

SHOWA

ANNUAL REPORT 2000



SHOWA CORPORATION

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SHOWA

Showa Corporation manufactures and markets high-precision components for transport vehicles, including shock absorbers, power steering and drive-train system components for automobiles and boats. The Company is the world's leading maker of shock absorbers for automobiles and motorcycles and of hydraulic components for boats.

Established in 1938, the Company began production of automotive parts in 1946, and in 1970 it became an affiliate of Honda Motor Co., Ltd., a leading manufacturer of automobiles and motorcycles. The Company was renamed Showa Corporation in 1993, when it merged with Seiki Giken Kogyo Co., Ltd., a power steering manufacturer. Showa was listed on the Second Section of the Tokyo Stock Exchange (TSE) in 1964 and on the TSE First Section in 1985.

Headquartered in Saitama Prefecture, Showa has established a domestic manufacturing base comprising five plants, three research and development laboratories and one consolidated subsidiary. The Company's global business network comprises 30 operational bases in Japan and 16 other nations, including six consolidated subsidiaries overseas.

Showa Corporation's business activities revolve around customer satisfaction, as shown by its credo "Responding to customer needs by providing the highest-quality products and best production." At the same time, the Company strives to maintain its forward-looking stance and encourage continuing innovation in technology and corporate management.

Showa Corporation is equally concerned about environmental preservation for the benefit of future generations. To this end, it actively supports a range of environmental initiatives, especially in its product offerings and corporate activities.

Showa Corporation and its Group members in 16 nations around the globe embrace wholeheartedly the Company's business philosophy described above, and the entire Showa Group is working all-out to expand its business, with the goal of bringing more benefits to the customers and shareholders, as well as to the communities and society in which it operates.

Consolidated

Fiscal year ended March 31	Millions of yen (except where noted)					Thousands of U.S. dollars (except where noted)
	1996	1997	1998	1999	2000	2000
Net sales.....	¥107,609	¥131,735	¥144,292	¥133,405	¥133,719	\$1,259,717
Net income	1,391	2,992	3,274	2,070	2,353	22,166
Total assets	82,268	93,687	95,400	95,413	96,060	904,945
Total shareholders' equity	27,169	32,398	36,271	37,650	40,462	381,177
Per share (Yen and U.S. dollars):						
Net income per share—basic	21.66	45.11	48.14	30.31	34.43	0.32
Net income per share—diluted	19.99	41.69	42.31	26.98	29.99	0.28
Cash dividend per share	7.00	8.00	9.00	8.00	8.00	0.07

Non-Consolidated

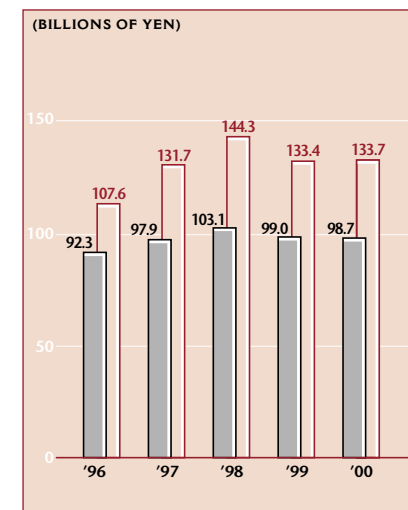
Fiscal year ended March 31	Millions of yen (except where noted)					Thousands of U.S. dollars (except where noted)
	1996	1997	1998	1999	2000	2000
Net sales.....	¥92,310	¥97,886	¥103,089	¥98,958	¥98,682	\$929,646
Net income	1,584	2,264	2,608	1,507	2,161	20,357
Total assets	65,609	73,905	75,070	76,150	79,088	745,058
Total shareholders' equity	28,213	32,220	35,426	36,246	38,914	366,594
Per share (Yen and U.S. dollars):						
Net income per share—basic	24.65	34.13	38.34	22.06	31.63	0.29
Net income per share—diluted	22.64	31.70	33.83	19.81	27.59	0.25
Cash dividend per share	7.00	8.00	9.00	8.00	8.00	0.07

Note: U.S. dollar amounts represent translation of Japanese yen, for convenience only, at the rate of ¥106.15 = U.S.\$1.

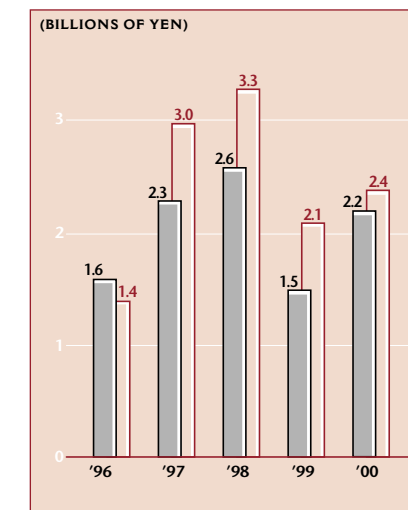
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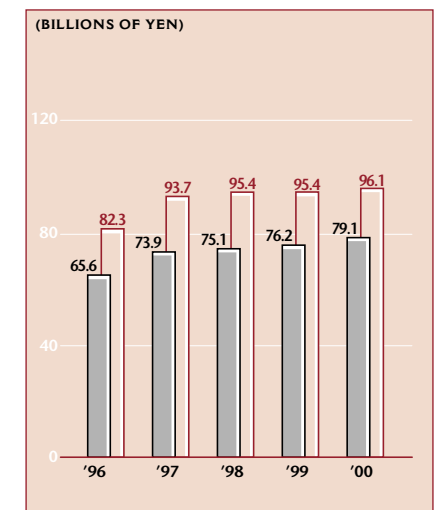
NET SALES



NET INCOME



TOTAL ASSETS



Legend: Consolidated (light blue), Non-Consolidated (dark blue)



Masahide Matsushima

Progress in Line with the Medium-Term Corporate Plan

During fiscal 2000, ended March 31, 2000, we successfully completed the first year of our three-year medium-term corporate plan, for which we formulated a new corporate principle of “Sharpening corporate competitiveness to establish a global presence in the world marketplace,” and gained greater confidence in our ability to achieve growth over the medium and long term. The fiscal year under review was a crucial time for Showa as it prepared for the 21st century. During the period, we successfully carried out a number of strategic measures according to plan to broaden our comprehensive capabilities as a Group. In addition, we succeeded in increasing our sales and net income above the previous year’s levels.

Instead of merely recording our satisfaction at past achievements, however, we must keep challenging ourselves to transform the Showa Group into a trustworthy maker of integrated systems and build a solid management basis to produce even better financial results.

Business Overview

Starting about one year ago, our operating environment has grown increasingly difficult. The global realignment of the automotive industry has already reached the final stage, affecting not only automakers but also component makers, many of whom have rushed to form business alliances and capital tie-ups. In addition, innovations driven by information technology (IT) are transforming the business world at an exponential speed, introducing countless new features such as commercial transactions on the Internet. In global terms, the nations in Southeast Asia have overcome their currency crises and are now on the road to recovery. In contrast, the prospects of the United States are somewhat clouded, given the outcome of uncertain factors such as the expected slow-down of its economy. Nevertheless, it is certain that Japan and the United States will continue to serve as an arena for competition, which is expected to intensify among companies with next-generation technologies in the areas of environment, safety and intelligent traffic systems (ITS).

Formation of the Medium-Term Corporate Plan

Based on our perception of the difficult business environment, we formulated a new basic principle, which motivates us to emerge as a winner in the 21st century. The new principle, “Sharpening corporate competitiveness to establish a global presence in the world marketplace,” provides the necessary impetus throughout period of the medium-term corporate plan, which came into force during the fiscal year under review and will remain in effect until March 2002.

It is possible to translate the new principle into strengthening of our global presence by taking advantage of our superior

network of overseas bases, while building a new framework to accommodate and encourage new generations of “intelligent” and technologically advanced products, many of which are incorporated as integrated solutions in the form of comprehensive systems and modules.

To make our medium-term plan a success, we must focus first of all on product competitiveness. This will require all-out effort to reinforce and bolster competitiveness by carefully reviewing the quality, price and performance of each product.

To be more specific, we will strive to make our products more attractive—and therefore, more competitive—by incorporating a series of innovations in our existing core technologies. This should enable us to create lighter products with advanced electronic features, while allowing us to pay equal attention to environmental, safety and comfort factors.

In addition, we must raise our products’ price-competitiveness. Cost-cutting measures as well as more efficient use of available resources are the key issues here. Areas to be reviewed include R&D, material procurement and production techniques. These efforts will be supplemented further by enhanced production control to ensure quality and a consistent level of supply. We are confident that these measures in combination will make our business foundation firmer than ever.

Second, we must strive to take full advantage of our existing global business structure, which was originally developed for the motorcycle component business. Flexible and organic utilization of the global network of production bases and available resources located in North and South America, Asia and Europe will enable us to adjust and complement production capacity on a global level, as well as allow each

base to focus on its strengths. This system also offers an ideal solution for the management of foreign exchange fluctuations.

Third, we will transform ourselves into a manufacturer of integrated systems.

The scope of our automotive component business encompasses suspension, power steering and drive-train systems. We can draw on our expertise in these product areas to not only develop individual automotive components with advanced intelligent and electronic features, but also build and deliver comprehensive solutions in the form of integrated systems for optimal maneuverability, stability, riding comfort and increased safety.

All these efforts will help us transform ourselves into a full-fledged maker of integrated systems. In particular, we strive to be a system manufacturer capable of producing essential chassis control systems, which allow vehicles to run, stop and change directions. To achieve this goal, we will urge our R&D teams to devise individual systems that feature increased integration and sophistication. Likewise, our production areas will be asked to formulate techniques incorporating various parts into modules. Besides establishing a basis for pooling our expertise, we must put in place a structure that guarantees the quality of integrated systems, as well as a smoothly functioning collaborative relationship with manufacturers of related components and parts.

Results for the Fiscal Year

In fiscal 2000, Showa and its consolidated subsidiaries posted net sales of ¥133,719 million (US\$1,260 million), up 0.2% from the previous term. Operating income, which was

affected by the stronger yen, rose 0.8%, to ¥6,210 million (US\$59 million), while net income jumped 13.6%, to ¥2,353 million (US\$22 million). The Group's results benefited from a loss incurred in conjunction with fixed-asset sales and the implementation of tax-effect accounting, both of which reduced the tax burden.

Group sales in Japan fell as a result of the prolonged recession that dampened personal spending, with the motorcycle component category affected the most. In contrast, overseas sales were brisk, especially in North America, where shock absorbers for motorcycles and automobiles—the Group's main products—did equally well. As a result, overseas net sales grew 4.0%. The gain can be partially explained by the strong U.S. economy and its booming auto industry, together with the economic recovery of Southeast Asia. Nevertheless, we believe our success overseas is largely attributable to our efforts to reinforce and expand the scope of our operations in overseas markets.

Other Actions Taken during the Fiscal Year

Showa has worked hard to implement Groupwide corporate management based on its global network. For such an outward-looking company, the largest accomplishment of the fiscal year under review was achieved in the area of overseas business. Nissin Showa UK Limited, a venture with brake manufacturer Nissin Kogyo Co., Ltd., represents the first step in building our presence in Europe as a maker of integrated systems and modules. In North America, Showa Canada Inc. launched production of suspension modules in January 2000. The Canadian operations are expected to contribute significantly to our future business expansion.

Another major development outside Japan involved the restructuring of overseas activities. To help achieve this, we sought to boost cost-efficiency through measures that did not rely on single-country production, such as use of common components for small rear cushions and rod and cylinder materials, as well as cross-sharing of components. In the United States, efforts to bolster profitability included initiatives to have factories concentrate on production of all-terrain vehicles (ATVs) and the restructuring of operational systems to improve product control.

In the category of shock absorbers, a number of racing cars equipped with our products have competed in Formula-One Grand Prix and other prominent car races. Showa's dampers are immensely popular in the motorcycle and motocross world, where more than 50% of racing machines in major road races and motocross in Japan and abroad depend on them.

The overwhelming popularity of Showa's dampers accurately demonstrates the Group's technological prowess. At present, we sell more dampers for motorcycles than any other company in the world, capturing 45% of both domestic and foreign markets for the motorcycle segment (excluding the People's Republic of China).

The history of power steering began in 1997, when mass-produced registered cars with an electric power steering (EPS) system were unveiled to the world for the first time. Showa's EPS is powered by electricity, but a shift in the power source alone is hardly responsible for generating headlines. The system's essential characteristic—which sets it apart from the rest—lies in the fact that it is a rack-assist large-capacity EPS utilizing an electronic control unit (ECU). It

is more ecologically oriented, since its fuel efficiency is 3% to 5% higher than conventional hydraulic systems. It also uses no oil, thus eliminating the need to discard oil at the time of scrapping.

In the category of drive-train system components, we commercialized a four-wheel drive (4WD) differential gear assembly for lightweight vehicles. Compact and light, it reflects our R&D teams' optimal design based on structural analysis and mathematical formulas to determine strength simulation. The use of new materials enabled us to reduce its weight still further.

Transformation into a Maker of Integrated Systems for the 21st Century

As we enter the second year of the medium-term corporate plan described above, we have adopted a new slogan, "Strengthening the Group's power to transform ourselves into a maker of integrated systems." Our slogan reflects the fact that the reorganization of the auto industry not only involves the giant automakers, which are seeking alliances and capital tie-ups, but also has affected parts manufacturers.

To cope with the challenge, we have gone back to "square one" and reviewed our fundamental business goals to consolidate our strength. The process has helped us realize that product competitiveness is the key issue that any product maker must address.

In the process, we have reaffirmed our commitment to become a better manufacturer capable of delivering an array of attractive products to customers in a timely manner. We are working to achieve this goal by thoroughly implementing cost-cutting measures, which should help us offer top

quality, highly functional products at highly competitive prices.

In product development, we are focusing on environmental issues as much as on safety and riding comfort. In addition to highly advanced technologies to ensure product performance, we demand and encourage the use of cutting-edge technologies to make our products environmentally sound. Our ecological-oriented products should be light in weight and possess energy-saving and highly efficient mechanisms, while offering increased possibilities for recycling.

In intelligent traffic systems (ITS), we are encouraging the development and commercialization of next-generation systems with built-in control mechanisms. Success in this area will provide us with future directions in our search for systems with more sophisticated intelligence and advanced electronic features.

Approaching the 21st century, we will continue to pursue growth by constantly challenging ourselves. We strive to grow into the status of a world-renowned maker of integrated systems, while creating new corporate value for ourselves as well as our shareholders. As we work toward these goals, we ask for your continued understanding and support.



Masahide Matsushima
President

This section profiles some of Showa's recent technological achievements in automotive and motorcycle components, highlighting the flexible, durable and energy-efficient features that are attracting significant customer demand

AUTOMOBILES

Shock Absorbers



Lightweight Springs for Automobiles

For every maker of transport vehicles, energy conservation is virtually synonymous with the weight reduction of vehicles. Showa has concentrated its efforts on springs, which are critical components in products with suspension mechanisms, jointly developing and commercializing springs with high levels of anti-tensile properties. The newly developed springs, which are designed to fit ecologically oriented small-sized cars, are 20% lighter in weight than conventional springs.



Lightweight, Aluminum Strut Dampers

To respond more precisely to environmental concerns, such as the need for increased fuel efficiency and ease of recycling, we successfully devised techniques to make strut-type dampers out of aluminum, an ecologically

superior material offering exceptional recyclability. The use of aluminum has greatly reduced the dampers' weight and raised their energy efficiency.

Due to its suspension structure, the aluminum strut-type damper receives a great amount of force from the side, and therefore must possess sufficient strength to withstand it. Conventional wisdom would suggest building a large, heavily set damper. Instead, the new damper uses aluminum in most of its components, including its exterior features such as the bottom tube, spring sheet and steering arm, as well as the cylinder and rod guide. The rod in use is hollow in the center, further contributing to weight reduction. And while it possesses sufficient strength in terms of stiffness, the strut-type damper still weighs about 30% less than conventional ones.



Dampers for the All-Japan Grand Touring Car Championship (JGTC)

The JGTC is a series of motor sporting events in which highly sophisticated versions of GT racing cars from around the world compete against each other. The newly developed dampers, made specifically for racing cars that compete on JGTC circuits, feature specifications that differ completely from their mass-marketed counterparts.

Compact in size and light in weight, they are equipped with variable mechanisms for deceleration. This allows them to handle varied racing conditions and ensure a consistently high level of performance even under extremely harsh motor racing conditions.



Power Steering



Pinion-Assist Electric Power Steering (EPS) System

This pinion-assist EPS system boasts a simple and compact design, as its motor, decelerator and sensor are all concentrated around the pinion axis. This enables smooth, easy handling by means of electronic control. The system is also ecologically superior, since it offers an improvement of 3% to 5% in fuel efficiency compared to models with hydraulic mechanisms. Moreover, it uses no oil, thus eliminating the need to discard it at the time of scrapping. Other features include incorporation of the center-take-off (CTO) mechanism, which has effectively reduced the system's weight, and a space-efficient layout, with the gearbox mounted at a higher position.



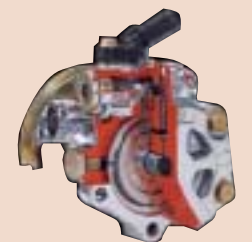
Hydraulic Power Steering (HPS) with a Built-In Steering Damper Valve

The built-in damper valve located in the valve housing in the gearbox gives optimal deceleration control under any external conditions. This in turn ensures on-center steering stiffness during high-speed drive and offers better steering maneuverability, while minimizing the impact of kickbacks caused by external disruptions. Another major advantage of the HPS is that it is more space-efficient than conventional models with external valves. By putting together the variable decelerating mechanism and the 1-Way valve, we successfully came up with a compact design for the valve, which requires little space and is small enough to be housed in a gearbox.



Variable-Capacity HPS

Unlike engine-driven, fixed-capacity pumps, which cannot control inefficient pumping at high revolving speeds, Showa's new variable-capacity HPS can adjust the volume of output (the amount of power supplied per rotation) to different engine speeds. This outstanding energy-efficient feature allows the system to supply only the necessary amount of power to the power steering. It also consumes a smaller amount of driving torque and calories, which translates into greater durability.



Differential Gear Assembly



Four-Wheel Drive (4WD) Differential Gear Assembly for Sports Utility Vehicles (SUVs)

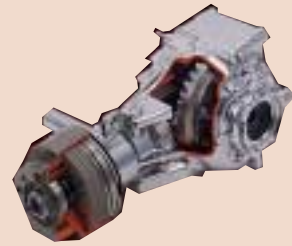
In the 4WD differential gear assembly for SUVs, the hypoid gear and differential gear are set together in a carrier case. Showa's new product uses a hypoid gear set made of heavy-duty materials used in cast-iron products, which enables it to withstand heavy torque loads. Its mechanism allows strict control over transmission errors, resulting in a reduced noise level. In the course of developing this product, we utilized computer-aided engineering (CAE) to carry out structural analyses to determine the optimal design for the highly rigid carrier case, which in turn helped us to produce a full-fledged 4WD differential assembly with an exceptionally low noise level.



4WD Differential Gear Assembly for Lightweight Vehicles

Conventional carrier cases used in differential gear assembly products tend to be heavy, since the carrier area must be reinforced. Up to now it was considered extremely difficult to reduce the weight, but Showa has produced a new alternative. For the carrier case, we use aluminum die-cast materials, and this change in materials—together with an

optimal design based on CAE structural analysis and mathematical formulas to determine strength simulation—has enabled us to create a lighter case.



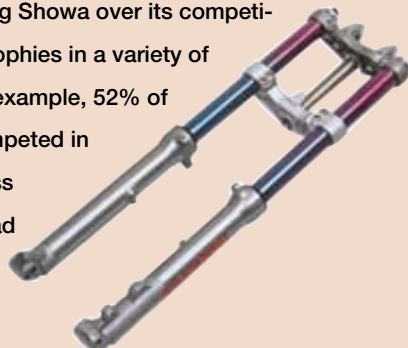
MOTORCYCLES

Shock Absorbers



World's First Mass-Produced Motorcycle Shock Absorbers That Incorporate Pipes Made of Iridescent Titanium Oxide

Showa was the first company to mass-produce pipes made of iridescent titanium oxide. In July 1999, the pipes helped Showa win a new contract for front forks for motorcycle trials. These front forks weigh less and feature an exceptional level of hardness and "slideability," in addition to their pleasing design. As a result, a growing number of professional racers are choosing Showa over its competitors and winning more trophies in a variety of races. In fiscal 2000, for example, 52% of the motorcycles that competed in major road and motocross races in Japan and abroad were equipped with Showa products.



Topics

This section highlights recent initiatives undertaken by Showa overseas to enhance its production, technology and efforts to preserve the environment.

Mass Production of Suspension Modules Launched in Canada

Established in January 1998 as the Company's third production base in North America, Showa Canada Inc. operates an assembly plant that produces shock absorbers. In January 1999, it initiated mass production of knuckle assembly modules for small-sized vehicles. Plans call for output of approximately 400,000 suspension modules per year.



Summit Showa Manufacturing Co., Ltd., Thailand Begins Exporting Shock Absorbers for Automobiles

Summit Showa Manufacturing Co., Ltd., Thailand exports front shock absorbers to overseas markets. Starting in 1999, it also began supplying rear shock absorbers to the Japanese market.



Aggressive Implementation of Effective Resource Utilization Remanufacturing Drive Initiated for Hydraulic Power Steering Pumps and Gear Boxes

Showa has worked hard to obtain ISO 14001 certification, which is an international standard for environmental management. All domestic plants in Japan, as well as our subsidiaries in the United States and the United Kingdom, are already ISO-certified.

As part of its efforts to foster environmental preservation, the Company has launched a remanufacturing drive, involving the recycling of automotive components. In the United States, progress is being made to form a full-fledged market for remanufactured goods. In recent years, demand in Japan has also increased for such products.

All components to be remanufactured are thoroughly washed, and any worn-out parts are replaced with new ones. The remanufactured products, which must pass performance tests, are as good as new products in terms of performance.



HPS pump



Gear box

Note: The components pictured above are made from recycled materials, except for the items shown in yellow.

As of June 29, 2000

Overseas

SUBSIDIARIES:

North America
American Showa Inc.*
 (Head office & Sunbury Plant)
 (Blanchester Plant)
 (Los Angeles Office)
American Marine Components Inc.
Showa Canada Inc.*

South America
Showa do Brasil Ltda.*
Showa Industria e Comercio Ltda.

Europe
Showa Europe S.A.*

Asia
P.T. Showa Indonesia Manufacturing*
Summit Showa Manufacturing Co., Ltd.*

AFFILIATES:

Asia
Munjal Showa Ltd.
Armstrong Auto Parts Sdn. Bhd.
Guangzhou Showa Shock Absorber Co., Ltd.
Sichuan Ningjiang Showa Shock Absorber Co., Ltd.
Kai Fa Industry Co., Ltd.
Asian Autoparts Co., Ltd.
Machino-Auto Parts Co., Ltd.

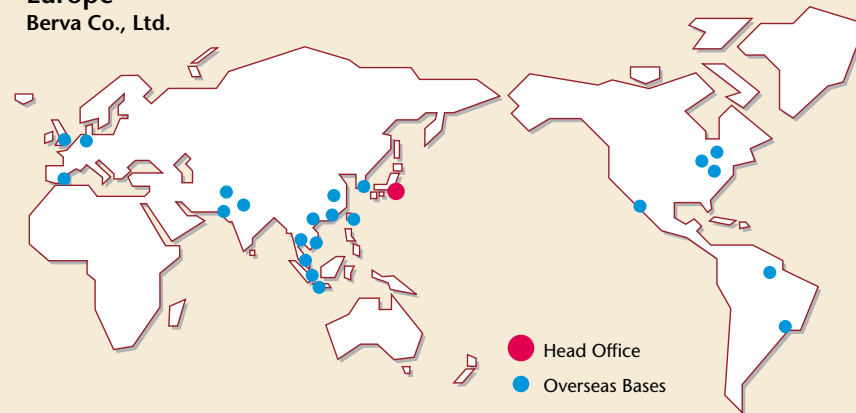
Europe
Nissin Showa UK Ltd.

MAJOR TECHNICAL COLLABORATION/ LICENSING:

Europe
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Asia
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Daelim Motor Co., Ltd.
Atlas Honda Ltd.

Note: Asterisk indicates consolidated subsidiary.



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 Fax: 048-525-7050

Ohyama Seiko Co., Ltd.

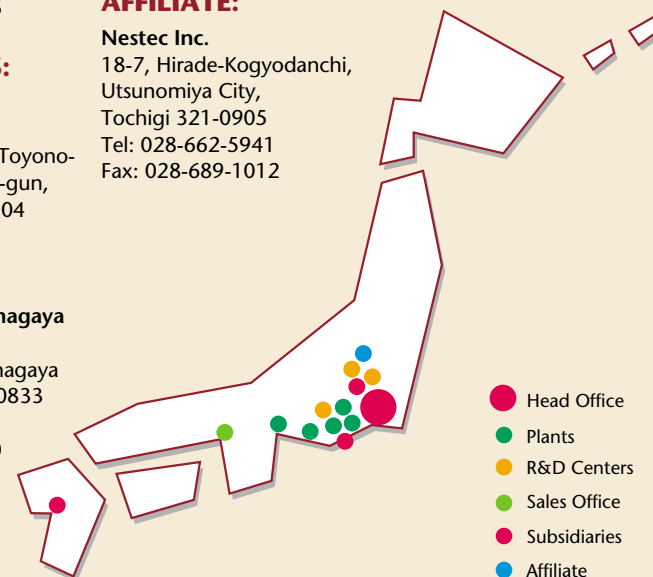
124-1, Aza-Deguchi, Togawa, Hadano City, Kanagawa 259-1306
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Note: Asterisk indicates consolidated subsidiary.



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Consolidated Financial Review

OPERATING RESULTS

Showa and its consolidated subsidiaries posted net sales of ¥133,719 million (US\$1,260 million), up 0.2% compared with the results of the prior year.

Review by Business Segment

Motor Vehicle Parts (Automotive and Motorcycle Components)

Consolidated operations in Japan posted a decline in automotive component sales, reflecting a drop in exports of automotive components as well as the stagnant market for motorcycle parts.

In contrast, most overseas business bases fared better. In North America, the robust economy and the booming automotive industry there enabled the Showa Group's primary customers to enjoy brisk car sales. This resulted in expanded business for American Showa Inc., which sold more shock absorbers for automobiles and motorcycles. Another subsidiary, Showa Canada Inc., which joined the rank of consolidated subsidiaries during the fiscal year under review, began producing shock absorbers for compact-size passenger vans, to support the booming auto industry, contributing greatly to the overall expansion in worldwide consolidated sales.

In Southeast Asia, where the economy is on the road to recovery, P.T. Showa Indonesia Manufacturing posted an increase in sales of shock absorbers for motorcycles. Sales of shock absorbers for automobiles also recorded a large gain, which can be attributed to a rise in new orders received there. In Thailand, Summit Showa Manufacturing Co., Ltd., boosted sales of auto shock absorbers by offering a wider selection of new products, and improved its sales of shock absorbers for motorcycles as well.

In contrast, the sales total posted by Showa do Brasil Ltda. was negatively affected by currency devaluation, although the company's level of output was little changed.

In Europe, which is currently enjoying a buoyant economy, Spain-based Showa Europe S.A. increased product sales in terms of volume, reflecting brisk car sales there. However, foreign currency fluctuations seriously affected its sales in monetary terms, to the extent that its net sales after foreign exchange conversion failed to reach the previous year's level.

To summarize, this business segment posted net sales of ¥126,394 million (US\$1,191 million), up 0.5% from the previous term. Operating income rose 2.3%, to ¥5,789 million (US\$55 million), despite declines in Brazil, the United States and Spain, whose profits suffered as a result of currency fluctuations.

Marine Products

Consolidated domestic sales of boat and marine-related components showed some gain, while overseas sales of outboard hydraulic components recorded a sharp drop as a result of customers' decision to curtail production in preparation for a shift to more ecologically oriented products. As a result, net sales declined 9.6% from the previous term, to ¥5,796 million (US\$55 million), while the segment's operating income fell 44.2%, to ¥146 million (US\$1 million).

Other Products

Exports of equipment for use in automotive component production facilities in the United States and for motorcycle shock absorber production facilities in Vietnam pushed up net sales for this business segment sharply. Domestic sales of components and parts for general-purpose products also rose. The segment recorded ¥1,528 million (US\$14 million) in net sales, up 22.1%, while operating income jumped 14.2%, to ¥274 million (US\$3 million).

Cost of sales of the Company and its consolidated subsidiaries fell 4.0%, to ¥114,033 million (US\$1,074 million), and amounted to 85.3% of net sales, down from 89.0% the previous year. Gross profit expanded 34.2%, to ¥19,685 million (US\$185 million), and the gross margin rose to 14.7%, from 11.0%.

Selling, general and administrative (SG&A) expenses increased 58.4%, to ¥13,475 million (US\$127 million), representing 10.1% of net sales, versus 6.4% a year earlier. The rise in SG&A expenses mainly reflected a change in accounting for research and development costs, in accordance with guidelines issued by the Japan Institute of Certified Public Accountants. Operating income totaled ¥6,210 million (US\$59 million), up 0.8%, while the operating margin remained the same as the prior year, at 4.6%.

Other expenses exceeded other income by ¥1,679 million (US\$16 million), compared with net other expenses of ¥1,549 million a year earlier, and consisted mainly of interest expense, an exchange loss, loss on sale and disposal of property, plant and equipment, and write-off of unamortized software cost.

Income before income taxes and minority interests declined 1.8%, to ¥4,529 million (US\$43 million). After current income taxes of ¥2,087 million (US\$20 million), deferred income taxes of ¥258 million (US\$2 million) and minority interests, Showa and its consolidated subsidiaries posted a 13.7% rise in net income, to ¥2,353 million (US\$22 million). The net profit margin was 1.8%, up from 1.6% the prior year.

Basic net income per share increased to ¥34.43 (US\$0.32), from ¥30.31, while fully diluted net income per share advanced to ¥29.99 (US\$0.28), from ¥26.98. Cash dividends per share for the year were maintained at ¥8.00 (US\$0.07). Return on average assets and return on average equity improved to 2.5% and 6.0%, respectively, compared with 2.2% and 5.6%, respectively, a year earlier.

FINANCIAL POSITION

At the fiscal year-end, total assets amounted to ¥96,060 million (US\$905 million), up 0.7% from the previous year. Total current assets rose 4.3%, to ¥47,064 million (US\$443 million), mainly because of increases in cash and cash equivalents and trade notes and accounts receivable, which offset a decline in inventories. Total current assets comprised 49.0% of total assets, versus 47.3% a year earlier. The current ratio fell to 1.25 times, from 1.35 times.

Total investments and long-term advances decreased 6.2%, to ¥6,907 million (US\$65 million), and accounted for 7.2% of total assets, compared with 7.7% the prior year. Reflecting a rise in accumulated depreciation and a decline in machinery, vehicles and equipment, net property, plant and equipment dropped 9.5%, to ¥35,510 million (US\$335 million), and comprised 37.0% of total assets, down from 41.1% the year before.

Total liabilities and minority interests decreased 3.7%, to ¥55,598 million (US\$524 million). Mainly because of a nearly sixfold jump in the current portion of long-term debt, total current liabilities rose 12.9%, to ¥37,648 million (US\$355 million). Concurrently, total long-term liabilities fell 32.7%, to ¥14,019 million (US\$132 million).

Total shareholders' equity advanced 7.5%, to ¥40,462 million (US\$381 million), reflecting the rise in retained earnings. The equity ratio expanded to 42.1%, from 39.5%, while the debt-equity ratio decreased to 46.8%, from 54.3%.

CASH FLOWS

Net cash provided by operating activities totaled ¥9,641 million (US\$91 million), down 2.1%, and included depreciation and amortization of ¥6,920 million (US\$65 million) and income before income tax of ¥4,529 million (US\$43 million).

Net cash used in investing activities expanded 29.2%, to ¥5,172 million (US\$49 million), the main component of which comprised purchases of property, plant and equipment of ¥5,111 million (US\$48 million). Net cash used in financing activities declined 52.5%, to ¥1,227 million (US\$12 million).

At the year-end, cash and cash equivalents were up ¥2,898 million (US\$27 million), or 36.2%, to ¥10,911 million (US\$103 million).

Net Sales by Business Segment

	Millions of yen				
	1996	1997	1998	1999	2000
Motor vehicle parts	¥101,369	¥124,462	¥136,086	¥125,743	¥126,394
Marine products.....	5,149	5,356	6,673	6,409	5,796
Other products	1,091	1,917	1,533	1,251	1,528
Total.....	¥107,609	¥131,735	¥144,292	¥133,405	¥133,719

Net Sales by Geographical Region

	Millions of yen		Millions of yen			
	1996	1997	1998	1999	2000	
Japan	¥ 74,348	¥ 85,111	¥ 89,318	¥ 87,898	¥ 83,438	
Foreign	33,261	46,624	North America ...	35,477	28,917	35,869
	-	-	Other regions	19,497	16,589	14,412
Total	¥107,609	¥131,735	Total	¥144,292	¥133,405	¥133,719

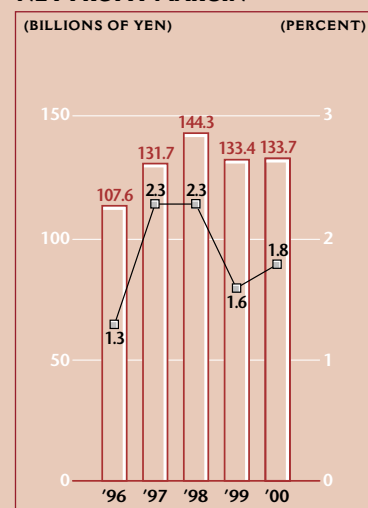
Note: For the fiscal years ended March 31, 1996 and 1997, "North America" and "Other regions" were included in the category of "Foreign net sales."

[Reference]

Non-Consolidated Net Sales by Business Segment

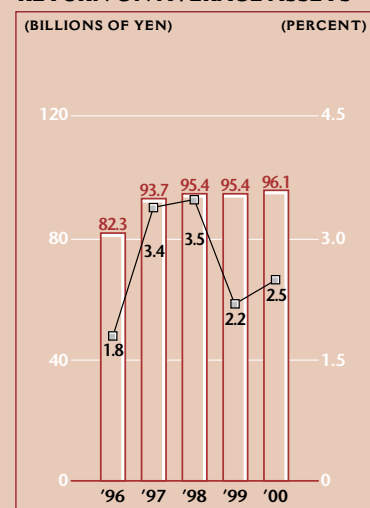
	Millions of yen				
	1996	1997	1998	1999	2000
Automotive components.....	¥52,428	¥60,047	¥ 62,880	¥60,747	¥60,691
Motorcycle components	31,040	32,281	33,565	32,397	32,035
Marine hydraulic components	4,470	3,173	3,703	4,401	3,978
Other components	4,371	2,383	2,938	1,411	1,976
Total.....	¥92,310	¥97,886	¥103,089	¥98,958	¥98,682

NET SALES AND NET PROFIT MARGIN



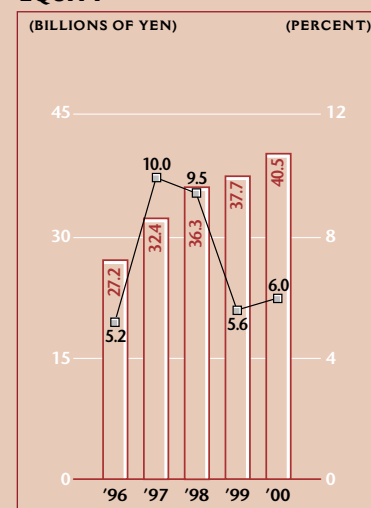
Net Sales
Net Profit Margin

TOTAL ASSETS AND RETURN ON AVERAGE ASSETS



Total Assets
Return on Average Assets

TOTAL SHAREHOLDERS' EQUITY AND RETURN ON AVERAGE EQUITY



Total Shareholders' Equity
Return on Average Equity

Consolidated Balance Sheets

Years ended 31st March, 1999 and 2000

ASSETS	31st March,		
	1999	2000	2000
	Millions of yen		Thousands of U.S. dollars (Note 3)
Current assets:			
Cash and cash equivalents	¥ 8,013	¥10,971	\$103,353
Notes and accounts receivable:			
Trade	13,766	14,325	134,950
Unconsolidated subsidiaries and affiliates	9,624	9,346	88,045
Allowance for doubtful receivables	(123)	(94)	(885)
Inventories (Note 4)	12,736	10,908	102,760
Deferred tax assets	—	885	8,337
Prepaid expenses and other current assets	1,110	721	6,792
Total current assets	45,128	47,064	443,372
Investments and long-term advances:			
Investments in unconsolidated subsidiaries			
and affiliates	4,622	3,852	36,288
Other investments in securities	1,400	1,169	11,012
Deferred tax assets	—	926	8,723
Long-term prepaid expenses	220	40	376
Excess of cost over net assets acquired	200	132	1,243
Other investments	923	785	7,395
Total investments and long-term advances	7,367	6,907	65,068
Property, plant and equipment, at cost (Note 6):			
Land	3,925	4,121	38,822
Buildings and structures	21,277	20,601	194,074
Machinery, vehicles and equipment	78,532	76,893	724,380
Construction in progress	1,158	1,891	17,814
	104,893	103,507	975,101
Accumulated depreciation	(65,653)	(67,997)	(640,574)
Property, plant and equipment, net	39,240	35,510	334,526
Other assets	38	42	395
Translation adjustments	3,639	6,535	61,563
Total assets	¥95,413	¥96,060	\$904,945

LIABILITIES AND SHAREHOLDERS' EQUITY	31st March,		
	1999	2000	2000
	Millions of yen		Thousands of U.S. dollars (Note 3)
Current liabilities:			
Short-term borrowings (Note 6)	¥ 4,370	¥ 3,595	\$ 33,867
Current portion of long-term debt (Note 6)	957	5,710	53,791
Notes and accounts payable:			
Trade	20,601	20,954	197,399
Construction	930	1,168	11,003
Unconsolidated subsidiaries and affiliates	555	587	5,529
Other	823	814	7,668
Accrued income taxes (Note 7)	1,153	1,178	11,097
Accrued expenses and other current liabilities	3,949	3,637	34,262
Total current liabilities	33,341	37,648	354,667
Long-term liabilities:			
Long-term debt (Note 6)	15,111	9,642	90,833
Accrued severance indemnities	563	606	5,708
Other	5,163	3,769	35,506
Total long-term liabilities	20,838	14,019	132,067
Minority interests	3,582	3,930	37,023
Shareholders' equity:			
Common stock, ¥50 par value:			
Authorised:			
1999 and 2000—180,000,000 shares			
Issued:			
68,323,963 shares in 1999 and 68,340,302 shares in 2000	10,336	10,341	97,418
Capital surplus	11,211	11,216	105,661
Retained earnings	16,103	18,905	178,097
Total shareholders' equity	37,650	40,462	381,177
Total liabilities and shareholders' equity	¥95,413	¥96,060	\$904,945

See accompanying notes to consolidated financial statements.

SHOWA CORPORATION and Consolidated Subsidiaries
Consolidated Statements of Income

Years ended 31st March, 1999 and 2000

	Year ended 31st March,		
	1999	2000	2000
	Millions of yen		Thousands of U.S. dollars (Note 3)
Net sales	¥133,405	¥133,719	\$1,259,717
Cost of sales	118,735	114,033	1,074,262
Gross profit	14,670	19,685	185,445
Selling, general and administrative expenses	8,509	13,475	126,943
Operating income	6,160	6,210	58,502
Other income (expenses):			
Interest and dividend income	177	175	1,648
Interest expense	(1,083)	(918)	(8,648)
Exchange loss	(478)	(398)	(3,749)
Gain on sale of investments in subsidiaries	58	–	–
Loss on sale and disposal of property, plant and equipment	(449)	(278)	(2,618)
Equity in earnings of affiliates.....	282	140	1,318
Write-off of unamortised software cost.....	–	(279)	(2,628)
Other, net.....	(56)	(121)	(1,139)
Income before income taxes and minority interests.....	4,611	4,529	42,666
Income taxes (Note 7):			
Current.....	2,363	2,087	19,660
Deferred	50	(258)	(2,430)
Income before minority interests.....	2,196	2,700	25,435
Minority interests	(126)	(347)	(3,268)
Net income (Note 10).....	¥ 2,070	¥ 2,353	\$ 22,166

See accompanying notes to consolidated financial statements.

SHOWA CORPORATION and Consolidated Subsidiaries
Consolidated Statements of Shareholders' Equity

Years ended 31st March, 1999 and 2000

	Year ended 31st March,		
	1999	2000	2000
	Millions of yen		Thousands of U.S. dollars (Note 3)
Common stock			
Beginning of year.....	¥10,336	¥10,336	\$ 97,371
Add:			
Conversion of convertible bonds.....	–	5	47
End of year.....	¥10,336	¥10,341	\$ 97,418
Capital surplus			
Beginning of year.....	¥11,211	¥11,211	\$105,614
Add:			
Conversion of convertible bonds	–	4	37
End of year.....	¥11,211	¥11,216	\$105,661
Retained earnings			
Beginning of year.....	¥14,723	¥16,103	\$151,700
Adjustment for the cumulative effect on prior years			
of applying the new method of accounting for income tax allocation.....	–	1,179	11,106
Add:			
Net income	2,070	2,353	22,166
Deduct:			
Cash dividends paid	649	546	5,143
Bonuses to directors	41	39	367
Adjustments for inclusion in consolidation	–	144	1,356
End of year.....	¥16,103	¥18,905	\$178,097

See accompanying notes to consolidated financial statements.

SHOWA CORPORATION and Consolidated Subsidiaries
Consolidated Statements of Cash Flows

Years ended 31st March, 1999 and 2000

	Year ended 31st March,		
	1999	2000	2000
	Millions of yen		Thousands of U.S. dollars (Note 3)
Cash flows from operating activities:			
Income before income tax	¥4,611	¥ 4,529	\$ 42,666
Depreciation and amortisation	7,051	6,920	65,190
Amortisation of excess of cost over net assets acquired	73	67	631
Loss on sale and disposal of property, plant and equipment	471	312	2,939
Decrease in allowance for doubtful receivables	(1)	(27)	(254)
Increase in accrued severance indemnities	10	43	405
Write-off of unamortised software cost	–	279	2,628
Equity in earnings of affiliated companies, less dividends	(282)	(140)	(1,318)
Gain on sale of property, plant and equipment	(21)	(33)	(310)
Decrease (increase) in trade receivables	328	(1,057)	(9,957)
Decrease in inventories	614	389	3,664
(Decrease) increase in trade payables	(1,021)	717	6,754
Other, net	(1,981)	(2,360)	(22,232)
Net cash provided by operating activities	9,852	9,641	90,824
Cash flows from investing activities:			
Purchases of property, plant and equipment	(5,134)	(5,111)	(48,148)
Proceeds from sale of property, plant and equipment	944	211	1,987
Sales (purchases) of investment securities	94	(76)	(715)
Decrease (increase) in loan receivables	110	(100)	(942)
Other, net	(16)	(95)	(894)
Net cash used in investing activities	(4,002)	(5,172)	(48,723)
Cash flows from financing activities:			
(Decrease) increase in short-term borrowings	(820)	118	1,111
Increase (decrease) in long-term borrowings	2,750	(799)	(7,527)
Repayment of secured bonds	(1,500)	–	–
Repayment of convertible bonds	(904)	–	–
Cash dividends	(696)	(546)	(5,143)
Other, net	(1,413)	–	–
Net cash used in financing activities	(2,584)	(1,227)	(11,559)
Effect of exchange rate fluctuations on cash and cash equivalents	(2,615)	(413)	(3,890)
Net increase in cash and cash equivalents	649	2,828	26,641
Cash and cash equivalents at beginning of year	7,360	8,013	75,487
Increase due to inclusion in consolidation	2	69	650
Cash and cash equivalents at end of year	¥8,013	¥10,911	\$102,788
Supplemental disclosures of cash flow information:			
Cash paid for:			
Interest expense	¥1,085	¥ 943	\$ 8,883
Income taxes	2,847	2,057	19,378

See accompanying notes to consolidated financial statements.

SHOWA CORPORATION and Consolidated Subsidiaries
Notes to Consolidated Financial Statements

1 BASIS OF PREPARATION

SHOWA CORPORATION (the “Company”) maintains its accounting records and prepares its financial statements in accordance with accounting principles and practices generally accepted in Japan, and foreign subsidiaries of the Company maintain their books of account in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been prepared from the accounts maintained by the Company in accordance with the provisions set forth in the Securities and Exchange Law of Japan and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Effective from 1st April, 2000, the Company and its consolidated subsidiaries have adopted revised accounting standards for consolidation regulated by Securities and Exchange Law of Japan. All amounts below one million of yen and one thousand of U.S. dollars are omitted in these financial statements. Certain accounts in the 1999 consolidated financial statements have been reclassified to conform to the 2000 presentation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The Company amends the amounts of assets and liabilities in the financial statements of consolidated subsidiaries by market value basis in the process of consolidation.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost.

The excess of cost over underlying net assets at the date of acquisition is amortised over a period of five years on a straight-line basis.

(b) Foreign Currency Translation

The revenue and expense accounts of the foreign consolidated subsidiaries are translated into yen at the average rate of exchange in effect during the year. Except for shareholders’ equity, the balance sheet accounts are translated at the rate of exchange in effect at the balance sheet date. The components of shareholders’ equity are translated at their historical exchange rates.

(c) Marketable Securities and Investment Securities

Listed securities are stated at the lower of cost or market, cost being determined by the moving average method. Securities other than listed securities are stated at cost determined by the moving average method.

(d) Inventories

Inventories of the Company and its consolidated subsidiaries are principally stated at cost determined by the average method.

(e) Property, Plant and Equipment and Depreciation

Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries is computed principally by the declining-balance method.

(f) Research and Development Costs

Effective 1st April, 1999, research and development costs are charged to both manufacturing cost and selling, general and administrative expenses in the accompanying consolidated statement of income based on the definition and accounting of research and development costs explicitly prescribed by Accounting Committee Reports No. 12 “Practical Guidance for Accounting of Research and Development Costs and Software” which was newly issued by the Japan Institute of Certified Public Accountants on 31st March, 1999.

The effect of the above application was to decrease cost of sales for the year ended 31st March, 2000 and to increase gross profit by ¥4,736 million (\$44,616 thousand), to increase selling, general and administrative expenses by ¥4,929 million (\$46,434 thousand) and to decrease operating income, income before income taxes and minority interests by ¥193 million (\$1,818 thousand), compared with amounts which would have been recorded if the prior years’ accounting policy had been applied.

Included in manufacturing cost, general and administrative expenses was ¥6,171 million (\$58,134 thousand) of research and development costs for the year ended 31st March, 2000.

Research and development costs were charged to manufacturing cost in prior years.

(g) Leases

Non-cancelable leases of the Company and SHOWA KYUSHU CORPORATION are accounted for as operating leases (whether such leases are classified as operating or finance leases) except for lease agreements stipulating the transfer of ownership of the leased assets to the lessee which are accounted for as finance leases. However, leases of the foreign consolidated subsidiaries are generally classified and accounted for as either finance leases or operating leases.

(h) Retirement Benefits

Employees of the Company and SHOWA KYUSHU CORPORATION are, under most circumstances, covered by the companies’ retirement benefit plans. An employee who terminates employment with the Company receives a significant portion of such benefits in a lump-sum payment or by annuity payments from the pension plan and, in addition, the remainder in a lump-sum payment from the unfunded retirement plan. Retirement benefits are based on the level of compensation at the time of termination, years of service and certain other factors.

The Company’s accrued severance indemnities are provided for the retirement benefits to be paid from the unfunded retirement plan at 40 per cent. of the amount which would be required to be paid if all employees covered by the benefit plan voluntarily terminated their employment at the balance sheet date, plus the unamortised balance of certain previously accumulated amounts, as discussed below.

Effective 1st April, 1995, a portion of the retirement benefits which had previously been covered by the unfunded retirement plan was transferred to the pension plan. Consequently, the corresponding liability which had accumulated in accrued severance indemnities is being reversed to income over a seven-year period. Costs with respect to the pension plan are determined by actuarial valuation.

In addition, directors and statutory auditors of the Company and of certain consolidated subsidiaries are customarily entitled to lump-sum payments under their respective unfunded retirement allowances plans. The provisions for retirement allowances for these officers has been made at an estimated amount.

(i) Income Taxes

Effective 1st April, 1999, tax-effect accounting was fully implemented. The effect of the implementation was to increase deferred tax assets as of 31st March, 2000 by ¥1,453 million (\$13,688 thousand), which consist of ¥756 million (\$7,121 thousand) included in current assets and ¥697 million (\$6,566 thousand) included in investments and long-term advances, retained earnings by ¥1,446 million (\$13,622 thousand) and to increase net income for the year ended 31st March, 2000 by ¥267 million (\$2,515 thousand) compared with amounts which would have been recorded if the prior years' accounting policy had been applied.

Deferred income taxes were not recognised in 1999 except for those with respect to the elimination of unrealised intercompany profits and other adjustments for consolidation purposes.

(j) Appropriation of Retained Earnings

The appropriation of the retained earnings reflected in each financial period is based on the resolutions of the shareholders' or directors' meeting held during the financial period.

(k) Internal Use Software

Effective 1st April, 1999, Accounting Committee Reports No. 12 "Practical Guidance for Accounting of Research and Development Costs and Software," issued by the Japan Institute of Certified Public Accountants, was adopted for internal use software accounting. Unamortised costs of software obtained for internal use of ¥279 million (\$2,628 thousand) as of March 31, 1999 which were presented as prepaid expenses and other current assets and long-term prepaid expenses in 1999 year were fully charged to extraordinary loss presented as "Write-off of unamortised software costs" in 2000.

3 U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made, as a matter of arithmetic computation only, at the rate of ¥106.15 = U.S.\$1.00. The translation should not be construed as a representation that yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4 INVENTORIES

Inventories consisted of the following:

	31st March,		
	1999	2000	2000
	Millions of yen	Thousands of U.S. dollars	
Finished goods	¥ 3,038	¥ 2,460	\$ 23,174
Work in process	2,210	2,265	21,337
Raw materials and supplies.....	7,487	6,182	58,238
	<u>¥12,736</u>	<u>¥10,908</u>	<u>\$102,760</u>

5 MARKETABLE AND INVESTMENT SECURITIES

The book value of current and non-current marketable securities and their related aggregate market value were as follows:

	31st March,		
	1999	2000	2000
	Millions of yen	Thousands of U.S. dollars	
Non-current:			
Carrying value	¥1,579	¥1,538	\$14,488
Aggregate market value.....	7,611	6,277	59,133
Net unrealised gains	<u>¥6,031</u>	<u>¥4,739</u>	<u>\$44,644</u>

6 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings are unsecured and consist principally of bank overdrafts. Long-term debt consisted of the following:

	31st March,		
	1999	2000	2000
	Millions of yen		Thousands of U.S. dollars
Bonds without collateral:			
1.7% convertible bonds due 2000	¥ 3,366	¥ 3,366	\$ 31,709
0.5% convertible bonds due 2004	4,710	4,700	44,276
Secured loans from banks and local government	752	403	3,796
Unsecured loans from banks.....	7,240	6,883	64,842
	16,068	15,353	144,634
Current portion	(957)	(5,710)	(53,791)
	<u>¥15,111</u>	<u>¥ 9,642</u>	<u>\$ 90,833</u>

The 1.7 per cent. and 0.5 per cent. convertible bonds, unless previously redeemed, are convertible at any time up to and including 28th September, 2000 and 24th March, 2004, respectively, into shares of common stock of the Company at the option of the holders at conversion prices of ¥837.40 and ¥612 respectively, per share, at 31st March, 2000.

At 31st March, 2000, if all the outstanding convertible bonds had been converted at the then current conversion prices, 11,699 thousand shares would have been issued. Under the provisions of the issues, the conversion prices are subject to adjustment in certain cases which include stock splits.

Under the provisions of the issue of the 1.7 per cent. convertible bonds, these bonds may be redeemed at the option of the Company on or subsequent to 1st October, 1999, at the price of their face value. Under the provisions of the issue of the 1.7 per cent. convertible bonds, the cumulative amount of cash dividends may not exceed ¥1,500 million plus the aggregate amount of net income (as defined) of the Company subsequent to 31st March, 1994. There are certain other covenants related to this convertible bonds.

The annual maturities of long-term debt subsequent to 31st March, 2000 are summarised as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending 31st March,		
2001	¥ 5,710	\$ 53,791
2002	1,025	9,656
2003	931	8,770
2004	7,237	68,177
2005 and thereafter	448	4,220
	<u>¥15,353</u>	<u>\$144,634</u>

The Company's assets pledged as collateral for long-term debt at 31st March, 1999 and 2000 were as follows:

	31st March,		
	1999	2000	2000
	Millions of yen		Thousands of U.S. dollars
Property, plant and equipment, net of accumulated depreciation.....	¥542	¥542	\$5,105

7 INCOME TAXES

Income taxes in Japan applicable to the Company consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in statutory rates of approximately 47 per cent. and 42 per cent. for 1999 and 2000. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

8 SUPPLEMENTARY CASH FLOW INFORMATION

a) Cash Equivalents in the Consolidated Subsidiaries of Cash Flows

The Company and its subsidiaries consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents and with little risk in price fluctuation.

b) Cash and Cash Equivalents

Difference between the amounts of cash and cash equivalents in the consolidated balance sheets and that of the consolidated statements of cash flows is as follows:

	31st March,		
	1999	2000	2000
	Millions of yen	Thousands of U.S. dollars	
Per consolidated balance sheets.....	¥8,013	¥10,971	\$103,353
Time deposits with a maturity more than three months.....	—	(60)	(565)
Per consolidated statements of cash flows.....	¥8,013	¥10,911	\$102,788

9 LEASES

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased assets, which would have been reflected in the balance sheet if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	31st March,		
	1999	2000	2000
	Millions of yen	Thousands of U.S. dollars	
Acquisition costs:			
Equipment.....	¥2,710	¥2,974	\$28,016
Other assets.....	301	239	2,251
	¥3,012	¥3,213	\$30,268
Accumulated depreciation:			
Equipment.....	¥1,903	¥2,059	\$19,397
Other assets.....	152	168	1,582
	¥2,055	¥2,227	\$20,979
Net book value:			
Equipment.....	¥ 807	¥ 915	\$ 8,619
Other assets.....	149	70	659
	¥ 956	¥ 985	\$ 9,279

Lease payments relating to finance leases accounted for as operating leases amounted to ¥409 million and ¥435 million (\$4,097 thousand) for the years ended March 31, 1999 and 2000, respectively, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the respective lease terms.

Future minimum lease payments (including the interest portion thereof) subsequent to 31st March, 2000 for finance leases accounted for as operating leases are summarised as follows:

	31st March,		
	1999	2000	2000
	Millions of yen	Thousands of U.S. dollars	
2000.....	¥329	¥373	\$3,513
2001 and thereafter.....	627	612	5,765
	¥956	¥985	\$9,279

10 AMOUNTS PER SHARE

	Year ended 31st March,		
	1999	2000	2000
	Yen	U.S. dollars	
Net income:			
Basic.....	¥ 30.31	¥ 34.43	\$0.32
Diluted.....	26.98	29.99	0.28
Cash dividends.....	8.00	8.00	0.07
Net assets.....	¥551.07	¥592.08	\$5.57

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of the common stock to be issued upon the conversion of convertible bonds.

Cash dividends per share represent the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

Net assets per share are based on the number of shares outstanding at the respective balance sheet dates.

11 SEGMENT INFORMATION

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of products in Japan and overseas, in two major segments: the motor vehicle parts segment and the marine products segment.

The business and geographical segment information for the Company and its consolidated subsidiaries for the years ended 31st March, 1999 and 2000 is outlined as follows:

Business segments	Year ended 31st March, 1999					
	Motor vehicle parts	Marine products	Other	Total	Eliminations or corporate	Consolidated
	Millions of yen					
I. Sales and operating income						
Sales to third parties.....	¥125,743	¥6,409	¥1,251	¥133,405	¥ —	¥133,405
Intergroup sales and transfers.....	—	—	—	—	—	—
Total sales.....	¥125,743	¥6,409	¥1,251	¥133,405	¥ —	¥133,405
Operating expenses.....	120,086	6,147	1,010	127,244	—	127,244
Operating income.....	¥ 5,657	¥ 262	¥ 240	¥ 6,160	¥ —	¥ 6,160

II. Assets, depreciation and capital expenditure

Total assets.....	¥ 77,414	¥3,836	¥ 978	¥ 82,229	¥13,183	¥ 95,413
Depreciation.....	6,742	325	66	7,134	22	7,157
Capital expenditure.....	6,591	152	33	6,777	6	6,784

Business segments	Year ended 31st March, 2000					
	Motor vehicle parts	Marine products	Other	Total	Eliminations or corporate	Consolidated
	Millions of yen					
I. Sales and operating income						
Sales to third parties.....	¥126,394	¥5,796	¥1,528	¥133,719	¥ —	¥133,719
Intergroup sales and transfers.....	—	—	—	—	—	—
Total sales.....	¥126,394	¥5,796	¥1,528	¥133,719	¥ —	¥133,719
Operating expenses.....	120,605	5,650	1,253	127,509	—	127,509
Operating income.....	¥ 5,789	¥ 146	¥ 274	¥ 6,210	¥ —	¥ 6,210

II. Assets, depreciation and capital expenditure

Total assets.....	¥ 77,359	¥3,134	¥1,132	¥ 81,626	¥14,433	¥ 96,060
Depreciation.....	6,474	369	62	6,906	13	6,920
Capital expenditure.....	5,092	143	55	5,290	23	5,314

Business segments	Year ended 31st March, 2000					
	Motor vehicle parts	Marine products	Other	Total	Eliminations or corporate	Consolidated
	Thousands of U.S. dollars					
I. Sales and operating income						
Sales to third parties.....	\$1,190,711	\$54,601	\$14,394	\$1,259,717	\$ —	\$1,259,717
Intergroup sales and transfers.....	—	—	—	—	—	—
Total sales.....	1,190,711	54,601	14,394	1,259,717	—	1,259,717
Operating expenses.....	1,136,175	53,226	11,804	1,201,215	—	1,201,215
Operating income.....	\$ 54,536	\$ 1,375	\$ 2,581	\$ 58,502	\$ —	\$ 58,502

II. Assets, depreciation and capital expenditure

Total assets.....	\$ 728,770	\$29,524	\$10,664	\$ 768,968	\$135,967	\$ 904,945
Depreciation.....	60,989	3,476	584	65,058	122	65,190
Capital expenditure.....	47,969	1,347	518	49,835	216	50,061

**Report of Independent Certified Public Accountants
on the Consolidated Financial Statements**

Geographical areas	Year ended 31st March, 1999					Consolidated
	Japan	North America	Others	Total	Eliminations or corporate	
	Millions of yen					
Sales to third parties	¥ 87,898	¥28,917	¥16,589	¥133,405	–	¥133,405
Intergroup sales and transfers	11,353	144	223	11,720	¥(11,720)	–
Total sales	99,251	29,061	16,812	145,126	(11,720)	133,405
Operating expenses	95,335	27,829	15,459	138,624	(11,379)	127,244
Operating income	¥ 3,915	¥ 1,232	¥ 1,352	¥ 6,501	¥ (340)	¥ 6,160
Total assets	¥ 51,575	¥20,086	¥15,302	¥ 86,964	¥ 8,448	¥ 95,413

Geographical areas	Year ended 31st March, 2000					Consolidated
	Japan	North America	Others	Total	Eliminations or corporate	
	Millions of yen					
Sales to third parties	¥83,438	¥35,869	¥14,412	¥133,719	–	¥133,719
Intergroup sales and transfers	15,254	152	474	15,881	¥(15,881)	–
Total sales	98,692	36,021	14,886	149,600	(15,881)	133,719
Operating expenses	94,089	35,150	13,733	142,973	(15,463)	127,509
Operating income	¥ 4,602	¥ 871	¥ 1,153	¥ 6,627	¥ (417)	¥ 6,210
Total assets	¥51,103	¥20,019	¥14,777	¥ 85,900	¥ 10,160	¥ 96,060

Geographical areas	Year ended 31st March, 2000					Consolidated
	Japan	North America	Others	Total	Eliminations or corporate	
	Thousands of U.S. dollars					
Sales to third parties	\$786,038	\$337,908	\$135,770	\$1,259,717	–	\$1,259,717
Intergroup sales and transfers	143,702	1,431	4,465	149,609	\$(149,609)	–
Total sales	929,740	339,340	140,235	1,409,326	(149,609)	1,259,717
Operating expenses	886,377	331,135	129,373	1,346,895	(145,671)	1,201,215
Operating income	\$ 43,353	\$ 8,205	\$ 10,861	\$ 62,430	\$ (3,928)	\$ 58,502
Total assets	\$481,422	\$188,591	\$139,208	\$ 809,232	\$ 95,713	\$ 904,945

Overseas sales, which include export sales of the Company and sales (other than exports to Japan) of its foreign consolidated subsidiaries, for the years ended 31st March, 1999 and 2000 are summarised as follows:

	Year ended 31st March, 1999		
	North America	Others	Total
	Millions of yen		
Overseas sales	¥32,445	¥21,162	¥ 53,607
Consolidated net sales	–	–	¥133,405
Ratio of overseas sales to consolidated sales	24.3%	15.9%	40.2%

	Year ended 31st March, 2000		
	North America	Others	Total
	Millions of yen		
Overseas sales	¥36,729	¥19,018	¥ 55,747
Consolidated net sales	–	–	¥133,719
Ratio of overseas sales to consolidated sales	27.5%	14.2%	41.7%

	Thousands of U.S. dollars		
	North America	Others	Total
Overseas sales	\$346,010	\$179,161	\$ 525,171
Consolidated net sales	–	–	\$1,259,717

Century Ota Showa & Co.

The Board of Directors and Shareholders
SHOWA CORPORATION

We have examined the consolidated balance sheets of SHOWA CORPORATION and its consolidated subsidiaries as of 31st March, 1999 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of SHOWA CORPORATION and its consolidated subsidiaries at 31st March, 1999 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Notes 1 and 2 to the consolidated financial statements, SHOWA CORPORATION and consolidated subsidiaries have adopted new accounting standards for consolidation, research and development costs and tax-effect accounting in the preparation of their consolidated financial statements for the year ended March 31, 2000.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2000 are presented solely for convenience. Our examination also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Century Ota Showa & Co.

29th June, 2000

SHOWA CORPORATION
Non-Consolidated Balance Sheets

Years ended 31st March, 1999 and 2000

ASSETS	31st March,		
	1999	2000	2000
	Millions of yen		Thousands of U.S. dollars (Note 3)
Current assets:			
Cash and cash equivalents	¥ 6,197	¥ 7,584	\$ 71,446
Notes and accounts receivable:			
Trade	7,808	8,357	78,728
Subsidiaries and affiliates	14,294	13,177	124,135
Allowance for doubtful receivables	(129)	(102)	(960)
Inventories (Note 4)	4,476	4,063	38,276
Deferred tax assets	-	765	7,206
Short-term loans receivable from subsidiaries (Note 6)	624	1,946	18,332
Prepaid expenses and other current assets	379	318	2,995
Total current assets	33,651	36,111	340,188
Investments and long-term advances:			
Investments in subsidiaries and affiliates (Note 6)	16,408	16,630	156,665
Other investments in securities	1,210	1,169	11,012
Long-term loans receivable	145	131	1,234
Long-term loans receivable from subsidiaries (Note 6)	403	423	3,984
Long-term prepaid expenses	213	28	263
Deferred tax assets	-	697	6,566
Other investments	497	517	4,870
Total investments and long-term advances	18,878	19,597	184,616
Property, plant and equipment, at cost			
(Notes 5 and 6):			
Land	3,416	3,416	32,180
Buildings and structures	15,437	15,576	146,735
Machinery and equipment	54,546	55,322	521,168
Vehicles	335	343	3,231
Construction in progress	818	1,611	15,176
	74,554	76,270	718,511
Accumulated depreciation	(50,955)	(52,910)	(498,445)
Property, plant and equipment, net	23,599	23,359	220,056
Other assets	20	19	178
Total assets	¥76,150	¥79,088	\$745,058

LIABILITIES AND SHAREHOLDERS' EQUITY	31st March,		
	1999	2000	2000
	Millions of yen		Thousands of U.S. dollars (Note 3)
Current liabilities:			
Current portion of long-term debt (Note 6)	¥ 854	¥ 5,617	\$ 52,915
Notes and accounts payable:			
Trade	17,800	18,386	173,207
Construction	930	1,168	11,003
Subsidiaries and affiliates	723	1,076	10,136
Accrued income taxes (Note 8)	1,040	1,055	9,938
Accrued expenses and other current liabilities	2,949	2,863	26,971
Total current liabilities	24,299	30,168	284,201
Long-term liabilities:			
Long-term debt (Note 6)	14,918	9,290	87,517
Accrued severance indemnities	563	606	5,708
Other	123	108	1,017
Total long-term liabilities	15,605	10,005	94,253
Shareholders' equity (Note 7):			
Common stock, ¥50 par value:			
Authorised:			
1999 and 2000—180,000,000 shares			
Issued:			
68,323,963 shares in 1999 and 68,340,302			
shares in 2000	10,336	10,341	97,418
Capital surplus	11,108	11,113	104,691
Legal reserve	682	741	6,980
Retained earnings	14,118	16,718	157,494
Total shareholders' equity	36,246	38,914	366,594
Contingent liabilities (Note 10)			
Total liabilities and shareholders' equity	¥76,150	¥79,088	\$745,058

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Income

Years ended 31st March, 1999 and 2000

	Year ended 31st March,		
	1999	2000	2000
	Millions of yen		Thousands of U.S. dollars (Note 3)
Net sales (Note 9)	¥98,958	¥98,682	\$929,646
Cost of sales (Note 9)	88,815	83,219	783,975
Gross profit	10,143	15,462	145,661
Selling, general and administrative expenses	6,373	10,922	102,892
Operating income	3,770	4,539	42,760
Other income (expenses):			
Interest and dividend income	311	309	2,910
Interest expense	(301)	(235)	(2,213)
Exchange gain (loss)	17	(182)	(1,714)
Gain on sale of investments in subsidiaries	58	—	—
Loss on sale and disposal of property, plant and equipment	(307)	(311)	(2,929)
Write-off of unamortised software costs	—	(279)	(2,628)
Other, net	(131)	(183)	(1,723)
	(351)	(884)	(8,327)
Income before income taxes	3,418	3,655	34,432
Income taxes (Note 8):			
Current	1,911	1,876	17,673
Deferred	—	(382)	(3,598)
	1,911	1,494	14,074
Net income (Note 12)	¥ 1,507	¥ 2,161	\$ 20,357

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Shareholders' Equity

Years ended 31st March, 1999 and 2000

	Year ended 31st March,		
	1999	2000	2000
	Millions of yen		Thousands of U.S. dollars (Note 3)
Common stock			
Beginning of year	¥10,336	¥10,336	\$ 97,371
Add:			
Conversion of convertible bonds	—	5	47
End of year	¥10,336	¥10,341	\$ 97,418
Capital surplus			
Beginning of year	¥11,108	¥11,108	\$104,644
Add:			
Conversion of convertible bonds	—	4	37
End of year	¥11,108	¥11,113	\$104,691
Legal reserve			
Beginning of year	¥ 614	¥ 682	\$ 6,424
Add: Transfer from retained earnings	68	58	546
End of year	¥ 682	¥ 741	\$ 6,980
Retained earnings			
Beginning of year	¥13,367	¥14,118	\$133,000
Add:			
Net income	1,507	2,161	20,357
Adjustment for the cumulative effect on prior years of applying the new method of accounting for income tax allocation	—	1,079	10,164
Deduct:			
Cash dividends paid	649	546	5,143
Bonuses to directors	38	36	339
Transfer to legal reserve	68	58	546
End of year	¥14,118	¥16,718	\$157,494

See accompanying notes to non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements

1 BASIS OF PREPARATION

SHOWA CORPORATION (the "Company") maintains its accounting records and prepares its non-consolidated financial statements in accordance with accounting principles and practices generally accepted in Japan. The accompanying non-consolidated financial statements have been prepared from the accounts maintained by the Company in accordance with the provisions set forth in the Securities and Exchange Law of Japan and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the non-consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

All amounts below one million of yen and one thousand of U.S. dollars are omitted in these financial statements. Certain accounts in the 1999 non-consolidated financial statements have been reclassified to conform to the 2000 presentation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Cash Equivalents**

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(b) Inventories

Finished goods, work in process and raw materials are stated at cost determined by the average method. Supplies are stated at the most recent purchase prices.

(c) Marketable Securities and Investment Securities

Listed securities are stated at the lower of cost or market, cost being determined by the moving average method. Securities other than listed securities are stated at cost determined by the moving average method.

Investments in subsidiaries and affiliates are stated at cost determined by the moving average method.

(d) Property, Plant and Equipment and Depreciation

Property, plant and equipment is stated at cost. Depreciation is computed by the declining-balance method at rates based on the estimated useful lives of the respective assets as prescribed by the Corporation Tax Law of Japan.

(e) Research and Development Costs

Effective 1st April, 1999, research and development costs are charged to both manufacturing cost and selling, general and administrative expenses in the accompanying non-consolidated statement of income based on the definition and accounting of research and development costs explicitly prescribed by Accounting Committee Reports No. 12 "Practical Guidance for Accounting of Research and Development Costs and Software" which was newly issued by the Japan Institute of Certified Public Accountants on 31st March, 1999.

The effect of the above application was to decrease cost of sales for the year ended 31st March, 2000 and to increase gross profit by ¥4,736 million (\$44,616 thousand), to increase selling, general and administrative expenses by ¥4,929 million (\$46,434 thousand) and to decrease operating income, income before income taxes by ¥193 million (\$1,818 thousand), compared with amounts which would have been recorded if the prior years' accounting policy had been applied.

Included in manufacturing cost, general and administrative expenses was ¥6,171 million (\$58,134 thousand) of research and development costs for the year ended 31st March, 2000.

Research and development costs were charged to manufacturing cost in prior years.

(f) Leases

Non-cancelable leases are accounted for as operating leases (whether such leases are classified as operating or finance leases), except for lease agreements stipulating the transfer of ownership of the leased assets to the lessee which are accounted for as finance leases.

(g) Retirement Benefits

Employees of the Company are, under most circumstances, covered by the Company's retirement benefit plans. An employee who terminates employment with the Company receives a significant portion of such benefits in a lump-sum payment or by annuity payments from the pension plan and, in addition, the remainder in a lump-sum payment from the unfunded retirement plan. Retirement benefits are based on the level of compensation at the time of termination, years of service and certain other factors.

Accrued severance indemnities are provided for the retirement benefits to be paid from the unfunded retirement plan at 40 per cent. of the amount which would be required to be paid if all employees covered by the benefit plan voluntarily terminated their employment at the balance sheet date, plus the unamortised balance of certain previously accumulated amounts, as discussed below.

Effective 1st April, 1995, a portion of the retirement benefits which had previously been covered by the unfunded retirement plan was transferred to the pension plan. Consequently, the corresponding liability which had accumulated in accrued severance indemnities is being reversed to income over a seven-year period. Costs with respect to the pension plan are determined by actuarial valuation.

Prior service cost at 31st March, 1999, the most recent valuation date, amounted to ¥6,729 million and is being funded over a period of 20 years and eight months.

In addition, directors and statutory auditors of the Company are customarily entitled to lump-sum payments under their respective unfunded retirement allowances plans. The provision for retirement allowances for these officers has been made at an estimated amount.

(h) Foreign Currency Translation

Current monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates in effect at the balance sheet date. Long-term monetary assets and liabilities denominated in foreign currencies are generally translated at historical rates. However, long-term debt denominated in foreign currencies hedged by forward exchange contracts is translated into yen at the contracted exchange rates and any subsequent exchange difference arising from translating long-term debt at the historical rate and the contracted rate is recognised over the period from the date of the forward exchange contract to its maturity date.

All revenues and expenses denominated in foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange losses and gains are charged or credited to income.

(i) Income Taxes

Effective 1st April, 1999, tax-effect accounting was implemented. The effect of the implementation was to increase deferred tax assets as of 31st March, 2000 by ¥1,462 million (\$13,772 thousand), which consist of ¥765 million (\$7,206 thousand) included in current assets and ¥697 million (\$6,566 thousand) included in investments and long-term advances, retained earnings by ¥1,493 million (\$14,065 thousand) and to increase net income for the year ended 31st March, 2000 by ¥382 million (\$3,598 thousand) compared with amounts which would have been recorded if the prior years' accounting policy had been applied.

Deferred income taxes were not recognised in 1999.

(j) Appropriation of Retained Earnings

The appropriation of the retained earnings reflected in each financial period is based on the resolutions of the shareholders' or directors' meeting held during the financial period.

(k) Internal Use Software

Effective 1st April, 1999, Accounting Committee Reports No. 12 "Practical Guidance for Accounting of Research and Development Costs and Software," issued by the Japan Institute of Certified Public Accountants, was adopted for internal use software accounting. Unamortised costs of software obtained for internal use of ¥279 million (\$2,628 thousand) as of March 31, 1999 which were presented as prepaid expenses and other current assets and long-term prepaid expenses in 1999 year were fully charged to extraordinary loss presented as "Write-off of unamortised software costs" in 2000.

3 U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made, as a matter of arithmetic computation only, at the rate of ¥106.15 = U.S.\$1.00. The translation should not be construed as a representation that yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4 INVENTORIES

Inventories consisted of the following:

	31st March,		
	1999	2000	2000
	Millions of yen	Thousands of U.S. dollars	
Finished goods	¥1,519	¥1,443	\$13,593
Work in process	1,618	1,341	12,633
Raw materials and supplies	1,338	1,277	12,030
	¥4,476	¥4,063	\$38,276

5 DEPRECIATION

Depreciation expense for the years ended 31st March, 1999 and 2000 amounted to ¥4,174 million and ¥3,911 million (\$36,844 thousand), respectively.

6 LONG-TERM DEBT

Long-term debt consisted of the following:

	31st March,		
	1999	2000	2000
	Millions of yen	Thousands of U.S. dollars	
Bonds without collateral:			
1.7% convertible bonds due 2000	¥ 3,366	¥ 3,366	\$ 31,709
0.5% convertible bonds due 2004	4,710	4,700	44,276
Secured loans from banks and local government	752	403	3,796
Unsecured loans from banks	6,945	6,439	60,659
	15,773	14,908	140,442
Current portion	(854)	(5,617)	(52,915)
	¥14,918	¥ 9,290	\$ 87,517

The 1.7 per cent. and 0.5 per cent. convertible bonds, unless previously redeemed, are convertible at any time up to and including 28th September, 2000 and 24th March, 2004, respectively, into shares of common stock of the Company at the option of the holders at conversion prices of ¥837.40 and ¥612 respectively, per share, at 31st March, 2000.

At 31st March, 2000, if all the outstanding convertible bonds had been converted at the then current conversion prices, 11,699 thousand shares would have been issued. Under the provisions of the issues, the conversion prices are subject to adjustment in certain cases which include stock splits.

Under the provisions of the issue of the 1.7 per cent. convertible bonds, these bonds may be redeemed at the option of the Company on or subsequent to 1st October, 1999, at the price of their face value. Under the provisions of the issue of the 1.7 per cent. convertible bonds, the cumulative amount of cash dividends may not exceed ¥1,500 million plus the aggregate amount of net income (as defined) of the Company subsequent to 31st March, 1994. There are certain other covenants related to this convertible bonds.

The annual maturities of long-term debt subsequent to 31st March, 2000 are summarised as follows

Year ending 31st March,	31st March,	
	Millions of yen	Thousands of U.S. dollars
2001	¥ 5,617	\$ 52,915
2002	851	8,016
2003	851	8,016
2004	7,157	67,423
2005 and thereafter	428	4,032
	<u>¥14,908</u>	<u>\$140,442</u>

The Company's assets pledged as collateral for long-term debt at 31st March, 1999 and 2000 were as follows:

	31st March,		
	1999	2000	2000
	Millions of yen	Thousands of U.S. dollars	
Property, plant and equipment, net of accumulated depreciation	¥ 542	¥542	\$5,105
Investments in subsidiaries	1,520	-	-
Short-term loans receivable from subsidiaries	194	-	-
	<u>¥2,257</u>	<u>¥542</u>	<u>\$5,105</u>

7 SHAREHOLDERS' EQUITY

The Company issued 16,339 shares of common stock upon conversion of convertible bonds during the year ended 31st March, 2000.

In accordance with the Code, the Company has provided a legal reserve as an appropriation of retained earnings. The Code provides that neither capital surplus nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors.

8 INCOME TAXES

The Company is subject to a number of taxes based on income which, in the aggregate, resulted in statutory tax rates of approximately 47 per cent. and 42 per cent. in 1999 and 2000.

9 SALES TO AND PURCHASES FROM SUBSIDIARIES AND AFFILIATES

Sales to and purchases from subsidiaries and affiliates were as follows:

	Year ended 31st March,		
	1999	2000	2000
	Millions of yen	Thousands of U.S. dollars	
Sales	¥74,022	¥71,480	\$673,386
Purchases	5,760	5,381	50,692

10 CONTINGENT LIABILITIES

At 31st March, 2000, the Company was contingently liable for guarantees given in respect of bank loans of employees and subsidiaries of the Company amounting to ¥2,061 million (\$19,415 thousand).

11 LEASES

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased assets, which would have been reflected in the balance sheet if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	31st March,		
	1999	2000	2000
	Millions of yen	Thousands of U.S. dollars	
Acquisition costs:			
Equipment	¥2,710	¥2,974	\$28,016
Other assets	268	201	1,893
	<u>¥2,979</u>	<u>¥3,176</u>	<u>\$29,919</u>
Accumulated depreciation:			
Equipment	¥1,903	¥2,059	\$19,397
Other assets	130	140	1,318
	<u>¥2,033</u>	<u>¥2,199</u>	<u>\$20,715</u>
Net book value:			
Equipment	¥ 807	¥ 915	\$ 8,619
Other assets	138	60	565
	<u>¥ 946</u>	<u>¥ 976</u>	<u>\$ 9,194</u>

Lease payments relating to finance leases accounted for as operating leases amounted to ¥402 million and ¥429 million (\$4,041 thousand) for the years ended 31st March, 1999 and 2000, respectively, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the respective lease terms.

Future minimum lease payments (including the interest portion thereof) subsequent to 31st March, 2000 for finance leases accounted for as operating leases are summarised as follows:

Year ending 31st March,	31st March,		
	1999	2000	2000
	Millions of yen	Thousands of U.S. dollars	
2001	¥323	¥367	\$3,457
2002 and thereafter	622	609	5,737
	<u>¥946</u>	<u>¥976</u>	<u>\$9,194</u>

12 AMOUNTS PER SHARE

	Year ended 31st March		
	1999	2000	2000
	Yen	U.S. dollars	
Net income:			
Basic	¥ 22.06	¥ 31.63	\$0.29
Diluted	19.81	27.59	0.25
Cash dividends	8.00	8.00	0.07
Net assets	530.51	569.42	5.36

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of the common stock to be issued upon the conversion of convertible bonds.

Cash dividends per share represent the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

Net assets per share are based on the number of shares outstanding at the respective balance sheet dates.

Report of Independent Certified Public Accountants on
the Non-Consolidated Financial Statements

Century Ota Showa & Co.

The Board of Directors and Shareholders
SHOWA CORPORATION

We have examined the non-consolidated balance sheets of SHOWA CORPORATION as of 31st March, 1999 and 2000, and the related non-consolidated statements of income and shareholders' equity for the years then ended, all expressed in yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying non-consolidated financial statements, expressed in yen, present fairly the financial position of SHOWA CORPORATION at 31st March, 1999 and 2000, and the results of its operations for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 2 to the non-consolidated financial statements, SHOWA CORPORATION has adopted new accounting standards for research and development costs and tax-effect accounting in the preparation of its non-consolidated financial statements for the year ended March 31, 2000.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended 31st March, 2000 are presented solely for convenience. Our examination also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the non-consolidated financial statements.

29th June, 2000

Century Ota Showa & Co.

Board of Directors and Corporate Auditors

As of June 29, 2000

President

Masahide Matsushima

Executive Managing Directors

Akiomi Aso

Takeomi Miyoshi

Managing Directors

Tominori Yoshii

Takehiko Makino

Takeshi Kawaguchi

Hisao Inomata

Yasutomo Tajima

Directors

Kiyoshi Nagashima

Shunji Okajima

Hidekuni Ito

Motoi Nagataki

Tadao Ono

Kosaku Yamada

Hiroshi Ijima

Yoshitaka Terazawa

Nobuo Yamauchi

Kenshi Hirai

Statutory Auditors

Kunitoshi Kyotani

Noboru Yaguchi

Yoshimitsu Zaima

Auditor

Tadashi Matsuda

Corporate Data

As of June 29, 2000

Common Stock

Authorized: 180,000,000 shares

Issued: 68,340,302 shares

Number of Shareholders

3,798

Shares Listed

Tokyo Stock Exchange, First Section

Transfer Agent and Registrar

The Toyo Trust & Banking Co., Ltd.

1-4-3, Marunouchi, Chiyoda-ku, Tokyo 100-8214, Japan

Ten Largest Shareholders

	Shares (Thousands)	Percent of total
Honda Motor Co., Ltd.	24,447	35.77%
Mizuho Trust & Banking Co., Ltd.		
Trust Account A	3,190	4.67%
The Sumitomo Trust & Banking Co., Ltd.	3,163	4.63%
The Daiwa Bank., Ltd.		
Pension Trust Management Division	2,111	3.09%
The Bank of Tokyo-Mitsubishi, Ltd.	1,895	2.77%
The Tokai Bank, Ltd.	1,736	2.54%
The Mitsubishi Trust & Banking Corp.		
Trust Account A	1,440	2.11%
The Sanwa Bank, Ltd.	1,375	2.01%
The Toyo Trust & Banking Co., Ltd.	1,301	1.90%
The Mitsubishi Trust & Banking Corp.	1,301	1.90%
	41,962	61.40%