

ANNUAL REPORT 2019

SHOWA

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



— 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



Dear Shareholders

We would like to express our sincere appreciation for your continued support.

You are cordially invited to attend the 111th Annual General Meeting of Shareholders of SHOWA Corporation, for the fiscal year covering the period from April 1, 2018 to March 31, 2019.

In October 2018, we celebrated the 80th anniversary of our founding. We would like to take this opportunity to sincerely thank our shareholders and each one of our stakeholders for continued support and patronage. We at SHOWA will continue working toward next milestones in the 90th, 100th, and even later anniversaries of our founding.

In the fiscal year ended March 31, 2019, sales revenue fell year-on-year as the increase in sales of motorcycle products could not cover the decline in steering product sales and the effects of forex exchange loss. On the profit front, operating profit, pre-tax income, and net income attributable to owners of the parent grew year-on-year owing to cost reduction measures and provisions for product warranties booked in the previous fiscal year (which contributed to favorable year-on-year comparisons).

Regarding year-end dividends, upon comprehensive consideration of our consolidated earnings results and future business developments from a long-term perspective, we have decided to propose a year-end dividend of 19 yen per share at the 111th Annual General Meeting of Shareholders to express our gratitude for your support. Hence, with the interim dividend of 17 yen per share (including a commemorative dividend of 2 yen per share), we intend to pay an annual dividend of 36 yen per share for the fiscal year ended March 31, 2019.

We kindly ask for your continued support and understanding.

October 2019

杉山 伸幸

Nobuyuki Sugiyama
President

Status of our group

Overview of consolidated earnings

In the fiscal year ended March 31, 2019, the business environment surrounding our company group was characterized by a gradual slowdown of the Chinese economy while the Japanese and US economies recovered; overall, the global economy made a gradual recovery. In the automobile market, sales declined year-on-year in China, but grew year-on-year in the US and Japan.

Under such circumstances, SHOWA aimed to become a proposal-based systems supplier to differentiate our company group from mega suppliers. Based on our medium- to long-term policies, we worked on promoting the following initiatives: realization of highly efficient and stable production, optimization of production allocation, reinforcement of measures for dealing with next-generation automobiles and development of high value-added products, enhancement of price competitiveness through optimized procurement, and strengthening of quality guarantee systems worldwide to achieve uniformly high quality standards.

In the fiscal year under discussion, sales of motorcycle products increased, but it was not enough to offset the decline in steering product sales and the effect of foreign exchange loss. As a result, sales revenue fell 5,296 million yen (-1.8%) year-on-year to 286,692 million yen. Operating profit increased 4,845 million yen (+19.2%) year-on-year to 30,142 million yen thanks to the effects of cost reduction measures and provisions for product warranties booked in the previous fiscal year (which contributed to favorable year-on-year comparisons). Pre-tax income was up 3,920 million yen (+15.1%) year-on-year to 29,963 million yen. Net income attributable to owners of the parent increased 5,197 million yen (+37.5%) year-on-year to 19,052 million yen.

Earnings results by segments are as follows.

Motorcycle and Hydraulic Components segment

Sales of motorcycle products grew year-on-year mainly due to expanding sales in Asia. Sales revenue of the Motorcycle and Hydraulic Components segment rose 3,689 million yen (+4.5%) year-on-year to 86,367 million yen thanks to higher sales of motorcycle products. Operating profit rose 540 million yen (+4.4%) year-on-year to 12,679 million yen.

Automotive Components segment

Sales of automotive components grew year-on-year driven by higher sales in North America. Sales revenue of the Automotive Components segment fell 1,456 million yen (-1.6%) year-on-year to 90,752 million yen despite an increase in sales of automotive components, due to changes in the sales mix. Operating profit rose 1,204 million yen (+20.2%) year-on-year to 7,174 million yen.

Steering Systems Components segment

Sales of steering products fell year-on-year, mainly due to lower sales in China and North America. Sales revenue at the Steering Systems Components segment declined 7,995 million yen (-7.8%) year-on-year to 94,045 million yen owing to a decrease in steering products sales. Operating profit dropped 2,343 million yen (-15.5%) year-on-year to 12,766 million yen.

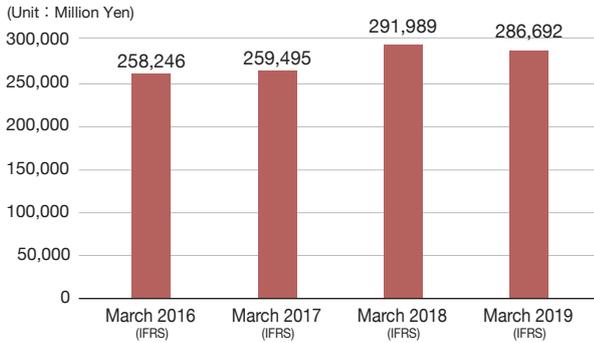
Gas Springs segment

Sales revenue at the Gas Springs segment was down 305 million yen (-9.4%) year-on-year to 2,940 million yen. The operating loss shrank to 881 million yen (versus an operating loss of 8,397 million yen in the previous fiscal year).

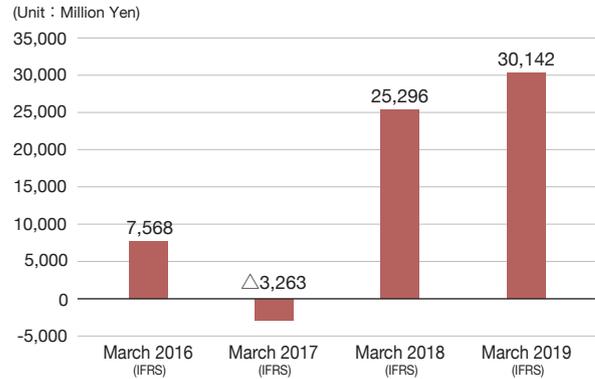
Other segment

Sales revenue at the Other segment rose 771 million yen (+6.5%) year-on-year to 12,587 million yen. Operating profit was up 28 million yen (+6.1%) year-on-year to 504 million yen.

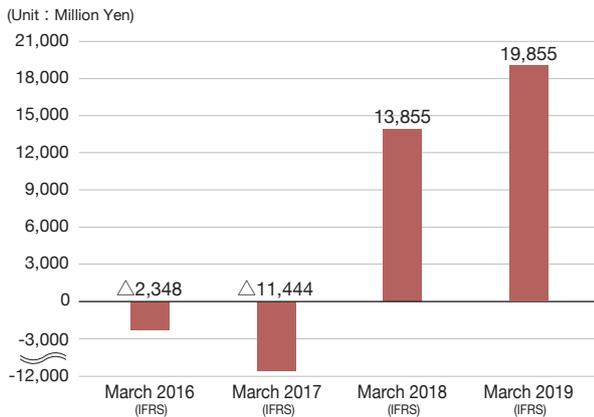
Sales revenue



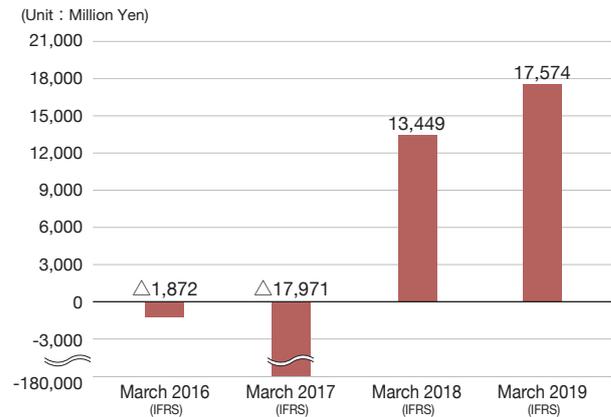
Operating profit



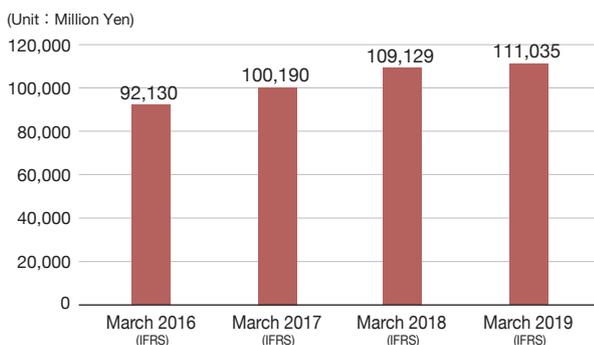
Profit for the year Attributable to owners of the parent



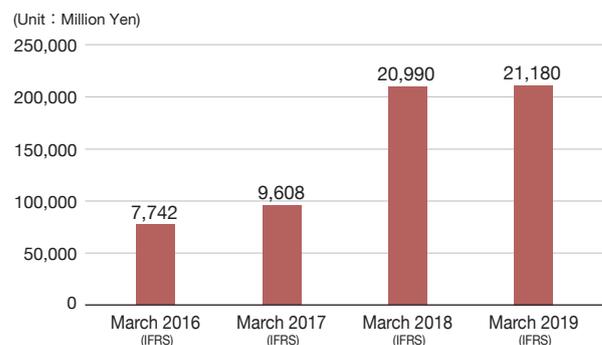
Net income per share



Sales



Recurring profit



* 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.

(Numerical unit of bar graph: 1 million yen)

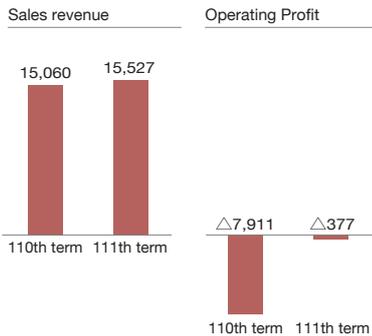
* From the previous fiscal year, our group has made a switch from Japanese accounting standards to voluntary application of International Financial Reporting Standards (IFRS), and therefore, 107th and 108th reports are based on IFRS.

5.4%

Gas springs segment/Others

Sales revenue 15,527 million
(3.1% increase from the previous fiscal year)

Operating Profit Δ 377 million
(Operating loss in the previous fiscal year was 7,922 million yen)

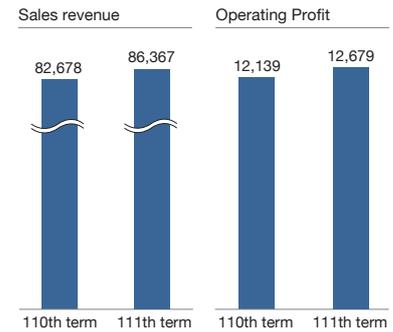


30.1%

Motorcycle and Hydraulic components segment

Sales revenue 86,367 million
(4.5% increase from the previous fiscal year)

Operating Profit 12,679 million
(4.4% increase from the previous fiscal year)



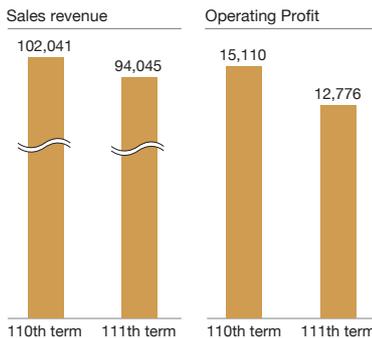
Sales revenue
by Operational
Segment Total
286,692million

32.8%

Steering systems components segment

Sales revenue 94,045 million
(7.8% decrease from the previous fiscal year)

Operating Profit 12,766 million
(15.5% decrease from the previous fiscal year)

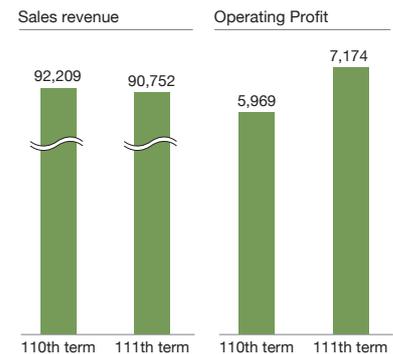


31.7%

Automotive components segment

Sales revenue 90,752 million
(1.6% decrease from the previous fiscal year)

Operating Profit 7,174 million
(20.2% 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.

※1 \$ = 110.84 Yen

Consolidated Balance Sheet (Summary)

	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2018	2019	2019
Assets			
Current assets	119,846	129,455	1,167,945
Noncurrent assets	82,120	80,819	729,150
Total assets	201,967	210,275	1,897,104
Liabilities			
Current liabilities	74,219	67,182	606,117
Noncurrent liabilities	18,089	16,558	149,387
Total Liabilities	85,680	83,740	755,503
shareholders' equity			
Common stock	12,698	12,698	114,562
Capital surplus	13,417	13,420	121,075
Retained earnings	68,679	85,502	771,400
Treasury stock	-54	-55	-496
Other components of shareholders' equity	1,335	1,749	15,780
Equity attributable to owners of the parent company	96,075	113,316	1,022,339
Noncontrolling interest	13,582	13,218	119,253
Total shareholders' equity	109,658	126,534	1,141,591
Total liabilities and shareholders' equity	201,967	210,275	1,897,104

Assets, liabilities, and shareholders' equity: As of March 31, 2019, net assets were 210,275 million yen, up 8,307 million yen year-on-year.

Current assets : Up 9,609 million yen from March 31, 2018 thanks to an increase in cash and cash equivalents despite a decline in operating and other receivables.

Noncurrent assets : Down 1,301 million yen from March 31, 2018 on a decline in property, plant and equipment.

Current liabilities : Down 7,037 million yen from March 31, 2018 due to lower short-term interest bearing debt and provisions.

Noncurrent liabilities : Down 1,531 million yen from March 31, 2018, mainly owing to a decline in long-term interest bearing debt.

Shareholders' equity : Up 16,876 million yen versus March 31, 2018, as a result of higher retained earnings.

※1 \$ = 110.84 Yen

Profit and loss calculator (Summary)

	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2018	2019	2019
Sales revenue	291,989	286,692	2,586,539
Cost of sales	(223,885)	(220,168)	(1,986,359)
Gross profit	68,103	66,524	600,180
Selling, general and administrative expenses	(42,362)	(34,608)	(312,234)
Other income	2,147	864	7,795
Other expense	(2,592)	(2,638)	(23,800)
Operating income	25,296	30,142	271,942
Finance income	736	632	5,702
Finance costs	(532)	(1,112)	(10,032)
Gains and losses on equity method investment	542	301	2,716
Income before income taxes	26,042	29,963	270,327
Corporate income tax	(7,704)	(6,775)	(61,124)
Current net income	18,338	23,187	209,193
Attributable net income			
Owners of the parent	13,855	19,052	171,887
Non-controlling interests	4,483	4,135	37,306

Cash flow (Summary)

※1 \$ = 110.84 Yen

	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2018	2019	2019
Net cash provided by (used in) operating activities	24,921	29,108	262,613
Net cash provided by (used in) investing activities	(4,287)	(8,037)	(72,510)
Net cash provided by (used in) financial activities	(11,669)	(10,078)	(90,924)
Effect of exchange rate change on cash and cash equivalents	(596)	234	2,111
Net increase cash and cash equivalents (△:decrease)	8,367	11,226	101,281
Cash and cash equivalents at Beginning of Year	30,215	38,583	348,096
Cash and cash equivalents at End of Year	38,583	49,809	449,377

Cash flow status: The balance of cash and cash equivalents (hereinafter capital) as of March 31, 2019 was 49,809 million yen, up 11,226 million yen year-on-year.

Net cash provided by (used in) operating activities: Cash inflows were mainly from pre-tax income of 29,963 million yen and depreciation and amortization expenses of 8,818 million yen. Cash outflows were largely due to a 3,424 million yen increase in provisions for product warranties and a 7,164 million yen in income tax paid.

Net cash provided by (used in) investing activities: Primary factors contributing to cash outflows were 6,796 million yen paid for the purchase of property, plant and equipment.

Net cash provided by (used in) financing activities: Cash outflows were largely due to dividends paid of 4,003 million yen to non-controlling shareholders, a net decline of 2,298 million yen in short-term interest bearing debt, and dividends paid of 2,202 million yen.



Expanded the range of automobiles in which electric power steering DPA-EPS and shock absorber SFRD are installed

Our electric power steering DPA-EPS has been adopted by Honda Motor for their new CR-V (for the Japanese market), Insight (for the North American market), and Clarity (for the North American and Japanese markets).

In CR-V and Clarity, sensitive frequency response damper for automobiles SFRD has also been installed. We will continue working on expanding the range of automobile models in which our products are installed.



DPA-EPS



SFRD



CR-V

Initiated business with Italian motorcycle manufacturer Piaggio

We have begun doing business with our new client, the Italian motorcycle manufacturer Piaggio. SHOWA's front fork is installed in Liberty 125, and we have commenced production of the product at SHOWA Auto-Parts Vietnam, Co., Ltd.

Going forward, we will engage in sales activities aimed at acquiring new clients.



Front fork



Liberty 125

Participated in the Automotive Engineering Exposition 2018

We exhibited our products at the Automotive Engineering Exposition 2018 Yokohama held from May 23 to 25, 2018.

With the theme of “Performance, Pleasure, and Progress: Bringing ultimate comfort and excitement to all,” which was the same as last year’s, we showcased our achievements in the development of cooperative control for automotive steering and shock absorber and electronic control technologies such as variable damping force control systems for motorcycles, as well as core technologies to support such developments.



Overhaul of the Saitama Plant

With an aim of increasing production efficiency, we worked to improve the internal structure of our Saitama Plant. Through automation of manufacturing processes and streamlining of material flows, the production efficiency for mainstay products such as “SFRD” Sensitive Frequency Response Damper for automobiles and “IECAS” Intelligent Electronic Control Adaptive Suspension for automobiles has improved significantly. Further, with the addition of a new clean room, we were able to stabilize the product quality.

We will strive to further improve our production efficiency through applying expertise we have acquired through our efforts aimed at streamlining production at the Saitama Plant to overseas affiliates.



IECAS production line utilizing the new transfer system

Plant layout aimed at having the shortest flow line and minimum inventory

Air showers to prevent contaminants/dust from entering

Presented new technologies of the SHOWA EERA Series at EICMA 2018 (Milan)

At EICMA 2018 (Milan), the world’s largest motorcycle show held in Milan, Italy from November 6 to 11, 2018, we introduced two new additions to the series of electronic control technologies for motorcycles SHOWA EERA (Electronically Equipped Ride Adjustment): SHOWA EERA® Steering and SHOWA EERA® HEIGHTFLEX®, the world’s first electronically controlled vehicle height adjustment system.

In addition to demo machines for visitors to experience these new technologies, motorcycles which won championship titles in the 2018 Superbike World Championship and FIM Endurance World Championship were at display. Also at the venue were optional parts developed with the state-of-the-art technologies we have cultivated through participating in races.



IECAS production line utilizing the new transfer system



Motorcycles that won championships



Demo machine of SHOWA EERA® Steering



Test drive of "SHOWA EERA® HEIGHTFLEX®"

Signed sponsorship agreements with motorcycle race teams

We signed sponsorship agreements with both “Honda Asia Dream Racing with SHOWA”, which participates in the Asian Road Racing Championship, and “Kawasaki Racing Team”, which competes in the Superbike World Championship. In addition to supplying our front forks and rear cushions manufactured for race motorcycles, we intend to provide further support to these race teams upon signing of the sponsorship agreements.

Toward victory of our sponsored teams in the toughest races of commercial motorcycles, we aim to nurture entrepreneurial spirits and at the same time promote the superiority of our products around the world. We plan to feed back technologies we have cultivated through competing in races and reliability of our company brand into developing standardized products.



Honda Asia Dream Racing with SHOWA



Kawasaki Racing Team

Held plant tours for individual shareholders, as well as for institutional investors and analysts

On March 1, 2019, we invited individual shareholders for a tour of the Asaba Plant; and on March 15, 2019, we welcomed institutional investors and analysts for a tour of the Saitama Plant. The plant tours were well received by participants. Going forward, through hosting such events, we seek to deepen mutual understanding and enhance communication with all our stakeholders including shareholders, institutional investors, and analysts.



Plant tour for shareholders



Q&A session with analysts

SHOWA' s Global Network

As of 31st March 2019

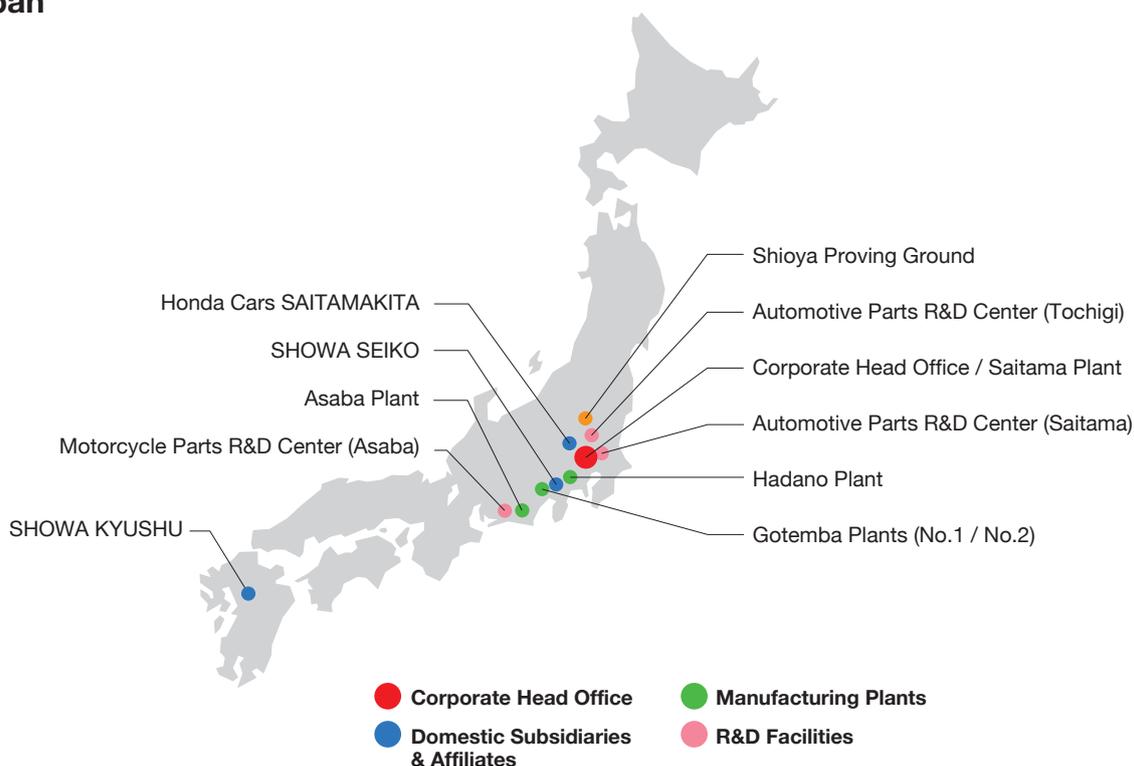
Overview of Business

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



As of 31st March 2019

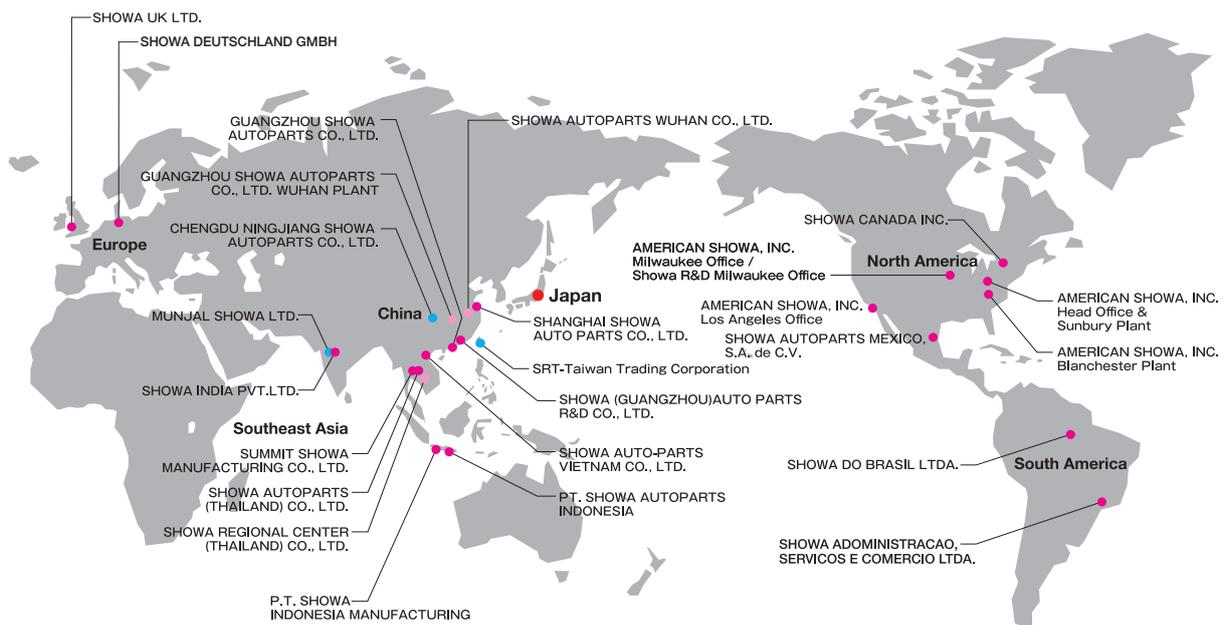
Overview of Subsidiaries and Affiliates

Consolidated Subsidiaries

PT. SHOWA INDONESIA MANUFACTURING
 AMERICAN SHOWA, INC.
 SHOWA DO BRASIL LTDA.
 SHOWA KYUSHU CORPORATION
 SUMMIT SHOWA MANUFACTURING CO., LTD.
 SHOWA CANADA INC.
 SHOWA AADMINISTRACAO, SERVICOS 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

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



Steering Systems



Differential Gears



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

ANNUAL
REPORT
2019
SHOWA

As of 31st March 2019

Status of Shares

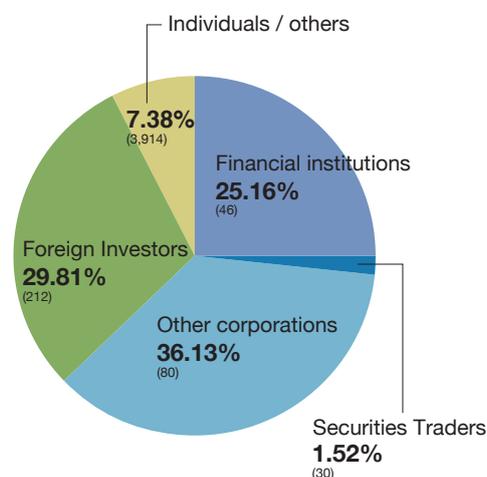
Total Number of Authorized Shares	180,000,000 shares
Total Number of Issued Share	76,020,019 shares
Number of Shareholders	4,282 persons

Major shareholders

Shareholder Name	Shares held (shares)	Investment ratio (%)
Honda Motor Co., Ltd.	25,447,856	33.5
Japan Trustee Services Bank, Ltd. (Trust Account)	3,659,100	4.9
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,254,600	4.3
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,984,200	3.9
Showa Business Partners Shareholders' Association	1,695,560	2.2
J.P.MORGAN BANK LUXEMBOURG S.A. 1300000	1,472,495	1.9
GOVERNMENT OF NORWAY	1,353,524	1.8
MUFG Bank, Ltd.	1,291,480	1.7
GOLDMAN SACHS INTERNATIONAL	1,121,339	1.5
THE BANK OF NEW YORK MELLON 140044	970,400	1.3

Note: Shareholding ratios are calculated after subtracting the number of treasury shares (54,348 shares) from the total number of outstanding shares.

Share Distribution by Shareholders



Board of Directors and Corporate Auditors

As of 21th June 2019

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

*Outside Director