



ANNUAL REPORT 2017

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
14	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 109th term (from April 1, 2016 to March 31, 2017) as follows.

Despite having some decrease due to the effect of exchange rates, an increase in the sales of steering products resulted in an overall increase in sales revenue compared with the previous term. Due to product warranty costs incurred for defects found in some of gas steering products manufactured by our group, the operating profit, income before income taxes as well as net income attributable to owners of the parent decreased over the previous term.

As mentioned, income in the current term was significantly lower compared with the previous term. Upon careful and comprehensive consideration of current business environment and performance, we have decided to pay no year-end dividend for the current term.

For the next term (from April 1, 2017 to March 31, 2018), we have comprehensively assessed business development and consolidated performance forecast, and as a result, we expect to set 10 yen per share for both interim and year-end dividends, and accordingly, the dividend for the fiscal year is to total 20 yen per share.

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

September 2017

杉山 伸幸

Nobuyuki Sugiyama
President

Review of Operations

Status of current term (2016)

Although sales of motorcycle products mainly fell in South America and sales of automobile products mainly fell in North America, sales of steering products mainly increased in North America and China. As a result, despite a decline in sales due to the effects of exchange rates, overall sales revenue increased over the previous fiscal year mainly due to an increase in sales of steering products. Our operating income, income before taxes, and net income attributable to owners of the parent decreased over the previous fiscal year due to accrued product warranty costs.

Sales revenue	259,495 million yen	(0.5% increase over previous term)
Operating profit	△3,263 million yen	(No previous result)
Income before income taxes	△2,407 million yen	(No previous result)
Profit for the year Attributable to owners of the parent	△11,444 million yen	(No previous result)

Outlook for next term (2017)

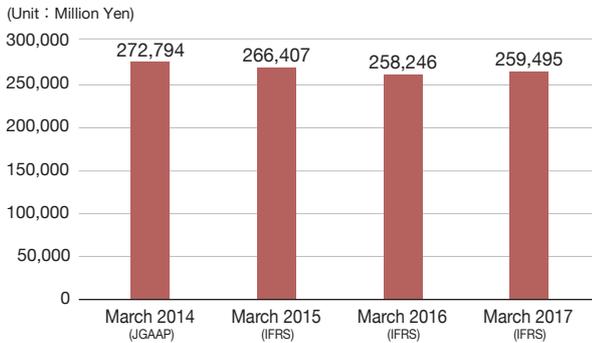
For the next term, we expect that the global economy will gradually recover, subsequently leading to greater demand in the global automobile industry compared with the previous fiscal year.

We assume exchange rates of 1 USD= 109 JPY, 1 RMB = 16.0 JPY, based on the full-year average.

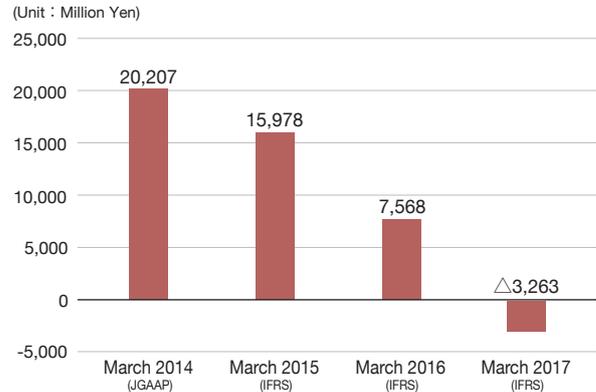
Sales revenue	265,000 million yen	(21% increase over previous term)
Operating profit	21,000 million yen	(No previous result)
Income before income taxes	21,200 million yen	(No previous result)
Profit for the year Attributable to owners of the parent	11,900 million yen	(No previous result)

Review of Operations

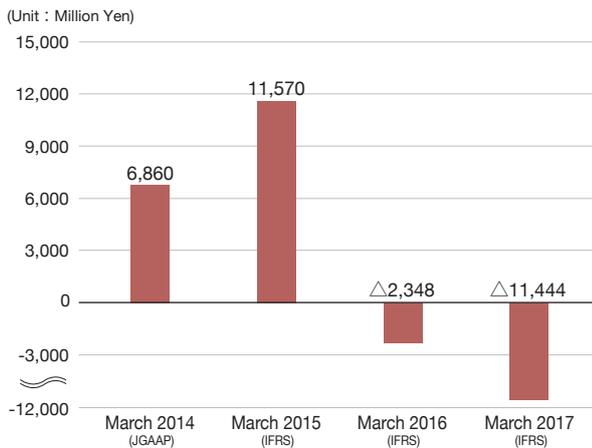
Sales revenue



Operating profit



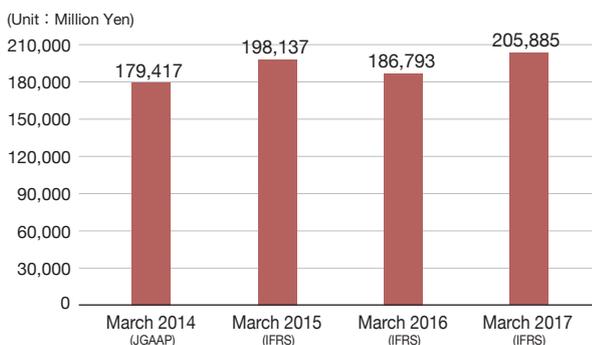
Profit for the year Attributable to owners of the parent



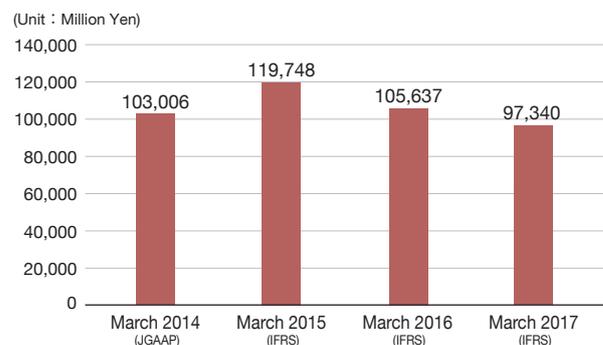
Net income per share



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 106th reports are based on Japanese standards, and the 107th, 108th and 109th on IFRS.

Segment Results

(Numerical unit of bar graph: 1 million yen)

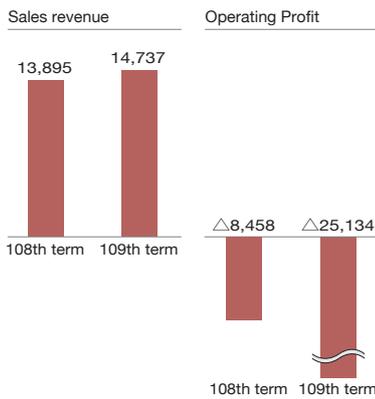
* From the previous fiscal year, our group has made a switch from Japanese accounting standards to voluntary application of International Financial Reporting Standards (IFRS), and therefore, 107th and 108th reports are based on IFRS.

5.7%

Gas springs segment/Others

Sales revenue 14,737 million
(6.1% increase from the previous fiscal year)

Operating Profit Δ 25,134 million
(Operating loss in the previous fiscal year was 8,458 million yen)

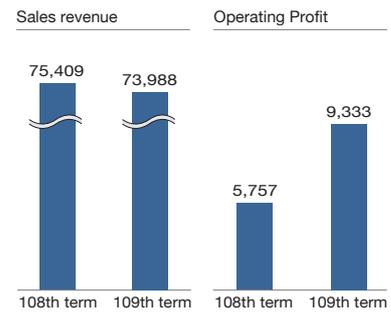


28.5%

Motorcycle and Hydraulic components segment

Sales revenue 73,988 million
(1.9% decrease from the previous fiscal year)

Operating Profit 9,333 million
(62.1% increase from the previous fiscal year)



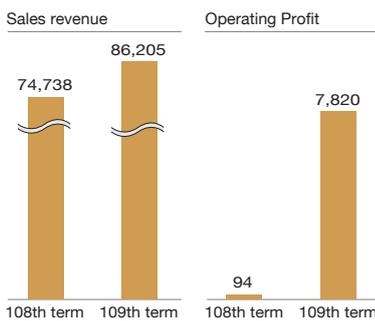
Sales revenue by Operational Segment Total **259,495million**

33.2%

Steering systems components segment

Sales revenue 86,205 million
(15.3% increase from the previous fiscal year)

Operating Profit 7,820 million
(Operating income in the previous fiscal year was 94 million yen)

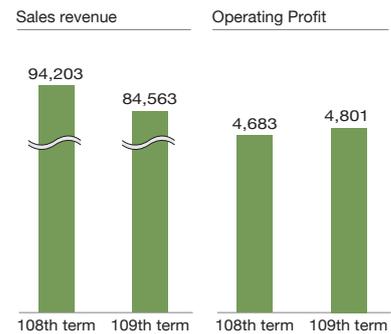


32.6%

Automotive components segment

Sales revenue 84,563 million
(10.2% decrease from the previous fiscal year)

Operating Profit 4,801 million
(2.5% increase from the previous fiscal year)



Segment results

Segment	Main cause
Motorcycle and Hydraulic components segment	Although sales of motorcycle products decreased mainly in South America, overall sales increased over the previous fiscal year due to sales increase in Asia.
Automotive components segment	Overall sales of automotive products decreased compared with the previous fiscal year mainly due to a decline in sales in North America.
Steering components segment	Overall sales of steering products increased over the previous fiscal year mainly due to an increase in sales in North America and China.

Consolidated Financial Statements

※1 \$ = 113.19 Yen

Consolidated Balance Sheet (Summary)	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2016	2017	2017
Assets			
Current assets	99,207	115,647	1,021,707
Noncurrent assets	87,586	90,238	797,226
Total assets	186,793	205,885	1,818,933
Liabilities			
Current liabilities	65,843	85,695	757,090
Noncurrent liabilities	15,312	22,849	
Total Liabilities	81,156	108,544	958,954
shareholders' equity			
Common stock	12,698	12,698	112,183
Capital surplus	13,417	13,417	118,535
Retained earnings	62,132	53,186	469,882
Treasury stock	-54	-54	-477
Other components of shareholders' equity	5,064	4,904	43,325
Equity attributable to owners of the parent company	93,258	84,152	743,458
Noncontrolling interest	12,378	13,188	116,512
Total shareholders' equity	105,637	97,340	859,970
Total liabilities and shareholders' equity	186,793	205,885	1,818,933

※1 \$ = 113.19 Yen

Profit and loss calculator (Summary)	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2016	2017	2017
Sales revenue	258,246	259,495	2,292,561
Cost of sales	(210,714)	(204,701)	(1,808,472)
Gross profit	47,532	54,794	484,089
Selling, general and administrative expenses	(43,677)	(56,230)	(496,775)
Other income	7,467	471	4,161
Other expense	(3,754)	(2,298)	(20,302)
Operating profit	7,568	(3,263)	(28,828)
Finance income	620	748	6,608
Finance costs	(1,424)	(198)	(1,749)
Gains and losses on equity method investment	689	306	2,703
Income before income taxes	7,454	(2,407)	(21,265)
Corporate income tax	(7,323)	(5,932)	(52,407)
Current net income	130	(8,340)	(73,681)
Attributable net income			
Owners of the parent	(2,348)	(11,444)	(101,104)
Non-controlling interests	2,479	3,103	27,414

Operating income: Due to accrued product warranty costs for defects found in some of gas steering products manufactured by our group, operating income amounted to a loss of 3,263 million yen (operating income was 7,568 million yen in the previous fiscal year).

Consolidated Financial Statements

Cash flow (Summary)

※1 \$ = 112.68 Yen

	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2016	2017	2017
Net cash provided by (used in) operating activities	18,249	7,144	63,115
Net cash provided by (used in) investing activities	(7,280)	(11,048)	(97,606)
Net cash provided by (used in) financial activities	(9,544)	7,420	65,553
Effect of exchange rate change on cash and cash equivalents	(1,677)	(440)	(3,887)
Effect of exchange rate change on cash and cash equivalents (△:decrease)	(252)	3,076	27,176
Cash and cash equivalents at Beginning of Year	27,194	27,139	239,765
Increase in cash and cash equivalents from newly consolidated subsidiaries	197	-	-
Cash and cash equivalents at End of Year	27,139	30,215	266,941

Overview of cash flows: The balance of cash and cash equivalents at the end of the current fiscal year was 30,215 million yen, up 3,076 million yen from the end of the previous fiscal year.

Net cash provided by (used in) operating activities: Major causes for an increase in net cash included depreciation and amortization expenses amounting to 9,455 million yen, an increase in the provision for product warranties totaling 8,850 million yen, and an increase in operating payables amounting to 4,811 million yen. Major causes for a decrease included an increase in operating receivables and other receivables totaling 7,725 million yen and an income tax payment of 6,567 million yen.

Net cash provided by (used in) investing activities: A main cause for a decrease in net cash was the payment of 10,858 yen to acquire tangible fixed assets.

Net cash provided by (used in) financial activities: Major causes for an increase in net cash included proceeds from borrowings of long-term interest-bearing debts amounting to 6,539 million yen and repayment of short-term interest-bearing debts totaling 4,137 million yen. A main cause for a decline was the payment of dividends totaling 2,112 million yen to noncontrolling shareholders.

Topics

Electronically controlled damper IECAS installed in Acura CDX

Electronically controlled damper IECAS* (Intelligent Electronic Control Adaptive Suspension) exclusively developed by our company has been installed in Acura CDX for sale in Chinese market. This product utilizes existing sensors by employing the world's first control logic that does not require new sensors to not only improve ride quality and stability at a low cost but also achieve further weight reduction. We will strive to further expand the range of automobile models this product can be installed in.

*registered trademark of Showa Corporation.



CDX

Hypoid Gear for Super Sports installed in Honda NSX

Our Hypoid Gear for Super Sports was installed in Honda Motor Co., Ltd.'s new NSX. Tooth surfaces of this product are polished with Japan's first mirror finish technique using special barreling suitable for its high torque and high rotational speed. In addition, its hollow pinion gear and thin-walled ring gear enable weight reduction, and our very own high-precision tooth shape allows for quiet operation.



NSX

Topics

Developed front fork of new mechanism for motorcycles, SDBV

We have developed a front fork employing a new mechanism for motorcycles, SDBV (Showa Dual Bending Valve). This product has been installed in Honda Motor Co., Ltd.'s new NC750X/750S (released in January 2016) and Harley-Davidson, Inc.'s Touring Family Model.

Employing dual bending valve structure developed exclusively by our company prevents drifting of motorcycles due to bumps and undulations of roads and improves stability at the time of deceleration; we were able to realize a whole new level of ride comfort.



NC750X / 750S



Touring Family Model

Exhibited at EICMA2016 (Milan)

We exhibited at the world's largest motorcycle show EICMA2016 (Milan) held in Milan, Italy from November 10 to 13, 2016.

Following our exhibition of suspension kits for super bikes released for public sale in Milan last year, this year, we introduced as new option parts models products for motorcross, A-Kit and Premium Upgrade Kit, developed with our latest technology and refined in development sites of Motorcross World Championships and Dakar Rally. Also, we showcased our electronically controlled damper technology.



Topics

Completed development of Electronically-Controlled Variable Damping Force Damper for motorcycles

While in the past those made for automobiles were often used in motorcycles, we have developed electronically controlled hydraulic valves exclusively for motorcycle dampers. By having features specifically optimized for motorcycles, this product provides excellent maneuverability and ride comfort. In addition, we were able to reduce both its size and cost by installing stroke sensors required for electronic control inside the damper. We will continue to develop new products using electronic control technology for motorcycles as a part of a new lineup and promote the development of intelligent and high performance motorcycles.



Expanded the range of models our shock absorber for automobiles S-SEESII and electric power steering DPA-EPS are installed in

Our shock absorber for automobiles S-SEESII (Showa Super Empowering Efficient Suspension) has been installed in Honda Motor Co., Ltd.'s (hereinafter referred to as Honda) CR-V (released in North American market) and Subaru Corporation's new Impreza. In addition, our electric power steering DPA-EPS has been installed in Honda's new CR-V. Previously, our products were installed in Honda's Civic series and Mazda Motor Corporation's Roadster. We aim to further expand the range of models our products can be installed in.



S-SEESII



DPA-EPS



CR-V (For North America)

Topics

Exhibited at the Automotive Engineering Exposition 2017 Yokohama

We exhibited at the Automotive Engineering Exposition 2017 Yokohama held at PACIFICO Yokohama from May 24 to 26, 2017. “Bring ultimate comfort and excitement to all users - Performance. Pleasure. Progress. -” as our exhibition theme, we introduced our approach to future technology with displays of our products and technology centered around suspension electronic control technology for motorcycles and cooperative control of the steering and suspension.



Hosted a factory tour for individual shareholders and a proving ground tour for institutional investors and analysts

We hosted a factory tour for individual shareholders on February 24, 2017 (Saitama plant), and a proving ground tour for institutional investors and analysts on March 30, 2017 (Shioya Proving Ground). We received great reviews from all participants. We will continue to deepen mutual understanding and improve communication with stakeholders including shareholders, institutional investors and analysts through hosting similar events.



Factory tour for individual shareholder



Test course tour for institutional investors and analysts



SHOWA' s Global Network

As of 31st March 2017

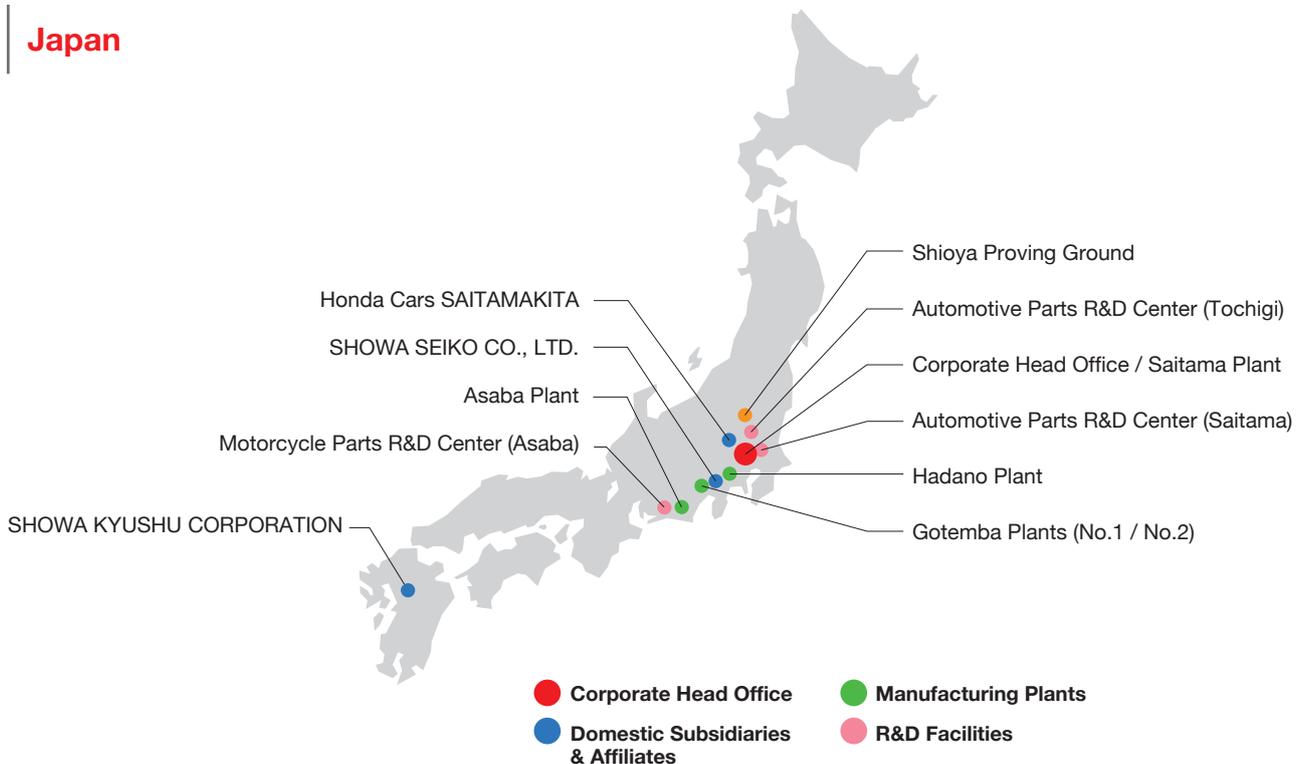
Overview of Business

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 2017

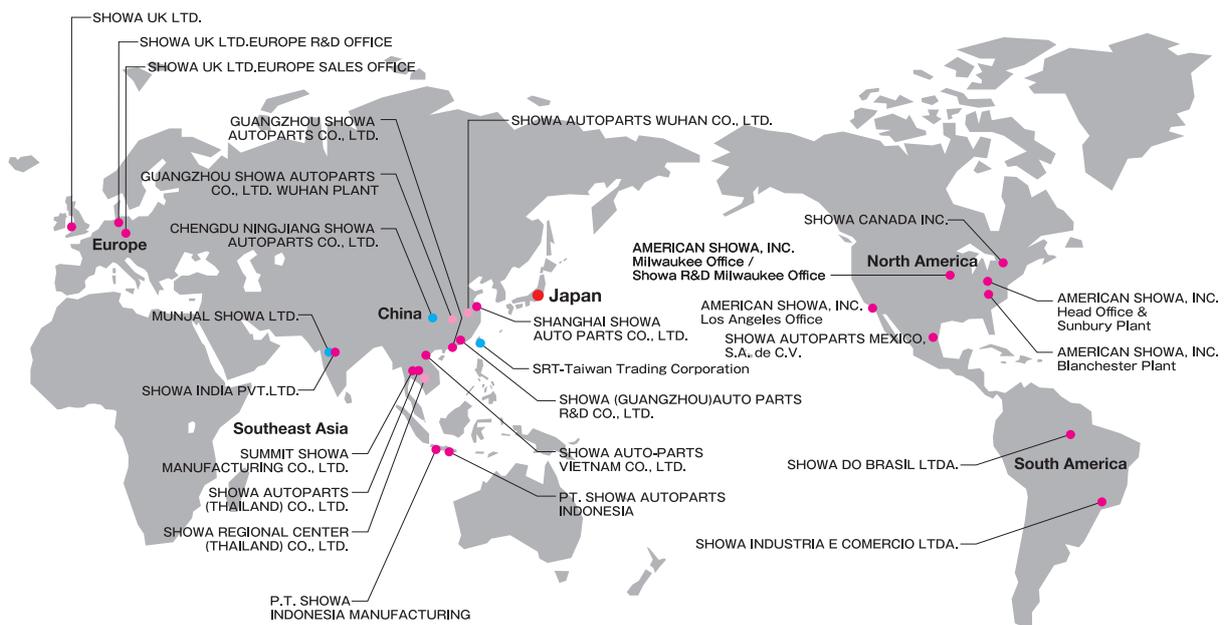
Overview of Subsidiaries and Affiliates

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



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.



Drive Unit Products



Outlook of Consolidated Business Performance

As of 31st March 2017

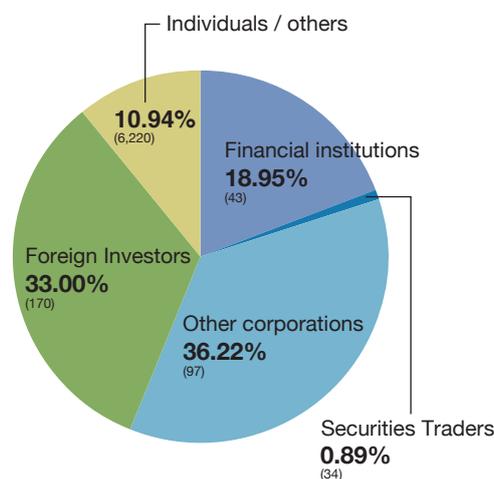
Status of Shares

Total Number of Authorized Shares	180,000,000 shares
Total Number of Issued Share	76,020,019 shares
Number of Shareholders	6,564

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)	3,787,300	4.98
CBLDN RE FUND 116-CLIENT AC	2,824,300	3.72
Showa Business Partners Shareholders' Association	1,687,260	2.22
NORTHERN TRUST CO.(AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT	1,678,300	2.21
MORGAN STANLEY & CO. LLC	1,612,803	2.12
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,576,700	2.07
STATE STREET BANK AND TRUST COMPANY	1,356,905	1.78
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,291,480	1.70
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	1,096,700	1.44

Share Distribution by Shareholders



Board of Directors and Corporate Auditors

As of 23th June 2017

Representative Director President	Nobuyuki Sugiyama	Director Operating Officer	Yuji Kumagai
Representative Director Senior Managing Officer	Hiroshi Ichimura	Operating Officer	Yoshiaki Kawakami
Director Managing Officer	Takeshi Nagao	Director Operating Officer	Takahiro Furuhashi
Director Managing Officer	Narutoshi Wakiyama	Operating Officer	Tetsuro Eguchi
Director Managing Officer	Tetsuya Matsumura	Director(Audit and Supervisory Committee)	Yosuke Mano
Operating Officer	Hidehiko Koyano	Outside Director(Audit and Supervisory Committee)	Tsuneo Mizusawa
Director Operating Officer	Kazuhiro Nishioka	Outside Director(Audit and Supervisory Committee)	Hikoyuki Miwa
Operating Officer	Shinichi Miyajima	Outside Director(Audit and Supervisory Committee)	Shinya Takada