



SHOWA
SHOWA CORPORATION

A N N U A L R E P O R T

2016

Table of Contents

- 1 ——— SHOWA Philosophy
- 2 ——— Message from the President
- 3 ——— Review of Operations
- 6 ——— Consolidated Financial Statement
- 8 ——— Topics
- 12 ——— SHOWA' s Global Network
- 15 ——— Showa' s Technology
- 16 ——— Outlook of Consolidated Business Performance

SHOWA Philosophy



— Our Fundamental Beliefs —

Respect for the individuals

Trust/Fairness/Independence

— Our Corporate Principle —

With the aim of becoming a global company trusted by customers worldwide, we are committed to making continuous innovations to provide superior products of the best technology and the highest quality to meet users' needs.

— Policies of Conduct —

1. Let actions be driven by ideals and visions
2. Value time and ideas, and approach problems based on fundamentals and principles
3. Place value on communications and understand the situation of others
4. Maintain operational transparency and soundness
5. Always be aware of environmental preservation, and make contributions to the community and society

Message from the President



Dear Shareholders,

Please allow me to begin by extending my heartfelt gratitude for your continued support. We are pleased to present this summary of our results of the 108th term (from April 1, 2015 to March 31, 2016) as follows.

Despite having had some increase due to the effect of exchange rates, a decrease in sales of motorcycle, automobile and steering products resulted in an overall decrease in sales revenue compared to the previous term. Operating income, income before income taxes, and profit for the year attributable to owners of the parent decreased compared with the previous term, due to compensation costs (Provision for products warranties) and other additional expenses resulting from defects found in some of gas springs manufactured by our group.

With our very own control logic, we have developed and begun production of an electronically controlled variable damper system using existing sensors, IECAS (Intelligent Electronic Control Adaptive Suspension). Furthermore, following Japan and Mexico, we have started production of electric power steering, "DPA-EPS," in Thailand and China.

Although we had planned to pay an year-end dividend of 19 yen per share for the current term, due to compensation costs mentioned above, operating income, income before income taxes, and profit for the year attributable to owners of the parent were significantly lower than the previous term, severely damaging our performance. Upon careful and comprehensive consideration of future business development and performance forecasts, we have decided to revise the year-end dividend to 8 yen per share.

As a result, the annual dividend for the fiscal year totaled 27 yen per share including an interim dividend of 19 yen per share. For the next term (from April 1, 2016 to March 31, 2017), we expect to set 8 yen per share for both interim and year-end dividends, and accordingly, the dividend for the fiscal year is to total 16 yen per share.

We hope that we can continue to count on your understanding and support in the years ahead.

杉山 伸幸

Nobuyuki Sugiyama
President

Review of Operations

Status of current term (2015)

Sales of motorcycle products decreased mainly in Asia and South America, and sales of automobile products mainly fell in Japan. In addition, sales of steering products mainly decreased in North America and China. As a result, overall sales decreased compared with the previous fiscal year despite having had some increase due to the effect of exchange rates. With regards to income, due to compensation costs (Provision for products warranties) and other additional expenses resulting from defects found in some of gas springs manufactured by our group, operating income, income before income taxes, and profit for the year attributable to owners of the parent decreased compared with the previous fiscal year.

Sales revenue	258,246 million yen	(3.1% increase over previous term)
Operating income	7,568 million yen	(52.6% increase over previous term)
Income before income taxes	7,454 million yen	(59.1% increase over previous term)
Profit for the year Attributable to owners of the parent	△2,348 million yen	(No previous result)

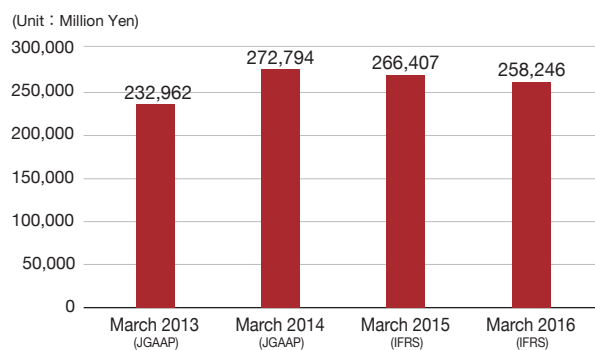
Outlook for next term (2016)

Defects have been found in some of the products (gas springs) manufactured by our group. Since such defects could possibly cause damage, a recall of the product has been notified to customers. We expect to incur compensation costs as a result of the recall. Financial impacts of the recall is currently being assessed. We will promptly inform you of our consolidated financial forecast for the next term as soon as it becomes available.

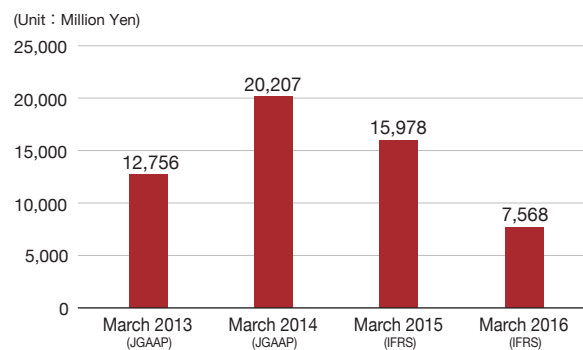
Sales revenue	—	(258,246 million yen in previous term)
Operating income	—	(7,568 million yen in previous term)
Income before income taxes	—	(7,454 million yen in previous term)
Profit for the year Attributable to owners of the parent	—	(△2,348 million yen in previous term)

Financial Performance Highlights

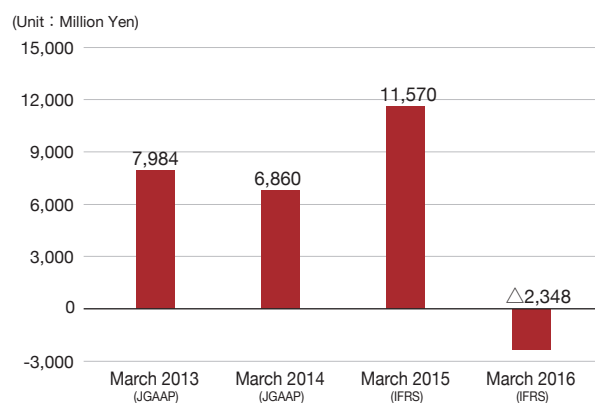
Sales revenue



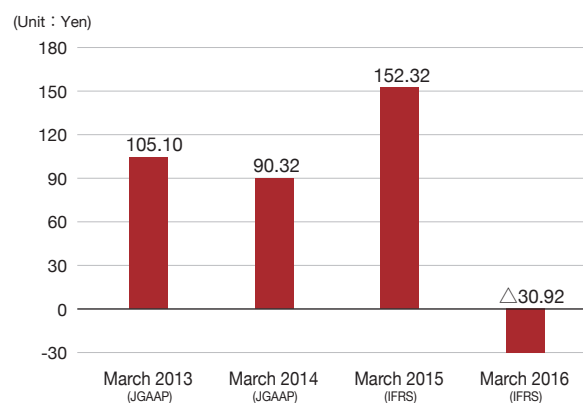
Operating profit



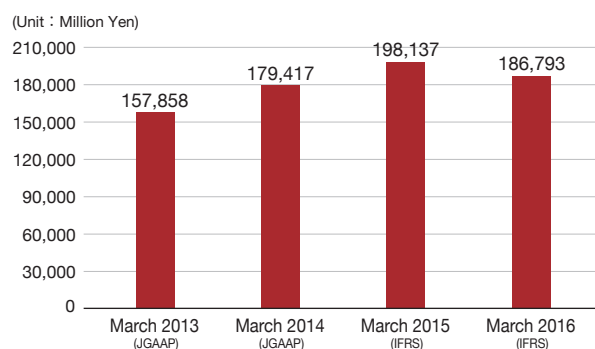
Profit for the year Attributable to owners of the parent



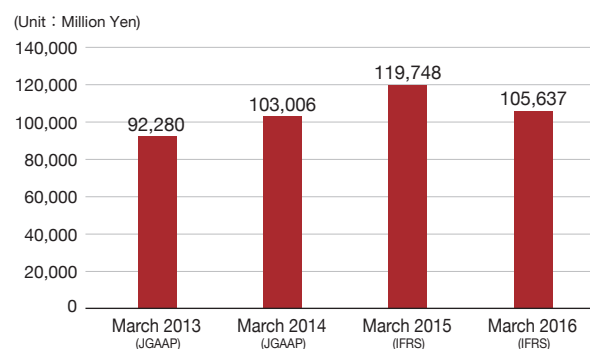
Net income per share



Total asset [Net asset]



Total shareholders' equity [Net asset]



* From the previous fiscal year, our group has made a switch from Japanese accounting standards to voluntary application of International Financial Reporting Standards (IFRS). The 105th and 106th reports are based on Japanese standards, and the 107th and 108th on IFRS.

Segment Results

* From the previous fiscal year, our group has made a switch from Japanese accounting standards to voluntary application of International Financial Reporting Standards (IFRS), and therefore, 107th and 108th reports are based on IFRS.

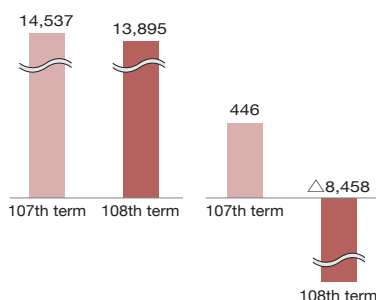
(Numerical unit of bar graph: 1 million yen)

Gas springs segment/Others 5.4%

Sales revenue 13,895 million
(4.4% decrease from the previous fiscal year)

Operating Profit Δ 8,458 million
(No result in the previous fiscal year)

Sales revenue Operating Profit

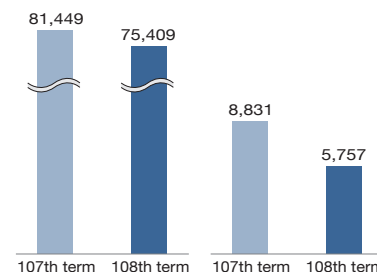


Motorcycle and Hydraulic components segment 29.2%

Sales revenue 75,409 million
(7.4% decrease from the previous fiscal year)

Operating Profit 5,757 million
(34.8% decrease from the previous fiscal year)

Sales revenue Operating Profit

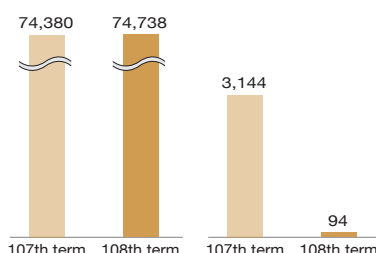


Steering systems components segment 28.9%

Sales revenue 74,738 million
(0.5% increase from the previous fiscal year)

Operating Profit 94 million
(97.0% decrease from the previous fiscal year)

Sales revenue Operating Profit

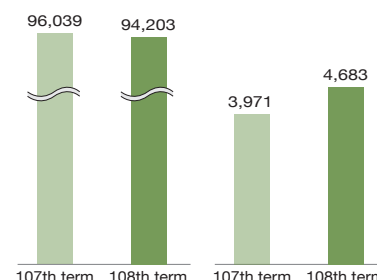


Automotive components segment 36.5%

Sales revenue 94,203 million
(1.9% decrease from the previous fiscal year)

Operating Profit 4,683 million
(17.9% increase from the previous fiscal year)

Sales revenue Operating Profit



Sales revenue
by Operational
Segment Total
258,246million

Segment results

Segment	Main cause
Motorcycle and Hydraulic components segment	Overall sales of motorcycle products decreased over the previous fiscal year mainly due to sales decrease in Asia and South America.
Automotive components segment	Overall sales of automotive products decreased compared to the previous fiscal year mainly due to sales decrease in Japan.
Steering components segment	Overall sales of steering products decreased compared to the previous fiscal year mainly due to sales decrease in North America and China.

Consolidated Financial Statements

*1 \$ = 112.68 Yen

Consolidated Balance Sheet (Summary)	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2015	2016	2016
Assets			
Current assets	104,846	99,207	880,431
Noncurrent assets	93,290	87,586	777,299
Total assets	198,137	186,793	1,657,730
Liabilities and shareholders' equity			
Current liabilities	62,533	65,843	547,915
Noncurrent liabilities	15,854	15,312	127,419
shareholders' equity	119,748	105,637	879,063
Total Liabilities and shareholders' equity	198,137	186,793	1,554,406

Profit and loss calculator (Summary)	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2015	2016	2016
Sales revenue	266,407	258,246	2,291,853
Cost of sales	(218,418)	(210,714)	(1,870,021)
Gross profit	47,988	47,532	421,832
Selling, general and administrative expenses	(31,329)	(43,677)	(387,620)
Other income	749	7,467	66,267
Other expense	(1,430)	(3,754)	(33,316)
Operating income	15,978	7,568	67,164
Finance income	1,539	620	5,502
Finance costs	(339)	(1,424)	(12,638)
Gains and losses on equity method investment	1,044	689	6,115
Income before income taxes	18,222	7,454	66,152
Corporate income tax	(3,759)	(7,323)	(64,989)
Current net income	14,463	130	1,154
Attributable net income			
Owners of the parent	11,570	(2,348)	(20,838)
Non-controlling interests	2,892	2,479	22,000

Operating income: Due to compensation expenses (provision of reserve for product warranties) for defects found in some of gas spring products manufactured by our group, the operating income decreased by 8,410 million yen from the previous fiscal year.

Profit for the year Attributable to owners of the parent: Due to an increase in taxes following compensation expenses (Provision for products warranties), it decreased by 13,919 million yen from the previous fiscal year.

Consolidated Financial Statements

※1 \$ = 112.68 Yen

Cash flow (Summary)	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2015	2016	2016
Net cash provided by (used in) operating activities	13,412	18,249	161,954
Net cash provided by (used in) investing activities	(10,408)	(7,280)	(64,608)
Net cash provided by (used in) financial activities	(3,531)	(9,544)	(84,700)
Effect of exchange rate change on cash and cash equivalents	892	(1,677)	(14,883)
Effect of exchange rate change on cash and cash equivalents	365	(252)	(2,236)
Cash and cash equivalents at Beginning of Year	26,829	27,194	241,338
Increase in cash and cash equivalents from newly consolidated subsidiaries	—	197	1,748
Cash and cash equivalents at End of Year	27,194	27,139	240,850

The balance of cash and cash equivalents (hereinafter referred to as “funds”) at the end of the fiscal year totaled 27,139 million yen, down 55 million yen year-on-year.

Net cash provided by (used in) operating activities: Funds earned from operating activities increased by 4,836 million yen year-on-year, mainly due to an increase in the provision of product warranties.

Net cash provided by (used in) investing activities: Funds used for investment activities decreased by 3,128 million yen year-on-year, mainly due to an increase in proceeds from the sale of investment property.

Net cash provided by (used in) financial activities: Funds used for financial activities increased by 6,013 million yen year-on-year, largely due to a decrease in repayment of short-term loans payable. This is mainly due to a decrease in repayment of short-term loans payable.

Topics

Developed a new motorcycle shock absorber, Balance Free Front Fork

Using the world's first technology of a balance-free structure with an inline piston unit, we have developed Balance Free Front Fork, which features outstanding traction and absorbency enabled by improved damping force responsiveness. This product has been installed in Kawasaki Heavy Industries, Ltd.'s new Ninja ZX-10R. Also, the same product with race specifications has been installed in Kawasaki Racing Team's Ninja ZX-10R that won the championship in 2015 Superbike World Championship, demonstrating its advantage in racing as well.



Balance Free Front Fork



Ninja ZX-10R *International consumer model

Developed a high-performance, improved version of shock absorbers for automobiles, S-SEESII, and expanded application of electric power steering, DPA-EPS

With regards to shock absorbers for automobiles, we have developed S-SEES*1II, which has realized further improved ride quality and steering stability enabled by optimization of friction characteristics of sliding components and oil flow. It has been installed in Honda Motor Co., Ltd.'s (hereinafter referred to as "Honda") North American consumer model, ACCORD, and in Fuji Heavy Industries Ltd.'s Forester. Furthermore, our electric power steering DPA-EPS*2 provides enhanced steering comfort compared with previous models. It has been installed in Honda's new Civic Type R and CIVIC for North American market, expanding its range of application.

*1 Showa Super Empowering Efficient Suspension

*2 Dual Pinion Assist-EPS

*1 and *2 are registered trademark of Showa Corporation.



CIVIC TYPE R (DPA-EPS is installed in this model.)

Topics

Exhibited at IAA 2015 (Frankfurt Motor Show 2015) for the first time

We exhibited at the IAA 2015 held in Frankfurt, Germany from September 17 to 27 for the first time. From automobile products created by many years of fundamental research and performance evaluations in harsh environments of Europe and North America, we chose to introduce the conventional shock absorber S-SEES*II, mechanically controllable shock absorber SFRD*, and an electronically controlled variable shock absorber system that does not require dedicated sensors (Showa's own technology) as shock absorbers, and electric power steering DPA-EPS* as a steering product. Furthermore, to better develop a system that can provide "ultimate comfort and excitement" to satisfy human senses, we invited visitors to test our steering-suspension cooperative control simulator and had received an excellent review.

* Registered trademark of Showa Corporation.



Held an opening ceremony of Shioya Proving Ground

On September 25, we held an opening ceremony of our newly established test course, Automotive Parts R&D Center (Tochigi) Shioya Proving Ground, in Shioya, Tochigi. Many guests including municipal officials and customers attended the ceremony. Attendees from our group included Representative Director President, Nobuyuki Sugiyama, Representative Director Executive Vice President and Executive Officer, Akira Kadoya and Representative Director Senior Managing Officer, Hajime Hirata, among others.

This course was established to further strengthen our development and enhance performance of Showa products while developing future technologies. In the first phase of construction, straight roads, winding roads, and special surface roads were completed. Construction of winding roads resembling those of European and American suburbs is planned for the second phase. In addition, we aim to achieve our company's performance goal of "ultimate comfort and excitement" at a high standard in a short period of time. With the goal of intensively developing suspension and steering technology that can support self-driving society of the future in the closed-course, we will actively utilize this course to further bolster our development of motorcycle and automobile products.



* Image of the completed second phase construction

Topics

Developed a new shock absorber for automobiles, IECAS

With the world's first control logic that does not require new sensors, we have developed and begun production of a lightweight, new generation of electronically controlled variable damper system, IECAS (Intelligent Electronic Control Adaptive Suspension), using existing sensors. Although low in cost, it possesses both ride quality and steering stability.

We strive to deliver a variable damper system many drivers can find comfortable and fun to drive.



Started local production of electric power steering, DPA-EPS

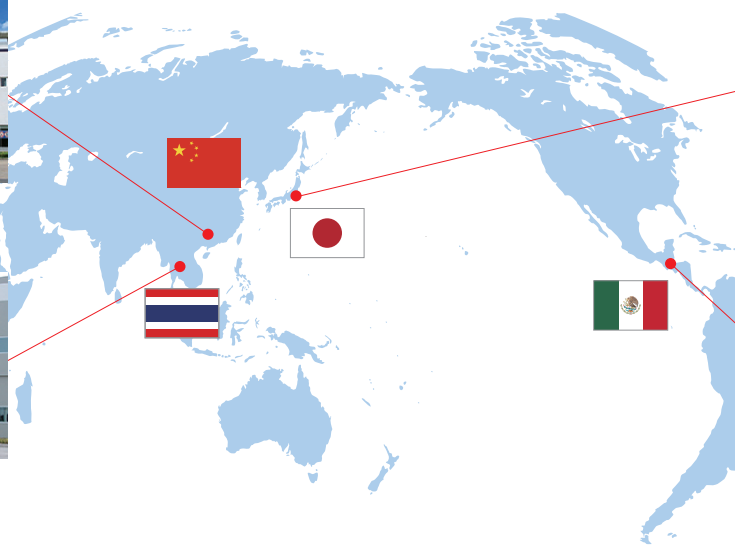
In June 2015, our subsidiary in Mexico, Showa Autoparts Mexico, S.A. de C.V. (SAM), started production of electric power steering, DPA-EPS (Dual Pinion Assist-EPS). In addition, following Japan and Mexico, a subsidiary company in Thailand, Showa Autoparts (Thailand) Co., Ltd. (SAT), began production in February 2016, and another subsidiary in China, Guangzhou Showa Autoparts Co., Ltd. (GSA), in March 2016. We aim to have this product installed in even greater number of vehicle models.



GSA (China)



SAT (Thailand)



Gotemba Plant (Japan)



SAM (Mexico)

Topics

Exhibited at EICMA 2015 (Milan Show)

We exhibited at the world's largest motorcycle show, EICMA 2015 (Milan Show), held in Milan, Italy from November 19 to 22, 2015. We premiered our suspension kits with premium performance and durability for driving on public roads, BFF (Balance Free Front Fork) and BFRC-lite (Balance Free Rear Cushion-lite), manufactured for sale to the general public.

Incorporated into these products is our latest technology we have cultivated through our experience in motorsports. They are scheduled to be available for sale in Europe and Japan through our agencies.



Exhibited at the Automotive Engineering Exposition 2016

We exhibited at the Automotive Engineering Exposition 2016 held at Pacifico Yokohama from May 25 to 27, 2016. With the theme of "Bring ultimate comfort and excitement to all users - Performance, Pleasure, Progress," we mainly displayed shock absorbers and steering systems for automobiles as well as shock absorbers for motorcycles. Also, we offered visitors a chance to test our cooperative control steering simulator to introduce our initiatives towards future technology.



SHOWA' s Global Network

As of 31st March 2016

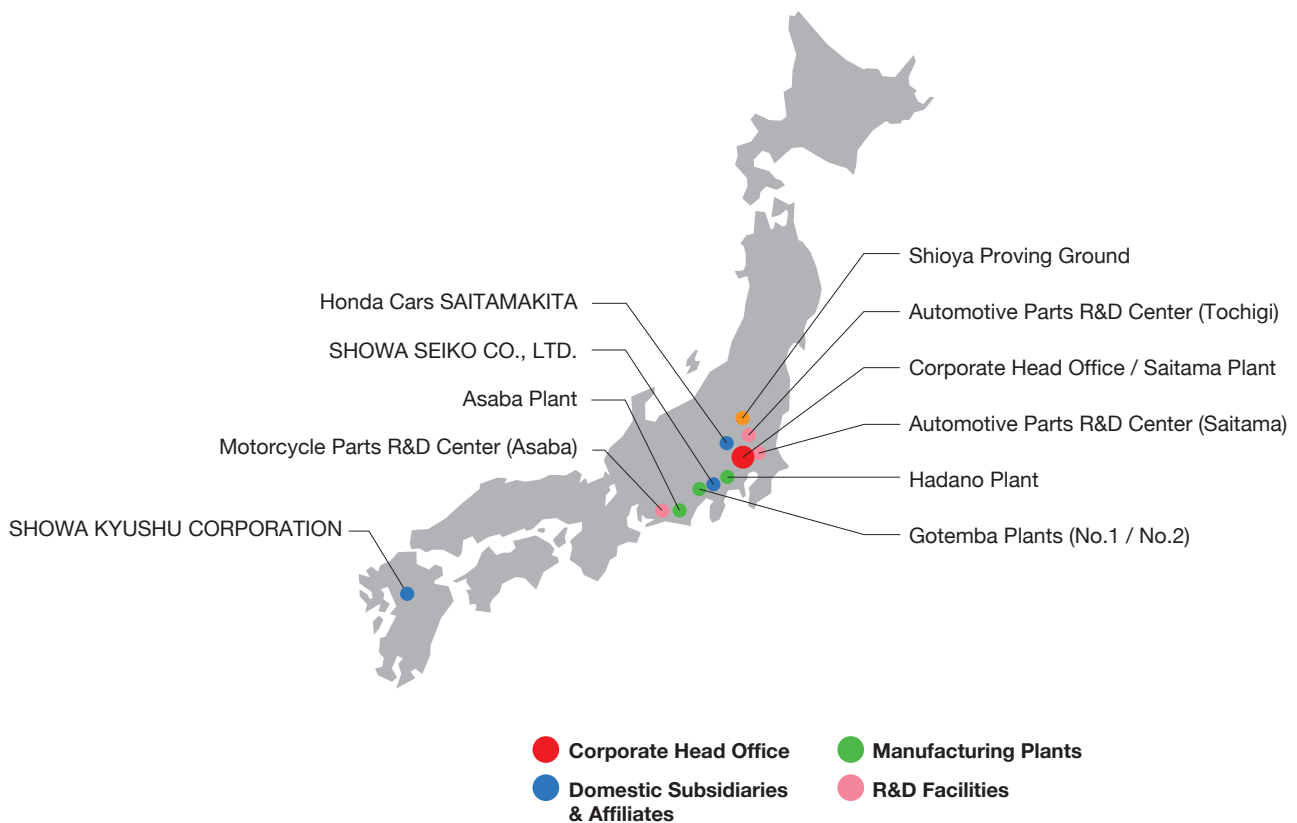
Overview of Business

The SHOWA Group consists of our company, 15 subsidiaries and three affiliates, and our main businesses are the manufacture and sale of automotive parts.

Corporate Head Office, Plants and R&D Facilities

Corporate Head Office	1-14-1, Fujiwara-cho, Gyoda, Saitama
Plants	Saitama Plant (Gyoda, Saitama), Hadano Plant (Hadano, Kanagawa), Gotemba Plant (Gotemba, Shizuoka), Asaba Plant (Fukuroi, Shizuoka),
R&D Facilities	Automotive Parts R&D Centers (Haga, Tochigi / Gyoda, Saitama) Motorcycle Parts R&D Center (Fukuroi, Shizuoka)

Japan



SHOWA' s Global Network

As of 31st March 2016

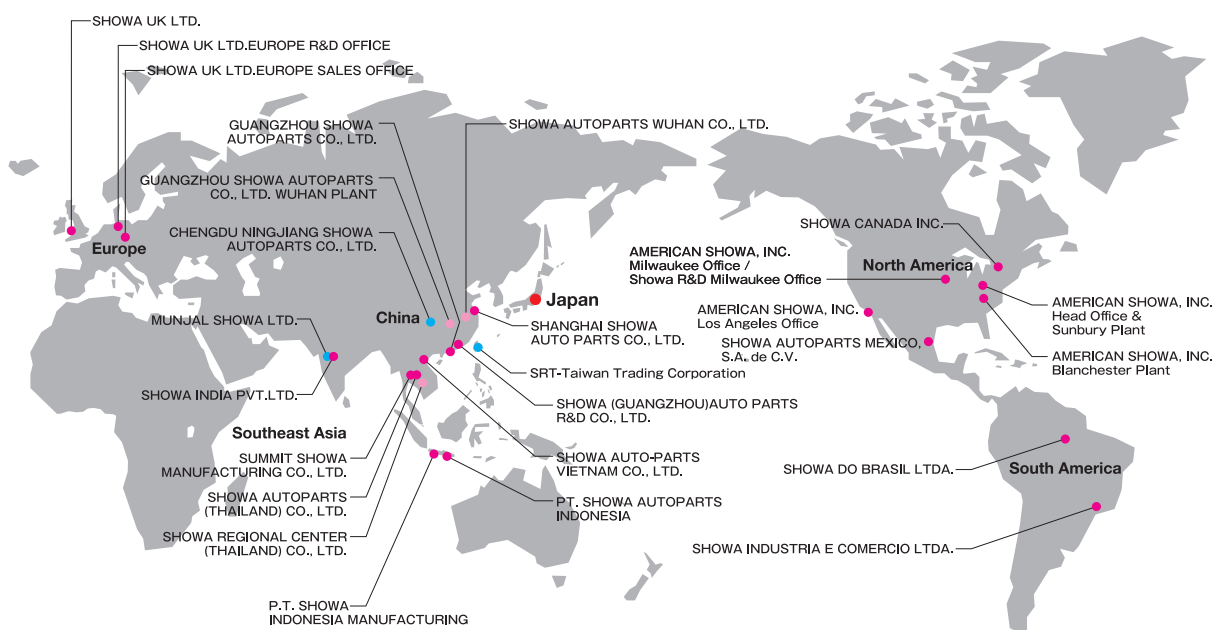
Overview of Subsidiaries and Affiliates

Consolidated Subsidiaries

- P.T. SHOWA INDONESIA MANUFACTURING
- AMERICAN SHOWA, INC.
- SHOWA DO BRAZIL LTDA.
- SHOWA KYUSHU CORPORATION
- SUMMIT SHOWA MANUFACTURING CO., LTD.
- SHOWA CANADA INC.
- SHOWA INDUSTRIA E COMERCIO LTDA.
- SHOWA SEIKO CO., LTD.
- GUANGZHOU SHOWA AUTOPARTS CO., LTD.
- SHOWA UK LTD
- SHANGHAI SHOWA AUTO PARTS CO., LTD.
- SHOWA INDIA PVT. LTD.
- SHOWA AUTOPARTS (THAILAND) CO., LTD.
- SHOWA AUTO-PARTS VIETNAM CO., LTD.
- Honda Cars SAITAMAKITA
- SHOWA REGIONAL CENTER (THAILAND) CO., LTD.
- PT. SHOWA AUTOPARTS INDONESIA
- SHOWA AUTOPARTS MEXICO, S.A. de C.V.
- SHOWA AUTOPARTS WUHAN CO., LTD.
- SHOWA (GUANGZHOU) AUTO PARTS R&D CO.,LTD.
- SRT-Taiwan Trading Corporation
- CHENGDU NINGJIANG SHOWA AUTOPARTS CO.,LTD

Equity Method Affiliates

Overseas



- Corporate Head Office
- Consolidated Subsidiary
- Equity Method Affiliate

SHOWA' s Technology

Automotive Components

Shock Absorbers

Shock absorbers are critical to an automobile's character because they make the auto comfortable to ride and affect the attitude and stability of the automobile body. With their superior performance and quality, Showa brand shock absorbers have created satisfied customers around the world. Showa has years of experience with strut modules and is also working on suspension modules combined with peripheral components.

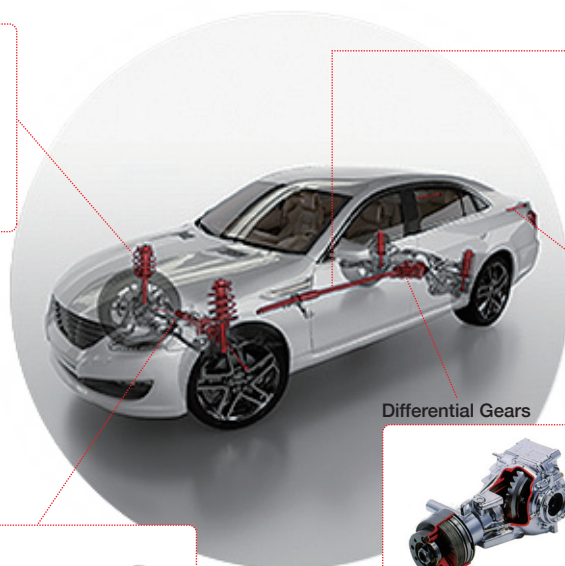
Shock Absorbers



Propeller Shafts

The propeller shaft's function is to transmit the driving force of the engine to the wheel axis. The long cylindrical shaft rotates at high speed. It must limit vibration and noise while ensuring high durability. Showa supplies leading-edge technologies, and our structural analysis enables a smaller number of components and lighter weight. Further, we have implemented friction welding to achieve high precision, dynamic balance and ultra-strong parts connections.

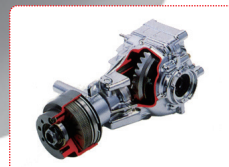
Propeller Shafts



Gas Springs



Differential Gears



Steering Systems



Steering Systems

Of all automobile components, steering systems must provide performance and reliability. The steering system is the man/machine interface that transmits the driver's steering motion to the automobile and conveys information on running conditions from the automobile to the driver. The term "power steering system" refers to a component that assists steering and provides drivers with comfortable maneuverability.

Power steering systems are classified into hydraulic power steering systems (HPS), which use the engine's power as a drive source, and electric power steering systems (EPS), utilizing the vehicle's battery. Showa has a full line of power steering models.

Gas Springs

Gas springs help to open and close front hoods and rear gates by using gas reaction force. They come with speed-adjustment devices that enable operators to open and close the hood and trunk at optimal speed. Showa develops a variety of products to meet customers' diverse needs.

Differential Gears

The role of a differential mechanism is to absorb the difference in rotation between the right and left wheels when an automobile is cornering. These products must offer durability, transmission efficiency and quiet operation. Showa's differential gears are light in weight while exhibiting high performance in automobiles from subcompacts to SUVs.

SHOWA' s Technology

Motorcycle Components

Shock Absorbers

Showa motorcycle shock absorbers are used extensively in motorcycle races around the world. From racing machines to scooters, we use our technology and experience to meet a wide variety of performance needs.

Drive Unit Products

For motorcycle and ATV drive unit products, Showa has achieved lighter weights through analysis of functions, shapes, and materials, while maintaining excellent durability, transmission efficiency and quiet operation.

Front Forks

The front fork is a key structural component of a motorcycle, holding the front wheel securely and providing the steering function. This vital part must be able to closely follow road contours through smooth operation and steady damping force, while retaining high rigidity.

Rear Cushions

The rear cushion is attached to the rear fork directly or through a link. By controlling the attitude and energy absorption of the motorcycle body, the rear cushion helps the rear wheel to follow road contours.

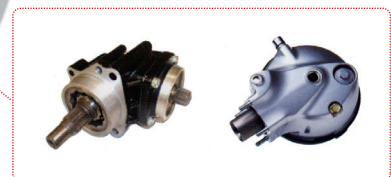
Front Forks



Rear Cushions



Drive Unit Products



Drive Unit Products



Outboard Marine Engine Components

Power Tilt and Trim Units

Power trim and tilt units change the angle of outboard engines and provide the following three functions. The trim function provides good screw efficiency and steady cruising by adjusting the angle of the outboard engine while running. The tilt function enables owners to prevent outboard engine damage from clinging shellfish by raising the engine above the water's surface when moored. When driftwood or other objects strike the outboard engine while under way, shocks are absorbed, helping to prevent damage to the outboard engine and boat.

Outlook of Consolidated Business Performance

As of 31st March 2016

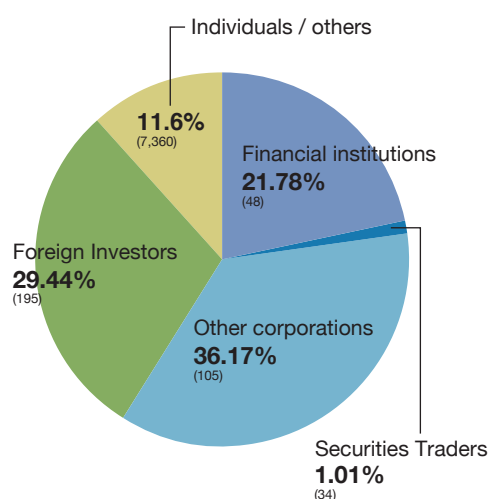
Status of Shares

Total Number of Authorized Shares	180,000,000 shares
Total Number of Issued Share	76,020,019 shares
Number of Shareholders	7,742

Major shareholders

Shareholder Name	Shares held (shares)	Investment ratio (%)
Honda Motor Co., Ltd.	25,447,856	33.48
Japan Trustee Services Bank, Ltd. (Trust Account)	4,084,400	5.37
Showa Holdings	1,601,760	2.11
Japan Trustee Services Bank, Ltd. (Trust Account 4)	1,334,500	1.76
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,294,600	1.70
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,291,480	1.70
State Street Bank and Trust Company 505223	1,097,661	1.44
CBNY - Government of Norway	1,069,800	1.41
Mellon Bank Treaty Clients Omnibus	1,029,575	1.35
The Bank of New York, Treaty JASDEC Account	988,000	1.30

Share Distribution by Shareholders



Board of Directors and Corporate Auditors

As of 24th June 2016

Representative Director President	Nobuyuki Sugiyama	Director Operating Officer	Tetsuya Matsumura
Representative Director		Operating Officer	Kazuhiro Nishioka
Executive Vice President and Executive Officer	Akira Kadoya	Operating Officer	Shinichi Miyajima
Representative Director Senior Managing Officer	Hajime Hirata	Director Operating Officer	Yuji Kumagai
Director Managing Officer	Takeshi Nagao	Director Operating Officer	Yoshiaki Kawakami
Managing Officer	Hiroshi Ichimura	Operating Officer	Takahiro Furuhashi
Director Operating Officer	Narutoshi Wakiyama	Director (Audit and Supervisory Committee)	Yosuke Mano
Operating Officer	Shuichi Kawahara	Outside Director (Audit and Supervisory Committee)	Tsuneo Mizusawa
Operating Officer	Hidehiko Koyano	Outside Director (Audit and Supervisory Committee)	Hikoyuki Miwa