong sales in the European and Asian regions. Profits increased due to the effects of measures taken to improve profits in North American operations, increased orders received in the Asian region and others. Operating profit and ordinary profit were JPY8.1 billion (JPY4.2 billion for the last fiscal year) and JPY5.8 billion (JPY0.8 billion for the last fiscal year), respectively. Profit attributable to owners of parent was JPY0.8 billion (JPY0.4 billion for the last fiscal year) mainly as a result of posting impairment loss for non-current assets in the Arras Plant and the Slovakia Plant in Europe.

"Consolidated fiscal year
North America/China/Thailand/Indonesia: January 2017 - December 2017
Japan/Europe: April 2017 - March 2018

Performance by geographical segment

	Net sales				Operating profit			
(Billions of yen)	FY2016	FY2017	Change from last fiscal year	Foreign exchange rate*	FY2016	FY2017	Change from last fiscal year	Foreign exchange rate*
Japan	80.9	81.4	+ 0.5	–	4.1	3.3	(0.8)	–
USA	152.4	138.8	(13.6)	+3.0	(2.9)	1.8	+4.7	+0.0
Mexico	0.8	1.1	+ 0.3	+0.0	(0.4)	(0.3)	+0.1	(0.0)
Europe	11.6	14.1	+2.6	+1.2	(1.3)	(2.0)	(0.8)	(0.2)
China	20.0	22.5	+2.5	+0.3	2.6	2.6	+0.1	+0.0
Thailand	6.6	7.9	+1.3	+0.5	0.4	0.5	+0.1	+0.0
Indonesia	16.3	18.8	+2.4	+0.4	1.4	2.0	+0.6	+0.0
Asia	43.0	49.2	+6.2	+1.2	4.4	5.1	+0.7	+0.1
Eliminations	(22.4)	(19.6)	+2.8	–	0.2	0.2	+0.0	–
Total	266.1	264.9	(1.2)	+5.5	4.2	8.1	+3.9	(0.0)

* Foreign currency exchange rates (FY2016 → FY2017) USD: 109.6 → 112.0, EUR: 118.9 → 130.3, CNY: 16.4 → 16.6, THB: 3.1 → 3.3, IDR: 0.0082 → 0.0084

Review of Operations by Region

Japan

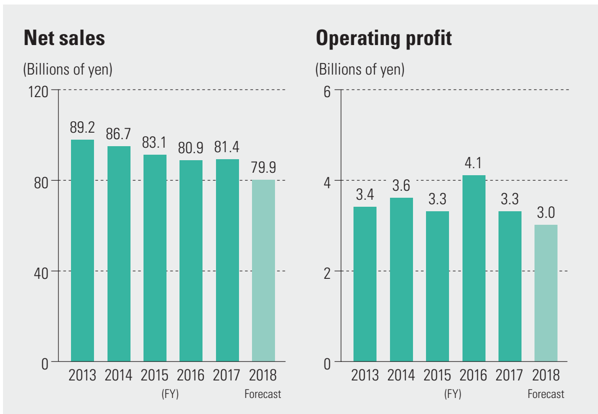
Review of Fiscal 2017

In products for automobiles, the Akebono Group posted net sales of JPY81.4 billion (0.6% year-on-year increase), favorably affected by increases in orders received for products mainly for new SUVs, as well as also strong sales of industrial machinery and rolling stock products such as those for forklifts and vehicle behavior detection devices for rolling stock, but adversely affected by sluggish exports of compact trucks to the Middle East and decreases in orders received due to production suspension caused by automakers' inspection failings. Operating profit was JPY3.3 billion (19.0% year-on-year decrease) due to the effects of a surge in market prices of steel and other materials, rising labor expenses including performance-linked bonuses as part of the Akebono Group's compensation system, and increases in next-generation R&D expenses related to electro-mechanical brakes, environment-friendly friction materials.

K4 disc brakes for mini cars* launched in Japan
(* Displacement under 660cc)

Outlook for Fiscal 2018

The Akebono Group expects net sales to be JPY79.9 billion (1.8% year-on-year decrease) and operating profit to be JPY3.0 billion (10.2% year-on-year decrease) due to efforts to rationalize production, despite the effects of declining sales and rising labor costs.



Review of Operations by Region North America

Review of Fiscal 2017

Net sales came to JPY139.9 billion (8.7% year-on-year decrease), affected by decreased sales caused mainly by some U.S.-based automakers' withdrawal from sedan models and tentative inventory adjustment in the aftermarket products market, although sales increased thanks to strong orders received for products for pickup trucks and SUVs and optimization of sales prices.

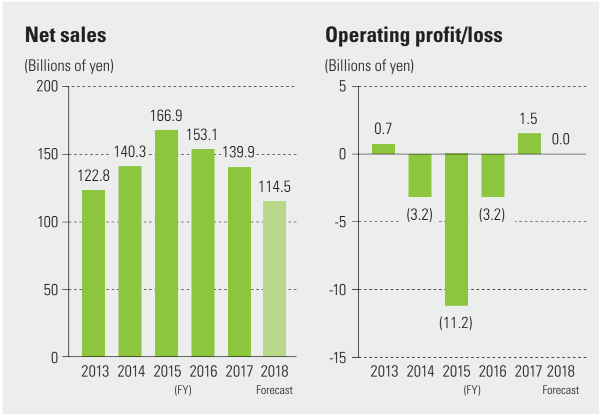
Operating profit soared to JPY1.5 billion (operating loss of JPY3.2 billion for the last fiscal year) mainly due to one-time expenses such as external consultant fees were not incurred and expedited freight was significantly reduced through stabilized operations and labor costs reduction through reduced overtime and holiday work were achieved, despite the effects of decreased sales and rising steel and other material prices.

As a result of various measures taken for the four initiatives—(1) Fundamental organizational reforms, (2) Productivity improvement, (3) Increase of manufacturing capacity, and (4) Improvement of earnings structure, the Akebono Group successfully posted operating profit of JPY1.8 billion in the United States alone in fiscal 2017.

Akebono's EURO® Ultra-Premium Ceramic Disc Brake Pads for the U.S. Market Received the Best Overall Import Aftermarket Product Award for the Third Time

Outlook for Fiscal 2018

Akebono expected net sales to be JPY114.5 billion (18.2% year-on-year decrease) and operating profit to be JPY0.0 billion (compared to operating profit of JPY1.5 billion in the last fiscal year) due to the impact of declining sales, despite improving labor costs and cost reductions activities.



Review of Operations by Region Europe

Review of Fiscal 2017

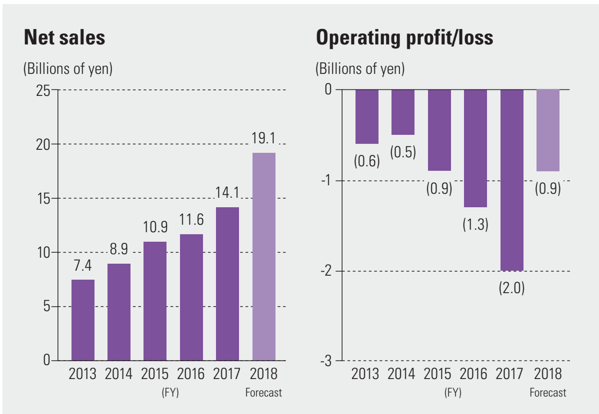
Net sales were JPY14.1 billion (22.1% year-on-year increase) on increased sales of disc brake calipers for mass-produced high performance vehicles, despite decreased sales in the aftermarket friction material business.

Akebono posted an operating loss of JPY2.0 billion (compared to an operating loss of JPY1.3 billion in the last fiscal year) mainly due to various expenses incurred in the Slovakia Plant resulting from its efforts toward thestart of full-scale production, increased depreciation expenses associated with increased manufacturing lines, rising labor costs associated with the increased number of personnel, and delay in the planned rationalization, as well as a change in the product sales mix resulting from declines in the friction material business in the Arras Plant in France, which is highly profitable.


Slovakia Plant where full-scale production has started

Outlook for Fiscal 2018

An increase in sales is expected mainly due to higher sales of disc brake products for mass-produced high performance vehicles and the operating loss is expected to JPY0.9 billion due to the impact of an increase in sales and a reduction in scrap cost resulting from an improving yield rate.



Review of Operations by Region

Asia

Review of Fiscal 2017

In China, the Akebono Group posted net sales of JPY22.5 billion (12.5% year-on-year increase) due to strong sales of products for SUVs and newly received orders for new models. Operating profit was JPY2.6 billion (2.8% year-on-year increase) mainly due to favorable orders received for highly profitable friction material products and successful rationalization of production, despite increases in labor costs, depreciation, and costs of complying with environmental regulations, thus showing year-on-year increase in sales and profits.

In Thailand, net sales came to JPY7.9 billion (19.0% year-on-year increase) due to increased orders received for products for both domestically sold and exported compact cars and to favorable orders received for aftermarket friction material products. Operating profit was JPY0.5 billion (14.4% year-on-year increase) due to increased sales despite the effects of higher labor costs and the cost of starting up a foundry that began operations last year, thus showing year-on-year increases in sales and profits.

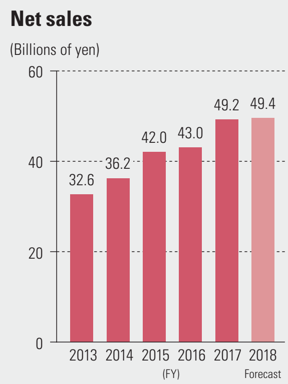
In Indonesia, net sales climbed to JPY18.8 billion (14.9% year-on-year increase) mainly due to favorable sales for products for new MPVs (multi-purpose vehicles) and increases in orders received for products for global platform vehicles (common platforms for global distribution) exported to Europe, and for motorcycles. Operating profit increased soared to JPY2.0 billion (41.4% year-on-year increase) due to the absence of one-time expenses associated with the new business startup that began operation last year, the rationalization of production and increased orders, despite higher labor costs.

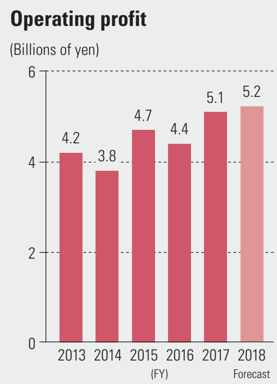
Thai casting plant A&M

Outlook for Fiscal 2018

Net sales of JPY49.4 billion (0.4% year-on-year increase).

Operating profit is expected to remain largely unchanged from that of the last fiscal year because of higher sales and rationalization effects, despite negative factors such as rising labor costs and increasing depreciation expenses associated with capital investment.





Cash Flow Status

Cash and cash equivalents at the end of the fiscal year under review decreased by JPY2.9 billion from the end of the last fiscal year to JPY12.7 billion. Free cash flows out of cash flows from operating activities minus cash flows from investing activities came to JPY8.3 billion.

Cash flows from operating activities

The main factors behind the net cash inflow include profit before income taxes of JPY4.2 billion, depreciation of JPY12.4 billion, a JPY2.9 billion increase in working capital, while income taxes of JPY2.8 billion were paid out.

Cash flows from investing activities

The main factor behind the net cash outflow was the payment of JPY11.4 billion for the purchase of property, plant and equipment in connection with capital investments, mainly in Japan, the U.S., and Europe.

Cash flows from financing activities

The main factors behind the net cash outflow include a JPY3.4 billion net decrease in short-term loans payable, repayment of JPY25.3 billion long-term loans payable, and JPY3.1 billion dividends paid to non-controlling interests, while there were inflows of JPY19.2 billion through proceeds from long-term loans payable and JPY2.1 billion through proceeds from sale and leaseback.