A GLOBAL LEADER IN AUTOMOTIVE LIGHTING

2006 Annual Report

Year Ended March 31, 2006

KOITO MANUFACTURING CO., LTD.

PROFILE

KOITO MANUFACTURING CO., LTD. (Koito) celebrated its 90th anniversary in April 2005, marking a history of leadership in the automotive lighting field since its establishment in 1915.

Today, the Koito Group's lighting technologies are used worldwide in a wide range of fields. These include applications in diverse forms of transportation, such as automobiles, aviation, railways and shipping, and in traffic systems. In all these areas, the Koito Group's technologies are making a significant contribution to safety.

Our products and technologies underpin our commitment to the slogan, "Lighting for Your Safety."

CONTENTS

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements concerning KOITO MANUFACTURING CO., LTD. and consolidated subsidiaries' future plans, strategies and performance. These forward-looking statements are not historical facts, rather they represent assumptions and beliefs based on economic, financial and competitive data currently available. Furthermore, they are subject to a number of risks and uncertainties that, without limitation, relate to economic conditions, worldwide competition in the automotive industry, customer demand, foreign currency exchange rates, tax rules, regulations and other factors. Koito therefore wishes to caution readers that actual results may differ materially from our expectations.

Koito publishes annual reports in Japanese to ensure fair disclosure, in addition to English annual reports. A certified public accountant reviews the financial sections of Koito's Japanese annual reports to ensure consistency in presentation between the Japanese and English versions. We hope the information presented in this annual report serves to deepen your understanding of Koito.

TO OUR SHAREHOLDERS AND OTHER INVESTORS

Last year was the 90th anniversary of Koito's founding, and this year we celebrate the 70th anniversary of Koito's incorporation in 1936. Our financial results for the fiscal year ended March 31, 2006 continued the achievements of the previous fiscal year with further record highs, ensuring that we remained on a firm financial footing as we reached this next historic milestone year. I thank all our stakeholders for making this possible through the indispensable support and patronage they have granted us over the years.

Koito produces automotive lighting equipment in nine countries overseas, in addition to Japan, catering to four regions (North America, Europe, Asia, and Japan). This infrastructure has established Koito as a global supplier capable of shipping products to customers in countries all over the world.

The global automobile industry has entered a phase of structural change defined by rapid advancement in global production, procurement, and supply capabilities at optimal locations. Looking ahead, the industry is projected to grow further, reflecting the prospect of higher demand and production in newly emerging economies such as Brazil, Russia, India and China (BRIC), against a backdrop of robust growth in Japan, North America and Europe.

In this operating environment, Koito aims to satisfy its customers, and is enhancing its growth potential, competitiveness, and profitability under a Development, Quality, Cost, Delivery, and Speed (DQCDS) initiative. This entails an effort throughout the Koito Group to improve quality, cost and delivery, along with the development of products that are safe and environmentally responsible, as well as an emphasis on responding to customers with speed.

Koito is committed to constantly pursuing R&D to create industry-leading products. This underpins its ability to supply lighting equipment that reflects the demands of people and the global environment, earning the trust of customers for outstanding product safety and quality. Such industry-leading products include the world's first mercury-free, high-intensity discharge headlamps, the Adaptive Front Lighting System (AFS), which is designed to further enhance safety, and light-emitting diode (LED) rear combination lamps.

In November 2005, Koito established Koito Kyushu Co., Ltd. in Saga City, Kyushu, to meet the need for higher sales and enhanced production capacity in the region. Establishment of this new company is one of the measures Koito is taking to bolster its domestic infrastructure and the company will operate the first new domestic production plant Koito has constructed in twenty years. Overseas, Koito conducted a number of initiatives to further advance its global reach. It made China-based FUZHOU TAYIH INDUSTRIAL CO., LTD. a subsidiary in September 2005, and in November it established GUANGZHOU KOITO AUTOMOTIVE LAMP CO., LTD. to handle the increasing number of orders received in the South China region.

Under the corporate message, "Lighting for Your Safety," Koito is committed to developing products in its core automotive lighting equipment business and in all other transport equipment and system fields, such as aerospace and shipping. In these and other ways, we will continue in our aim of making society safer and more pleasant.

To remain a leader in the automotive lighting equipment industry in the 21st century, we will work to educate and sharpen the skills of our employees. In doing so, our objective is to pursue the latest, most advanced technologies and drive further improvement in product quality. In parallel, we will stay true to our stance of constantly adopting the perspective of customers to supply products and services that meet their expectations. I ask for your continued support and guidance as we work toward these goals.

Takashi Ohtake
President & CEO
September 2006

FINANCIAL HIGHLIGHTS

Fiscal 2006 Results

During fiscal 2006, the year ended March 31, 2006, the Japanese economy experienced a gradual recovery. This reflected favorable operating conditions for export-related industries due to a weaker yen, against a backdrop of increased capital expenditures due to improved corporate earnings, and growth in consumer spending. Global economic conditions were strong overall, despite sluggish economic growth in the U.S. and Europe stemming from factors including persistently high crude oil and raw material prices, rising interest rates, and exchange rate fluctuations.

In the Japanese automobile industry, there was a slight year-on-year increase in unit automobile production due to marginally higher domestic sales as well as exports. Overseas, worldwide automobile production trended upwards, with increased production in China, Thailand, and elsewhere in the Asian region despite flat growth in production levels in North America and Europe. In this climate, the Koito Group made proactive efforts to win new orders by boosting product development capabilities in the automotive lighting equipment segment in a bid to expand sales over the medium and long terms.

In Japan, Koito established Koito Kyushu Co., Ltd. in Saga City, Kyushu, in November 2005 and started construction of its new automotive lighting plant, due to commence operations in October 2006. This move was taken in response to increased Kyushu-based production by automakers, and also contributed to Koito's reorganization of its production network, one reason for which was to mitigate the risk of loss that could potentially be caused by a major earthquake in the Tokai region of central Japan.

Overseas, Koito addressed continuing expansion in the Chinese automobile industry by making FUZHOU TAYIH INDUSTRIAL CO., LTD. a subsidiary in September 2005. In November it established GUANGZHOU KOITO AUTOMOTIVE LAMP CO., LTD., aiming to bring this company's factory on-stream in January 2007. The third plant at Shanghai Koito Automotive Lamp Co., Ltd., previously under construction, came on-stream in April 2006. In addition, Koito is progressing with construction of its second Indian plant in Haryana, and its fourth U.S. plant in Alabama. Both new plants are scheduled to commence operations in 2007.

Supported by a strong performance both domestically and overseas in its mainstay automotive lighting equipment, the Koito Group reported a 10.0% year-on-year increase in consolidated net sales to ¥397.5 billion, setting a new record high.

On the earnings front, amid intensifying price competition in automotive lighting equipment at home and abroad, Koito and its Group companies made efforts to streamline operations, notably by aggressively promoting a range of cost-cutting measures. As a result, operating income increased by 23.9% to ¥22.2 billion and net income increased by 40.0% to ¥12.7 billion. Both net sales and earnings were the highest ever, having increased for the fourth consecutive fiscal year.

Taking into account the improved business environment and the achievement of record operating results, Koito decided to pay a year-end dividend per share of ¥11. Consequently, the annual dividend per share, including the interim dividend, was ¥6 higher year on year at ¥20, marking the fourth consecutive year of dividend growth.

Looking ahead, Koito will continue to pursue further earnings increases to meet the expectations of its shareholders.

Takashi Ohtake *President & CEO*

Consolidated Financial Highlights

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries

	Millions of yen (except per share amounts)			Thousands of U.S. dollars (except per share amounts)
	2004	2005	**2006**	**2006**
Annual:				
Net sales	¥334,254	¥361,477	**¥397,509**	**$3,383,919**
Operating income	13,723	17,962	**22,262**	**189,512**
Net income	6,440	9,093	**12,731**	**108,377**
Per share (Yen and U.S. dollars)**:**				
Net income	¥ 39.19	¥ 55.62	**¥ 79.39**	**$ 0.68**
Year-end:				
Total assets	¥299,344	¥318,739	**¥366,254**	**$3,117,851**
Total shareholders' equity	111,707	119,278	**139,849**	**1,190,508**

Note: U.S. dollar amounts have been converted from Japanese yen solely for the convenience of readers at the rate of exchange effective on March 31, 2006 of ¥117.47=US$1.

Outlook for Fiscal 2007

Regarding the outlook, economic conditions still require caution due to concerns over the economic slowdown in the U.S. and Europe combined with persistently high crude oil and raw material prices, rising interest rates, and exchange rate fluctuations. Nevertheless, in the automobile industry, unit automobile production in Japan is projected to remain firm. Overseas, production in Asian regions, centered on China, should continue on an expansionary track. On the whole, global automobile production is forecast to grow at healthy levels.

The Koito Group will work to expand orders and production capacity, mainly in the automotive lighting equipment segment, focusing on the world's four key market regions. The Company is also implementing cost-cutting measures as well as steps to improve complementary supply networks and support structures within the Group.

As a result of the above, for the fiscal year ending March 31, 2007, Koito forecasts consolidated net sales of ¥432.7 billion, up 8.9% year on year, operating income of ¥24.9 billion, up 11.8%, and net income of ¥14.0 billion, up 10.0%.

MEDIUM-TERM OUTLOOK

Medium-term Outlook

Advancing globalization in the automobile industry is spurring increasingly intense international competition. The operating environment has become decidedly harsher, with the tendency toward "survival of the fittest" more pronounced than ever. Nonetheless, unit automobile production has benefited from the prospect of continued growth in both demand and production over the medium and long terms. This reflects a combination of robust demand in Japan, North America and Western Europe, and improving income levels in line with economic development in emerging markets such as the BRIC nations and other regions with untapped demand.

In this manner, the expansion and proliferation of the automobile industry on a worldwide scale present significant opportunities for Koito in its role as a global supplier. Koito is working closely with its Group companies to achieve consolidated net sales of ¥520 billion, its medium-term management target for fiscal 2010.

Koito conducts its business centered on 15 production bases run by 11 companies in 9 overseas countries. To make the Koito Group even more globally competitive, Koito is working to strengthen and enhance the structure of each Group company. In Japan, Koito is accelerating efficient utilization of resources and optimization of business structures.

Looking at business segments, in the core automotive lighting equipment business, Koito will pursue order-winning initiatives grounded on an accurate understanding of trends in areas where the world's leading automakers are boosting production, as well as regions with sizable untapped demand. We are aggressively launching value-added products, such as discharge headlamps and the Adaptive Front Lighting System (AFS). Our response to the standardization of specifications and quality standards accompanying the launch of global strategic vehicles will be to carry out technology transfers and promote our complementary supply structure. In this manner, we will work to win more orders and raise sales.

In the non-automotive electrical equipment segment, our priority is to increase sales of numerous products in promising growth fields such as Intelligent Transportation Systems (ITS), aeronautics and space, and biotechnology. Products include road traffic control systems, LED displays, electronic aircraft components, hydraulic equipment and aircraft seats, as well as biological control equipment.

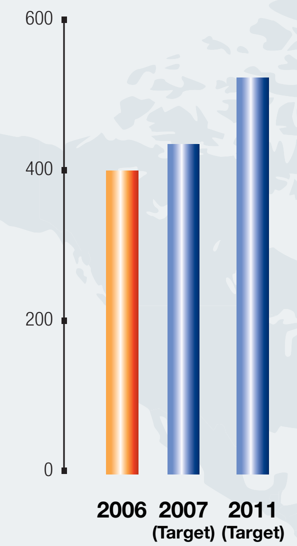
All of us at Koito will make concerted efforts to deliver products and services that satisfy customers. To do so, we will continue to bring together the knowledge and energy of Koito and its Group companies as we strive to achieve our medium-term management target.

OUTLOOK FOR MEDIUM-TERM GLOBAL STRATEGIES

In the fiscal year ended March 31, 2006, both consolidated net sales and earnings grew strongly, setting historical records for Koito. These record-breaking results were underpinned by strong automobile production in North America, Europe and Asia.

The Koito Group is focused on continuing to respond promptly to the needs of automakers seeking to develop optimal production, procurement and supply frameworks around the world. Koito and all its Group companies are aiming to further expand market share and increase earnings by enhancing Development, Quality, Cost, Delivery and Speed (DQCDS). The Koito Group continues to make steady progress with its global strategy.

Medium-term Net Sales Targets
Years ended March 31
(Billions of yen)



JAPAN

KOITO MANUFACTURING CO., LTD.

In Japan's automobile industry, automobile production rose 2.6% year on year to 10.89 million units, surpassing the 10 million-unit mark for the fourth consecutive year. This reflected strong domestic sales of both small passenger cars and minicars, as well as brisk exports to North America and Latin America. In this climate, Koito worked to expand sales of new products in its mainstay automotive lighting equipment segment. In fiscal 2006, net sales at Koito in Japan rose 17.2% to ¥209.5 billion, a record-high. Results for each segment were as follows:

Automotive Lighting Equipment Segment

This segment recorded net sales of ¥201.0 billion, a year-on-year increase of 17.7%. Several factors were behind this result. One was technological advances to produce larger headlamps with more functions. Other factors were the growing adoption of high-intensity gas discharge headlamps (GDHLs) and headlamp leveling systems in new cars, as well as the contribution from new products, such as "intelligent" Adaptive Front Lighting System (AFS) products.

Aircraft Equipment Segment

Segment sales decreased 5.3% to ¥2.7 billion. This reflected a drop in domestic sales of various fittings and other products, which outweighed strong overseas sales due to increased aircraft fuselage production.

Other Products Segment

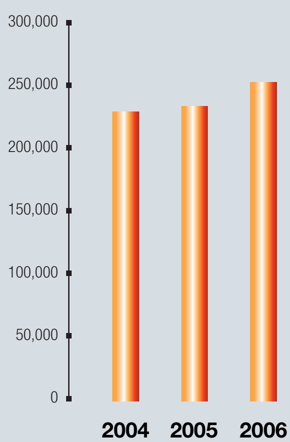
The segment recorded sales of ¥5.7 billion, a 14.4% increase compared to the previous fiscal year. This was due to healthy growth in sales of headlamp cleaners and other products.

On the earnings front, the operating environment was challenging due to a number of factors including intensified price competition in automotive lighting equipment and an increase in prices for plastics due to higher crude oil prices. Within this context, efforts to rationalize operations through productivity improvements, coupled with cost-cutting measures, including reviewing and curbing capital expenditures, led to a substantial rise in operating income of 40.8% to ¥12.5 billion. Net income also climbed significantly, rising 52.1% to ¥11.2 billion. Both operating income and net income were record highs.

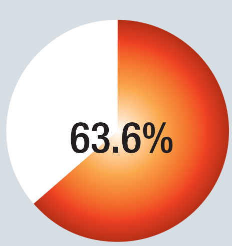
During fiscal 2006, Koito made total capital expenditures of ¥12.5 billion for the development of new products and model changes in the automotive lighting equipment segment. Expenditures also included new facilities needed for quality enhancements, rationalization and cost-cutting measures, as well as molds and industrial tools. While domestic auto sales are projected to remain flat, strong exports are expected to support domestic automobile production at around the 10 million-unit level for the foreseeable future.

Koito will work to expand sales of new products. At the same time, it will push through cost-reduction measures to shore up its profitability and raise operating efficiency.

Net Sales [Japan]
Years ended March 31
(Millions of yen)



Share of Sales [Japan]
Year ended March 31, 2006
(%)



KOITO MANUFACTURING Shizuoka Plant

KOITO MANUFACTURING Kikkawa Plant

KOITO INDUSTRIES, LIMITED

KOITO INDUSTRIES, LIMITED Head Office

KOITO INDUSTRIES, LIMITED
Fuji Nagaizumi Plant

In fiscal 2006, consolidated net sales at KOITO INDUSTRIES declined 12.2% to ¥47.9 billion as a result of lackluster performances in all three segments: transportation equipment, electrical equipment, and home appliances and environment. Results by segment were as follows:

Transportation Equipment Segment

Segment sales declined slightly to ¥18.2 billion, due to lower sales in the railroad car equipment division outweighing higher sales in the aircraft seat division.

Electrical Equipment Segment

Segment sales dropped 19.4% to ¥25.6 billion, due to declines in both lighting equipment and information systems, and traffic systems.

Home Appliances and Environment Segment

Segment sales declined 8.5 % to ¥4.0 billion, due to lower sales in both home appliances and environmental systems.

KOITO INDUSTRIES recorded a consolidated operating loss of ¥0.7 billion, mainly because of sluggishness in public works-related areas, despite initiatives to cut costs. The company also recorded a consolidated net loss of ¥1.2 billion, due to the booking of ¥2.1 billion in extraordinary losses including a surcharge arising from the April 2005 issuance of a cease and desist recommendation by the Japanese Fair Trade Commission, and impairment losses for land owned by the company.

Looking ahead, demand for railroad car equipment is on an expansionary track in China and the U.S., and increased sales are expected, particularly in Asian markets, where aircraft seats are selling briskly. KOITO INDUSTRIES will join forces with overseas subsidiaries and the joint venture company established in December 2005 in China to drive forward the expansion of its overseas operations. Meanwhile, the curtailment of central and regional government budgets continue to play a part in making the domestic market, which primarily comprises public-sector business, extremely challenging. Nonetheless, KOITO INDUSTRIES intends to increase sales by developing new products based on proprietary technologies and cutting costs throughout its organization.

KOITO INDUSTRIES will marshal all its corporate resources to turn its performance around. For the fiscal year ending March 2007 the company is projecting consolidated net sales up 14.7% to ¥55.0 billion, operating income of ¥0.1 billion and net income of ¥0.3 billion.

KOITO MANUFACTURING Haibara Plant

KOITO MANUFACTURING Sagara Plant

KOITO MANUFACTURING
Fujikawa Tooling Plant

NORTH AMERICA

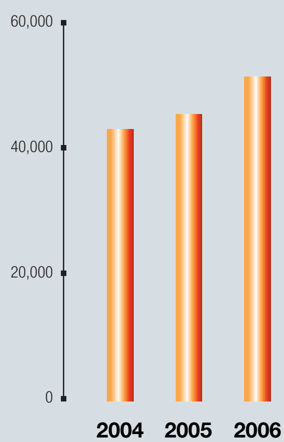
Automobile production in North America in 2005 fell slightly year on year to 14.62 million units due to lower production at the Big 3 automakers, despite growth at Japanese automakers. In North America, North American Lighting, Inc. (NAL), established in 1983, supplies automotive lighting equipment to the Big 3 automakers and all local plants of Japanese automakers. Now one of the largest manufacturers of lighting equipment in North America, NAL conducts its operations at three plants in the state of Illinois in the U.S.: a plant in Flora making headlamps and fog lamps; a plant in Salem, which manufactures signaling lamps; and a plant in Paris, which produces headlamps. The company also has a Technical Center in Farmington Hills, Michigan. The Paris Plant, which came on-stream in July 2002, manufactures headlamps employing state-of-the-art AFS technology. During the year under review, NAL relocated its headquarters to the Paris Plant to bolster the technology and management divisions.

In fiscal 2006, net sales rose 13.1% to ¥51.4 billion on the back of strong sales to Japanese automakers.

NAL's fourth plant is currently under construction in Alabama in the U.S., with operations scheduled to start in mid-2007. Meanwhile, efforts continue to be made to boost sales and reinforce operations by enhancing order-winning activities, raising productivity and promoting cost-cutting initiatives.

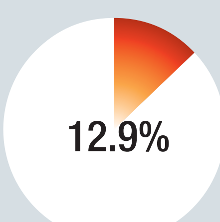
Net Sales [North America]

Years ended March 31
(Millions of yen)



Share of Sales [North America]

Year ended March 31, 2006
(%)



NAL Head Office (Paris)

NAL Flora Plant

NAL Salem Plant

NAL Paris Plant

NAL Technical Center

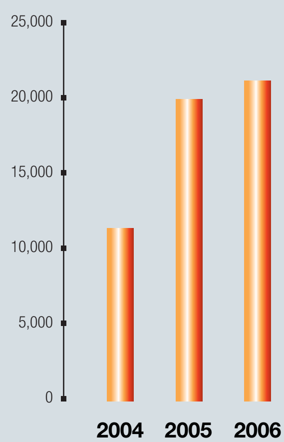
EUROPE

Automobile production in Europe in 2005 remained largely unchanged year on year at 20 million units. This reflected production in Western Europe on a par with the previous year, despite strong growth in Central and Eastern Europe and Russia.

Koito's automotive lighting equipment business in Europe is developed by two manufacturing bases under the control of Koito Europe NV (KENV) in Leuven, Belgium—Koito Europe Limited (KEL) in Droitwich, England, and Koito Czech s.r.o. (KCZ) in Zatec, the Czech Republic. Aiming to win more orders and drive Koito's growth in Europe over the medium and long terms, KENV will promote the localization of technological development, further develop order-winning initiatives, and boost competitiveness and profitability through improved operational efficiency.

In fiscal 2006, net sales increased 6.1% year on year to ¥21.1 billion, as a result of an increase in new orders for headlamps. Going forward, Koito anticipates further growth in sales, mainly to Japanese automakers. Together with ongoing actions to improve production processes, European operations are anticipated to contribute to earnings in fiscal 2007.

Net Sales [Europe]
Years ended March 31
(Millions of yen)

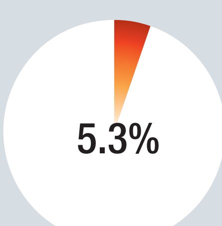


KENV

KEL

KCZ

Share of Sales [Europe]
Year ended March 31, 2006
(%)



ASIA

China

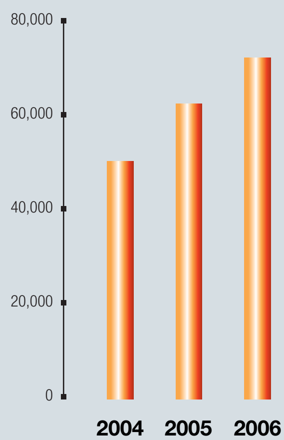
China's automobile production increased 10% year on year to 5.60 million units in 2005, despite various causes for concern such as the government's fiscal-tightening policy.

Koito is developing its automotive lighting equipment business in China through three companies: Shanghai Koito Automotive Lamp Co., Ltd., a joint venture established in 1989; FUZHOU TAYIH INDUSTRIAL CO., LTD., consolidated as a subsidiary in September 2005; and GUANGZHOU KOITO AUTOMOTIVE LAMP CO., LTD., established in November 2005. The three companies receive orders for lamps for all models of vehicle produced by Shanghai Volkswagen Automotive Co., Ltd. (Shanghai VW) and Shanghai General Motors Co. Ltd. (Shanghai GM). In addition, the company supplies lamps to a number of companies including Tianjin FAW Toyota Motor Co., Ltd. (Tianjin Toyota), Dongfeng Motor Corp. and CHONGQING CHANGAN SUZUKI AUTOMOBILE CO., LTD. (Changan Suzuki). In April 2002, Shanghai Koito Automotive Lamp established a Technical Center in China, one of the first autoparts manufacturers to do so. This move has given the joint venture unrivaled product development and molding die manufacturing capabilities, as well as quality assurance, enabling it to win high marks from automakers.

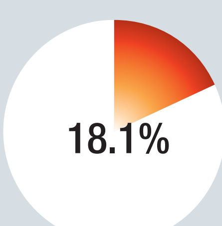
In fiscal 2006, net sales at Shanghai Koito Automotive Lamp jumped 40.3% to ¥22.8 billion, due to sales growth at Tianjin Toyota, Shanghai GM and others.

The Chinese auto industry is poised to develop further, spurred by high economic growth. By 2010, China is expected to be producing at least 9 million units annually. Eyeing this trend, Shanghai Koito Automotive Lamp started operations at its third plant in April 2006. In addition, plans call for GUANGZHOU KOITO AUTOMOTIVE LAMP's new plant to start production during 2007.

Net Sales [Asia]
Years ended March 31
(Millions of yen)



Share of Sales [Asia]
Year ended March 31, 2006
(%)



Head Office, Shanghai Koito Automotive Lamp

Technical Center, Shanghai Koito Automotive Lamp

Third plant, Shanghai Koito Automotive Lamp

FUZHOU TAYIH INDUSTRIAL

Thailand

Thailand's economic growth has been remarkable, with both new vehicle sales and exports expanding. Supported by these trends, automobile production in Thailand rose 19% in 2005 to 1.1 million units. Automakers from around the world are focusing on Thailand as a core production base in Southeast Asia.

The Koito Group's operations in Thailand are conducted through THAI KOITO COMPANY LIMITED (THAI KOITO). Established in 1986, THAI KOITO supplies automotive lighting equipment

THAI KOITO

to all local Japanese automakers. In particular, THAI KOITO supplies the main lamps for IMV, Toyota's much-talked-about globally strategic vehicle. To respond to higher automobile production, THAI KOITO completed construction of a third plant in December 2003, significantly raising its production capacity of headlamps and signaling lamps.

In fiscal 2006, THAI KOITO posted net sales of ¥12.3 billion, 31.4% higher than the previous year, mainly due to an increase in new orders.

THAI KOITO aims to achieve high growth by continuing to channel its energies to winning lamp orders for the global strategic vehicles of all automakers.

South Korea

Innovative Hightech Lighting (IHL)

Automobile production in South Korea rose 5% to 3.64 million units in 2005.

The Koito Group's automotive lighting equipment operations in South Korea are conducted through Innovative Hightech Lighting Corporation (IHL), which was established in 1997. IHL supplies automotive lighting equipment mainly to Hyundai Motor Company. The headlamp business, which started when IHL was established, has been winning increased orders due to the provision of technical assistance by Koito and other actions. To meet this increase in orders, IHL bolstered production capacity by expanding its plant in December 2003.

In fiscal 2006, an increase in automobile production units and higher orders led to net sales of ¥23.4 billion.

Moving forward, business development efforts will be directed at further expanding orders by means such as capturing a much greater share of sales of headlamps.

Taiwan

Ta Yih Industrial

Automobile production in Taiwan during 2005 remained on a par with the previous year at 0.44 million units.

In Taiwan, operations are conducted by Ta Yih Industrial Co., Ltd., in which Koito took an equity interest in 1988. Ta Yih Industrial commands an overwhelming market share of around 90% in both headlamps and signaling lamps.

For fiscal 2006, Ta Yih Industrial recorded net sales of ¥13.7 billion, a 1.5% increase year on year, reflecting advances in making larger headlamps with high-performance functions, including the manufacture of discharge-type lamps.

Although automobile production in Taiwan is not expected to grow strongly, to achieve growth over the long term, Ta Yih Industrial plans to launch value-added lamps and actively develop products for new business fields such as aircraft and railcars.

India

INDIA JAPAN LIGHTING (IJL)

Automobile production in India in 2005 rose 14% year on year to 1.69 million units, as the industry continued to steadily expand. The higher production was due to a large increase in domestic sales, which were supported by India's economic growth.

INDIA JAPAN LIGHTING PRIVATE LIMITED (IJL), a joint venture established in 1997 with Lucas-TVS Limited, is seeing its operating results increase steadily. For fiscal 2006, IJL recorded net sales up 21.8% to ¥2.6 billion on higher sales of automotive lamps to Japanese automakers, the Tata Group and other companies.

In recent years, the development of new vehicles in India has gained pace because of changing consumer preferences. By strengthening its product development capabilities and cost competitiveness, IJL continues to work to increase orders in this vibrant market. At the same time, the company is proceeding with the construction of a second plant in northern India to bolster its production capacity. Plans call for the new plant to start operations in early 2007.

RESEARCH AND DEVELOPMENT

The Koito Group is committed to delivering attractive products that anticipate customer needs in a timely manner by leveraging its innovative product development system, which rests on two pillars—R&D aimed at the pursuit and creation of leading-edge technologies and product line development for efficiently transforming those technologies into viable products. At the same time, Koito aims to conduct manufacturing activities that put people and the environment first. To this end, Koito is developing technologies to ensure safety and focusing on environmental themes that include recycling and the use of non-polluting materials and manufacturing methods.

The Koito Group's R&D activities in the automotive lighting equipment segment are conducted by Koito's global R&D network of four bases, led by Koito Technical Center in Japan. The other bases include NAL's Technical Center in the U.S., KENV's Technical Section in Belgium, and a Technical Center in China run by Shanghai Koito Automotive Lamp. This R&D network gives Koito the ability to meet the needs of automakers seeking to diversify their operations worldwide. Once a year, R&D staff from nine countries overseas attend a technology conference as part of active efforts to constantly improve technologies and disseminate knowledge throughout the Group. R&D activities in the non-automotive electrical equipment and other products segments are conducted mainly by the technical centers of Koito and KOITO INDUSTRIES. As of March 31, 2006, 1,969 personnel were engaged in the Koito Group's R&D activities.

In fiscal 2006, R&D costs totaled ¥20.4 billion. By segment, the automotive lighting equipment segment used ¥18.3 billion, the non-automotive electrical segment ¥0.9 billion and the other products segment ¥1.1 billion.

The main research themes in each segment are outlined below.

Automotive Lighting Equipment

1. Core technologies (optics, electronics, mechanical and structural engineering, etc.)
2. Production technologies
3. Simulation technologies and others

Non-automotive Electrical Equipment

1. Image transmission technologies for railroad rolling stock
2. System development for ITS-related equipment and materials
3. Internet-based systems and others

Other Products & Services

1. Non-lighting automotive components
2. Aircraft components and seats
3. New products in new business domains and others

Technical Center,
KOITO MANUFACTURING

Development of the Adaptive Front Lighting System (AFS)

AFS is a headlamp system that provides optimal beam control according to driving conditions. The system's variable light distribution creates the right visual environment for safer driving. In 2003 Koito commenced mass production of AFS, the first system of its kind in the world.

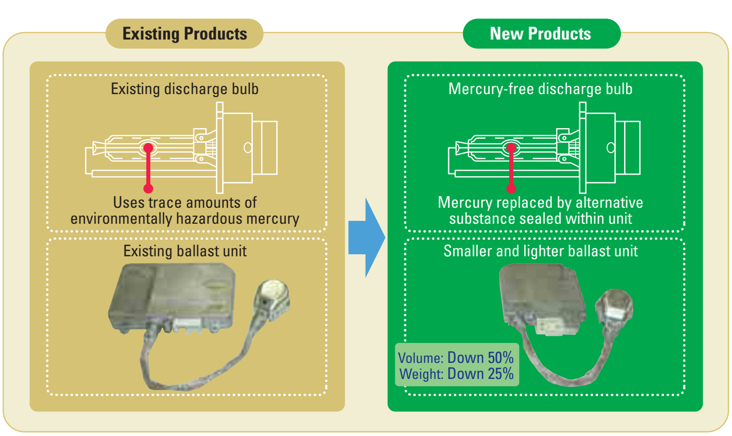
Koito is currently pursuing research and development to create a next-generation AFS capable of automatically adjusting the headlamp beam up and down or left and right in response to information from the car's navigation system and a range of sensors.

Development of Mercury-free Discharge Headlamps

Discharge headlamps offer three times the brightness and twice the lifetime of conventional halogen headlamps. On top of this, discharge headlamps consume only about two-thirds the power of conventional bulbs. This translates into a 1% improvement in fuel economy of automobiles, a factor that is driving up demand for discharge headlamps. By fiscal 2005, the percentage of new vehicles fitted with discharge headlamps in Japan had risen to approximately 26%.

The core components of discharge headlamps are discharge bulbs (electric bulbs) and ballasts (light activation control devices). Current discharge bulbs contain trace amounts of mercury, an environmentally hazardous substance. However, developing an alternative technology to mercury, which is an indispensable substance for producing light, has actually been considered difficult for technical reasons. Mercury in discharge bulbs has been exempted from the ELV (End-of-life Vehicle) Directive issued by the EU. This is despite the fact that this directive prohibits the use of all hazardous substances, including mercury, in vehicles sold in the EU from July 2003.

However, aware that mercury must eventually be eliminated from discharge headlamps, Koito pressed ahead with R&D in collaboration with other bulb, ballast and automobile manufacturers. The Koito Group played a central role with its expertise in both bulb and ballast manufacturing technologies. Through this initiative, the Koito Group successfully developed a mercury-free discharge bulb with a level of performance equivalent to existing bulbs and a new type of ballast that meets the requirements of mercury-free headlamps in 2004.



With the ballast units, Koito cut no corners in miniaturizing components to avoid adopting larger dimensions to accommodate the higher current and power input requirements of mercury-free bulbs. Compared with existing units, ballast volume was halved and weight reduced by 25%. In this manner, this new product was designed to save resources and energy.

The Koito Group was first in the world to develop and achieve mass production of mercury-free discharge headlamps. As an environmentally conscious product that also improves safety, mercury-free discharge headlamps are expected to be rapidly adopted for use in automobiles.

SOCIAL CONTRIBUTION AND ENVIRONMENTAL ACTIVITIES

Public Communication and Contributing to Society

Koito believes that managing business operations in a way that considers the interests of various stakeholders, including local communities, customers, suppliers and investors, is vital to building relationships of trust between companies and society. Koito is also committed to proactive disclosure of its environmental activities, plans, and their progress through its environmental reports, annual reports and website. Disclosure of this kind is essential to fostering a deeper understanding of Koito's business and environmental protection activities.

Other important areas where we are making proactive efforts include participation in community cleanup activities and other programs to keep the local natural environment clean, as well as environmental preservation initiatives. We intend that each and every employee should continue to actively engage in activities that contribute to society so as to help Koito fulfill its obligations as a good corporate citizen.

System for Promoting Environmental Management

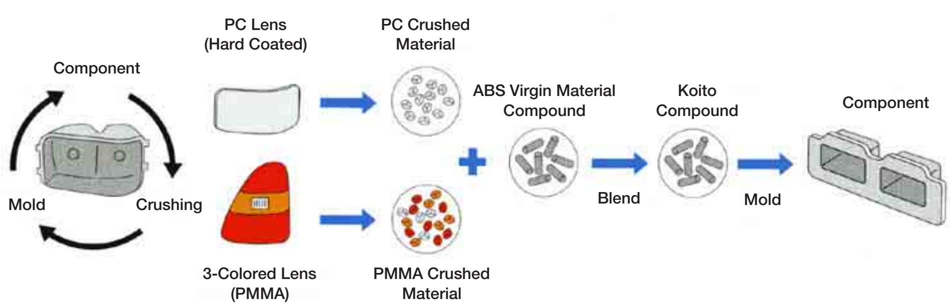
Koito has an Environmental Committee that promotes environmental protection activities. Four committees have been established under this committee: the Environmental Protection Committee, Environmental Audit Committee, Energy Conservation Committee and Recycling Promotion Committee. This framework has been structured to address company-wide environmental themes. A subcommittee has been established in the Recycling Promotion Committee to spearhead more specific activities for achieving certain objectives, such as recycling waste materials and lowering emission volumes.

In addition, Koito has an integrated company-wide environmental management system based on the international ISO 14001 standard for environmental management. This system covers all processes from development through manufacturing. By January 2003, all five domestic plants had obtained ISO 14001 certification. Going further, as part of the Koito Group, domestic and overseas affiliated companies are also working to reduce their environmental impact through their business activities. Key efforts include obtaining ISO 14001 certification through the establishment and implementation of environmental management systems, energy conservation, reducing the amount of waste, and developing eco-friendly products. So far, eight Koito Group companies, including six overseas subsidiaries, have obtained ISO 14001 certification. The Koito Group will continue to implement environmental activities appropriate to host countries and regions.

Promoting Manufacturing That Puts the Environment First

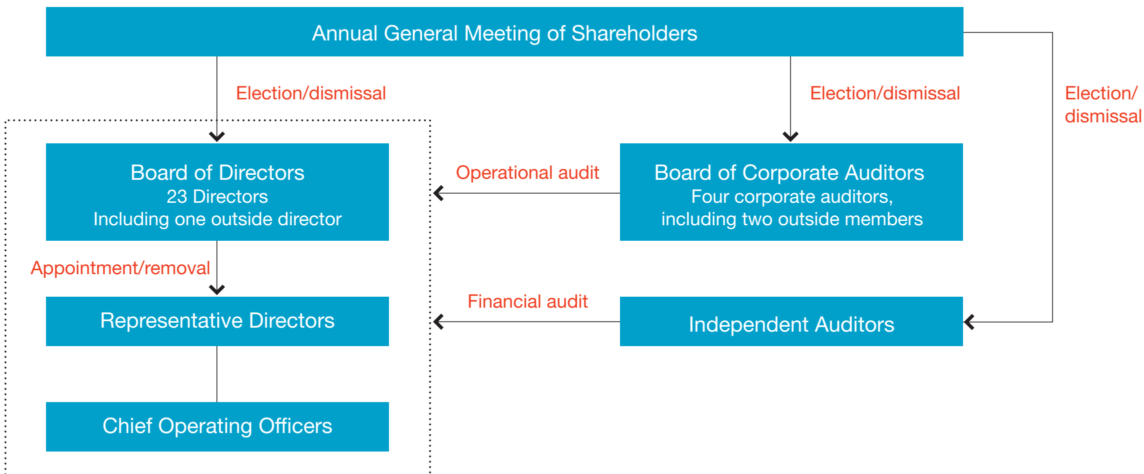
The Koito Group is implementing measures to conserve energy, as well as reduce waste and chemical substances, with the aim of lowering the environmental impact of its manufacturing operations. Understanding and minimizing the volume of use and emissions is thus a key priority. The Koito Group is also making efforts to reduce the overall environmental impact of its core automotive lamp products over the entire product lifecycle from product development to manufacturing, use, disposal and recycling.

At Koito, along with our primary effort to keep waste emissions as close to zero as possible, we are striving to eliminate the use of environmentally harmful substances in manufacturing processes. We are also pursuing "3R-compatibility" in the structural design of our lamps and in product and component development, which is the title for our aim to develop products that allow us to reduce, reuse and recycle. Koito is proactive in its efforts to preserve the global environment in line with internationally recognized targets. We are pursuing "3R"-related initiatives in a bid to realize a number of aims in this regard, including early attainment, and long-term maintenance, of zero-emission status.



CORPORATE GOVERNANCE

The Koito Group is strongly aware of the importance of observing ethical standards and upholding the integrity of management if it is to retain the trust of all its stakeholders. Enhancing corporate governance and strengthening compliance is therefore viewed as a top management priority. Koito has implemented measures to ensure greater transparency and fairness in management decision-making and operational execution. These measures include the appointment of outside directors and other actions such as strengthening the role of corporate auditors and the Board of Auditors.



(1) Corporate Governance Structure, Internal Control System and Risk Management System

At Koito, business execution is supervised by the Board of Directors and audited by the Board of Corporate Auditors. The Board of Directors, which comprises 23 directors, including 1 outside director, generally meets once a month and is attended by directors and corporate auditors. It reports on progress in business execution and makes decisions on important matters.

The Board of Corporate Auditors comprises four corporate auditors, including two outside auditors. Each corporate auditor audits the performance of directors in line with auditing policies through such means as surveys of their participation in meetings of the Board of Directors, and surveys of the Company's operations and financial condition. Moreover, the standing corporate auditors attend meetings of the Board of Directors and other important meetings and committees to audit business execution by directors. With regard to cooperation between auditors and the internal department responsible for auditing, internal auditing is conducted primarily by the Accounting Department. The department collaborates with the auditors to conduct audits of the head office, manufacturing plants, regional offices, and subsidiaries, in accordance with the auditors' annual auditing plan.

Status of Financial Audits

To ensure the adequacy of financial statements, the Board of Corporate Auditors and Board of Directors periodically receive progress reports on the status of financial audits based on relevant directives and other laws from the independent auditors.

The certified public accountants who executed Koito's audit were Tachiji Mizuno, Kingo Sakurai and Akio Nagasawa. The audit was also supported by two other certified public accountants and two other staff members. When audit certification is performed by an individual accountant, a review is conducted by a third-party certified accountant.

(2) Remuneration for Directors and Corporate Auditors and the Independent Auditor

Remuneration for directors, corporate auditors and the independent auditor for the fiscal year ended March 31, 2006 was as follows:

Remuneration for Directors and Corporate Auditors:	
For Directors	¥457 million
For Corporate Auditors	52 million
Total	¥509 million

Remuneration for Independent Auditors:	
Fee for Certificate of Audit	¥22 million

(Remuneration based on work stipulated by Article 2, Paragraph 1 of the Certified Public Accountant Law)

BOARD OF DIRECTORS

JUNSUKE KATO
Chairman

TAKASHI OHTAKE
President & CEO

AKIRA KOITO
Executive Vice President

MASAHIRO OHTAKE
Executive Vice President

Chairman

Junsuke Kato

President & CEO

Takashi Ohtake

Executive Vice Presidents

Akira Koito
Masahiro Ohtake

Executive Senior Managing Directors

Shuichi Goto
Hiroshi Koishihara
Mizuo Yamamuro
Mitsuo Kikuchi

Executive Managing Directors

Isao Sano
Shigeki Okuma
Yoshihisa Ogawa
Yuji Yokoya
Toshiharu Suzuki
Youhei Kawaguchi
Hiroshi Mihara

Directors

Mikio Ito
Mikio Tsuruta
Koichi Sakakibara
Kiminori Nagakura
Kazuo Ueki
Kenji Arima
Michiaki Kato
Jun Toyota

Standing Corporate Auditors

Toyofumi Nakagawa
Akira Nagasawa

Corporate Auditors

Koichi Kusano
Nobuyoshi Kawashima

(As of June 29, 2006)

FINANCIAL SECTION

CONTENTS

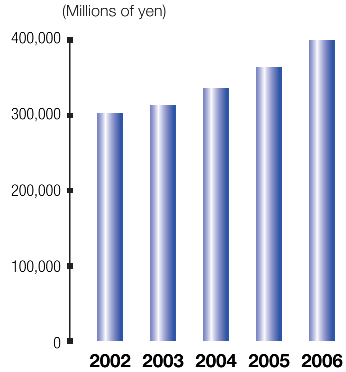
TEN-YEAR SUMMARY

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries
Years ended March 31

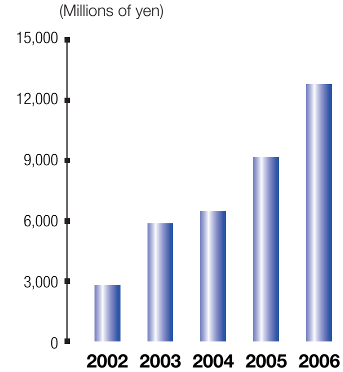
Consolidated	Millions of yen (except per share amounts) 1997	1998	1999	2000
For the year:				
Net sales	¥220,045	¥226,134	¥275,934	¥279,034
Operating income	10,607	8,540	10,201	9,288
Income before income taxes and minority interests	10,899	9,771	8,451	7,341
Income taxes	6,310	5,836	3,486	2,997
Net income	4,702	4,285	3,846	3,412
Amounts per share (Yen and U.S. dollars)**:**				
Net income	¥ 29.24	¥ 26.65	¥ 23.92	¥ 21.23
Cash dividends	9.00	8.00	8.00	10.00
At year-end:				
Working capital	¥ 59,053	¥ 55,348	¥ 40,393	¥ 51,060
Property, plant and equipment, less accumulated depreciation	54,742	46,174	65,857	61,448
Total assets	218,079	217,741	267,783	275,063
Total shareholders' equity	78,881	81,313	90,291	92,848

Note: Amounts in U.S. dollars are translated from yen, for convenience only, at the rate of ¥117.47=US$1, the rate prevailing on March 31, 2006.

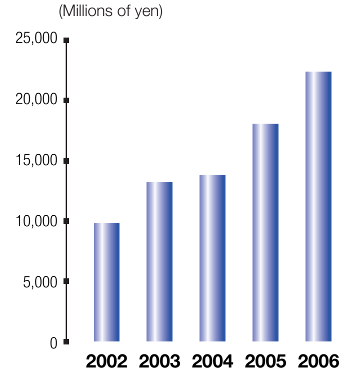
Net Sales
(Millions of yen)



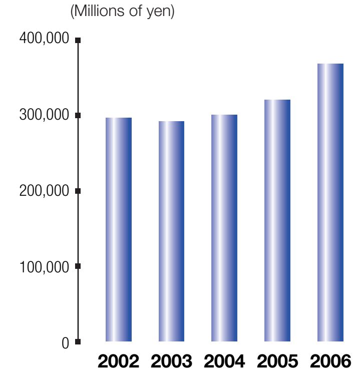
Net Income
(Millions of yen)



Operating Income
(Millions of yen)



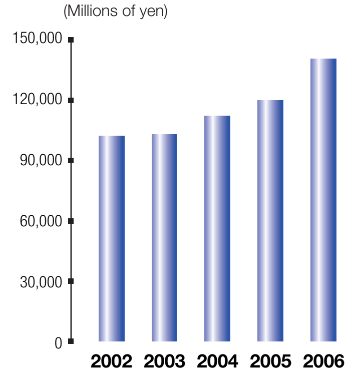
Total Assets
(Millions of yen)



2001	2002	2003	2004	2005	2006	Thousands of U.S. dollars (except per share amounts) 2006
¥297,280	¥301,141	¥311,133	¥334,254	¥361,477	**¥397,509**	**$3,383,919**
10,991	9,779	13,157	13,723	17,962	**22,262**	**189,512**
6,190	6,292	12,766	14,061	18,287	**23,277**	**198,153**
2,476	2,516	5,113	5,554	7,225	**9,078**	**77,279**
3,072	2,784	5,826	6,440	9,093	**12,731**	**108,377**
¥ 19.11	¥ 17.38	¥ 35.51	¥ 39.19	¥ 55.62	**¥ 79.39**	**$ 0.68**
8.00	8.00	10.00	12.00	14.00	**20.00**	**0.17**
¥ 16,724	¥ 27,340	¥ 26,663	¥ 18,085	¥ 24,043	**¥ 27,993**	**$ 238,299**
64,856	69,148	66,342	66,981	70,106	**76,800**	**653,784**
306,084	295,097	290,397	299,344	318,739	**366,254**	**3,117,851**
102,532	101,738	102,475	111,707	119,278	**139,849**	**1,190,508**

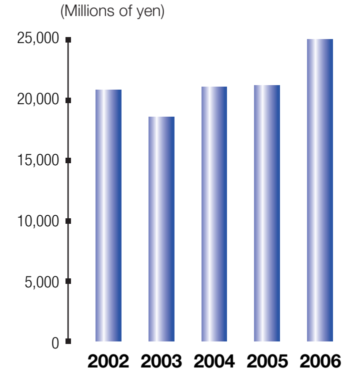
Total Shareholders' Equity

(Millions of yen)



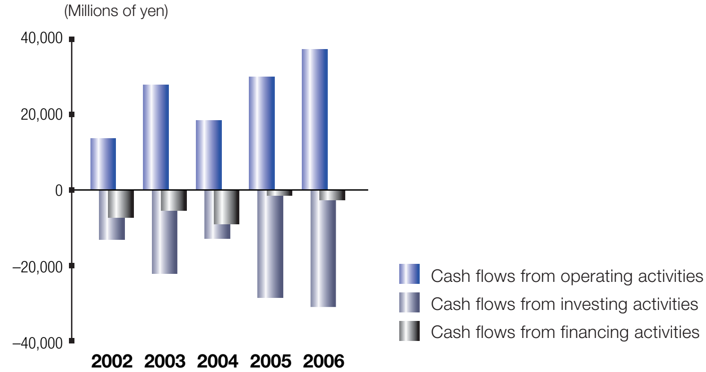
Capital Expenditures

(Millions of yen)



Cash Flows

(Millions of yen)



Overview

The Koito Group comprises the parent company (KOITO MANUFACTURING CO., LTD.), 23 subsidiaries, 4 affiliates and 1 non-consolidated subsidiary. The Group manufactures and sells automotive lighting equipment, components for airplanes, trains and railways, a wide variety of electrical devices and measuring equipment. It is also involved in related financial and distribution operations. In fiscal 2006 Koito consolidated three companies as subsidiaries: KOITO KYUSHU LIMITED, GUANGZHOU KOITO AUTOMOTIVE LAMP CO., LTD. (China) and FUZHOU TAYIH INDUSTRIAL CO., LTD. (China). In addition, Koito's subsidiaries Shizuokadenso Co., Ltd. and Shimizu Plating Co., Ltd. merged on March 31, 2006, with Shizuokadenso Co., Ltd. remaining as the successor company.

Net Sales

During the past fiscal year in the automobile industry, automobile unit production in Japan was marginally higher year on year, reflecting a slight increase in both domestic sales and exports. Overseas, increased production in China, Thailand, and elsewhere in the Asian region offset production levels unchanged from the previous year in North America and Europe. On the whole, worldwide automobile production grew at healthy levels.

In this climate, the Koito Group made proactive efforts to secure new orders by boosting product development capabilities in the automotive lighting equipment segment in a bid to expand sales over the medium and long terms.

Supported by a strong performance of its mainstay automotive lighting equipment segment both domestic and overseas, the Koito Group reported a 10.0% year-on-year increase in consolidated net sales to ¥397.5 billion. This was a new record high.

Earnings

Operating income rose 23.9%, to ¥22.2 billion. This was the result of efforts to rationalize operations by means such as pushing through strategies together with Group companies to lower costs, amid increasingly fierce price-based competition in Japan and overseas for automotive lighting equipment.

Net income was up 40.0%, to ¥12.7 billion. In the fiscal year ended March 31, 2006, both consolidated net sales and consolidated earnings were the highest ever, having increased for the fourth consecutive fiscal year.

Results by Business Segment

Automotive Lighting Equipment

Sales in the automotive lighting equipment segment rose 14.2% to ¥337.6 billion, fueled by greater use of high-intensity discharge headlamps, Adaptive Front Lighting System (AFS) headlamps, LED rear combination lamps and headlamp leveling systems in Japan. Another contributing factor was increasing new orders for headlamps and signaling lamps overseas, mainly in North America, Europe, China and South Korea. Segment operating income climbed 29.9% to ¥23.2 billion.

Non-automotive Electrical Equipment

This segment saw sales decline 15.5% to ¥35.1 billion. This mainly reflected declining orders in the road lighting, information equipment and traffic systems divisions, which outweighed brisk sales of railroad car equipment. The segment recorded an operating loss of ¥1.0 billion.

Other Products & Services

This segment recorded sales of ¥24.7 billion, up 1.7% from the previous fiscal year. This was the result of significantly higher sales of automobile headlamp cleaners, outweighing sluggish sales of aircraft seats and aircraft components. Segment operating income decreased 15.3% to ¥1.2 billion.

Results by Geographical Segment

Japan

Net sales in Japan, mainly in the mainstay automotive lighting equipment segment, increased 8.2% to ¥252.8 billion, the result of greater use of high-intensity discharge headlamps, Adaptive Front Lighting System (AFS) headlamps, LED rear combination lamps and headlamp leveling systems. Operating income rose 19.7% to ¥17.2 billion.

North America

Net sales of automotive lighting equipment in North America rose 13.1% year on year to ¥51.4 billion, reflecting strong automobile output coupled with efforts to increase orders. Operating income increased 22.5% to ¥2.1 billion.

Asia

Net sales in Asia rose 15.6% to ¥72.1 billion, due to efforts to expand orders for automotive lighting equipment, particularly at Shanghai Koito Automotive Lamp in China and THAI KOITO COMPANY LIMITED in Thailand. Operating income increased 7.7% to ¥4.0 billion.

Europe

Net sales in Europe increased 6.1% to ¥21.1 billion, owing to the benefits of activities to expand sales of automotive lighting equipment. Operating income amounted to ¥30 million, partly as a result of improved earnings at Koito Czech s.r.o. (KCZ) in the Czech Republic.

Financial Position

As of March 31, 2006, total assets were ¥366.2 billion, up ¥47.5 billion from a year ago. The main factors were an increase in accounts receivable and inventories in line with growth in net sales in current assets, and a ¥19.4 billion increase in investment securities due to an increase in investments.

On the other side of the balance sheet, total liabilities were ¥195.9 billion, ¥25.5 billion more than a year ago. The main factors were an increase in accounts payable accompanying higher production in current liabilities, while non-current liabilities increased due to higher long-term debt.

Total shareholders' equity rose ¥20.5 billion from a year ago to ¥139.8 billion, reflecting mainly an increase in retained earnings due to net income of ¥12.7 billion.

Cash Flows

Operating activities provided net cash of ¥37.2 billion, a ¥7.2 billion increase from the previous fiscal year. This was mainly due to increases in net income, depreciation and other items.

Investing activities used net cash of ¥30.9 billion, ¥2.4 billion more than the previous fiscal year. The increase in cash outflows was mostly attributable to an increase in payments for acquisition of property and equipment and the purchase of marketable and investment securities.

Financing activities used net cash of ¥2.6 billion, ¥1.2 billion more than in the previous fiscal year. This represented an increase in dividends paid and repayment of debt.

As a result, cash and cash equivalents as of March 31, 2006 were ¥15.7 billion, ¥3.8 billion higher than a year ago.

Capital Expenditures

Capital expenditures totaled ¥24.9 billion. The majority of capital expenditures were used to streamline and update production facilities, boost product quality and reduce production costs in the automotive lighting equipment segment. A breakdown of capital expenditures for the fiscal year under review by segment on the basis of tangible fixed assets and transfers, exclusive of consumption tax, is as follows:

In the automotive lighting equipment segment, ¥23.5 billion of capital expenditures were made for the development of new products and model changes, to boost production capacity, to enhance quality, and for facilities to rationalize production and cut costs. Capital expenditures in the non-automotive electrical equipment segment were ¥0.8 billion, mainly for upgrading manufacturing facilities for traffic management systems. The other products segment made capital expenditures of ¥0.5 billion, primarily for production facilities for new products such as electronic components.

The funds required for capital expenditures were provided by internal funds and debt.

There were no disposals or sales of key facilities during the fiscal year under review.

Pressing Issues

(1) Current Recognition of the Koito Group

The Japanese economy is expected to continue its gradual recovery, supported by increased capital expenditures due to improved corporate earnings, and growth in consumer spending. Overseas, Asian countries are expected to maintain their strong performance, while the economic slowdowns in the U.S., Europe and elsewhere give cause for concern. Moreover, persistently elevated prices for crude oil and raw materials, rising interest rates, exchange rate fluctuations and other factors mean that the Koito Group's economic environment is unpredictable.

In an uncertain and challenging business environment, the Koito Group has established an integrated production process from bulbs to finished products in its automotive lighting equipment segment. As a global supplier with a development and manufacturing network spanning the world's four key market regions, the Group will continue working to expand orders and production capacity. Koito will also implement thorough cost-cutting measures, including steps to improve the supply network and structure among Group companies, with the goal of further improving operating results.

(2) Key Issues

As a world-class global supplier that possesses the strength to prevail among other international competitors, the Koito Group is working to realign and reinforce its management framework and organization in response to structural shifts in the automobile industry. For instance, automobile manufacturers are now seeking to establish strong local manufacturing bases worldwide to better serve the world's four key market regions. Against this background, the most pressing issue for Koito is to build a stronger management structure. Key to this is developing innovative new technologies and products that anticipate market and customer needs, shortening development times, and implementing cost-cutting measures throughout the Group. Equally important are allocating resources effectively and establishing a complementary Group structure.

(3) Policies

As a manufacturer of automotive lighting and electrical equipment, the Koito Group creates new value demanded by customers and delivers technologies and reliability based on its corporate slogan of "Lighting for Your Safety." Furthermore, the Koito Group strives to improve its products through greater innovation in product development and the pursuit of cutting-edge technologies. Together with ongoing efforts to shorten development timeframes and far-reaching cost-cutting measures, the Koito Group is working to enhance its competitiveness. Moreover, by promoting even greater operational efficiency, the Group is determined to increase its global market share and secure profits overseas.

(4) Specific Measures

To advance the Koito Group to the next stage of growth, the following measures will be taken:

① As a global supplier capable of meeting the needs of automobile manufacturers seeking to expand production, procurement and supply networks to optimal locations worldwide, the Koito Group will reinforce the product development, manufacturing and sales functions of its overseas bases, while establishing a system to respond to the world's four key regional automobile markets (Japan, North America, Europe and Asia). This will include promoting a complementary supply structure and network within the Group.

② The Koito Group will develop cutting-edge technologies that stay ahead of customer and market needs and commercialize products at the earliest opportunity. Moreover, the Group will bring attractive products to market by formulating timely and appropriate approaches amid the rapid advancement in IT.

③ The Koito Group plans to further reinforce its profit structure and operations by securing and effectively allocating resources.

④ The Koito Group aims to emphasize the pursuit of the highest quality and safety standards and protection the environment.

Business Risk Factors

The following factors could affect the Koito Group's operating results, share price and financial position.

Forward-looking statements in this annual report are based on the management's judgment as of June 30, 2006.

(1) Economic Conditions

Demand for automotive lighting equipment, which represents a material share of the Koito Group's operating revenues around the world, is subject to economic conditions in countries and regions in which the Group's products are sold. Consequently, an economic downturn and accompanying contraction of demand in the Koito Group's main markets, including Japan, elsewhere in Asia, North America and Europe, may adversely affect its operating results and financial position.

(2) Legal Regulations

Automotive lighting equipment, the mainstay product of the Koito Group, is subject to various legal regulations, including road transportation vehicle laws and safety standards, in Japan as well as all other countries where the Group conducts business to provide key safety components of vehicles. Consequently, unexpected changes in legal regulations could adversely affect the Koito Group's operating results and financial position.

(3) Exchange Rate Movements

The Koito Group produces and sells products around the world. Sales, expenses, assets, liabilities and other accounts denominated in the local currencies of each region in which the Group operates are converted into yen for the purpose of preparing Koito's consolidated financial statements. Accordingly, the exchange rate prevailing on the conversion date may affect the post-conversion yen value of these accounts. Generally speaking, an appreciation of the yen relative to other currencies (particularly the U.S. dollar in which a material portion of the Group's sales are denominated) may adversely affect the Koito Group's operating results and financial position.

(4) Potential Risks of Expanding Overseas

The Koito Group is rapidly becoming more dependent on overseas-based production and sales activities. The expansion of these business activities in overseas markets carries the following inherent risks:

① Unanticipated changes in laws and regulations
② Disadvantageous changes in political and economic conditions
③ Social unrest caused by terrorism, war or other factors

(5) Product Defects

The Koito Group manufactures products in accordance with quality control standards approved in Japan and other countries where it conducts business. Nevertheless, there is no guarantee that all products will be free of defects and that recall and other costs will not arise from defects in the future. Therefore, product defects could adversely affect the Koito Group's operating results and financial position.

(6) Changes in Raw Material Prices

The Koito Group currently faces the risk of raw material price fluctuations. In particular, prices for plastics, key raw materials for the Koito Group's businesses, have been rising along with changing market prices for crude oil. This trend could cause a rise in procurement costs for the Koito Group, which could adversely affect the Koito Group's operating results and financial position.

(7) Natural Disasters

There is a risk that the Koito Group's production, logistics, sales and other bases could be damaged by an earthquake, typhoon or other natural disaster. While the Koito Group conducts disaster prevention activities and carries out inspections of facilities, these efforts do not guarantee that bases will be completely shielded from their effects. In particular, the Koito Group production bases in Japan are concentrated in the prefecture of Shizuoka. Therefore, a major disaster could dramatically lower the Koito Group's capacity to produce automotive lighting equipment and other products and in turn adversely affect its operating results and financial position.

CONSOLIDATED BALANCE SHEETS

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries

At March 31,	Millions of yen 2005	Millions of yen 2006	Thousands of U.S. dollars 2006
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 11,925	¥ 15,773	$ 134,273
Trade notes and accounts receivable	87,730	97,432	829,420
Less: Allowance for doubtful accounts	(1,151)	(1,082)	(9,211)
	86,579	96,350	820,209
Marketable securities	9,949	6,384	54,346
Inventories	24,121	30,034	255,674
Deferred income taxes (Note 7)	5,630	6,053	51,528
Prepaid expenses and others	5,618	11,142	94,850
Total current assets	143,822	165,736	1,410,879
Investments:			
Investment securities	82,359	101,795	866,562
Loans	1,015	781	6,649
Deferred income taxes (Note 7)	3,793	–	–
Other investments	4,498	3,695	31,455
Less: Allowance for doubtful accounts	(286)	(247)	(2,103)
Total investments	91,380	106,024	902,562
Property, plant and equipment, at cost:			
Buildings and structures	68,097	71,267	606,683
Machinery, equipment and tools	164,221	180,943	1,540,334
Less: Accumulated depreciation	(162,212)	(175,410)	(1,493,232)
	70,106	76,800	653,784
Land (Note 6)	11,824	12,862	109,492
Construction in progress	1,604	4,830	41,117
Property, plant and equipment, net	83,536	94,493	804,401
Total assets	¥ 318,739	¥ 366,254	$ 3,117,851

At March 31,	Millions of yen 2005	Millions of yen 2006	Thousands of U.S. dollars 2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade notes and accounts payable	¥ 60,408	**¥ 73,099**	**$ 622,278**
Short-term loans (Note 4)	26,073	**24,470**	**208,309**
Income taxes payable (Note 7)	4,343	**4,932**	**41,985**
Accrued expenses and other current liabilities	28,955	**35,242**	**300,009**
Total current liabilities	119,779	**137,743**	**1,172,580**
Non-current liabilities:			
Long-term debt (Note 4)	24,624	**28,826**	**245,390**
Accrued retirement benefits (Note 5)	23,617	**25,431**	**216,489**
Other non-current liabilities	2,355	**3,967**	**33,770**
Total non-current liabilities	50,598	**58,224**	**495,650**
Contingent liabilities (Note 8)			
Minority interests	29,082	**30,436**	**259,096**
Shareholders' equity:			
Common stock	14,270	**14,270**	**121,478**
320,000,000 shares authorized and 160,789,436 shares issued at 31 March, 2005 and 2006			
Additional paid-in capital	17,107	**17,107**	**145,629**
Retained earnings	79,912	**89,548**	**762,305**
Valuation adjustment on investment securities	10,155	**18,679**	**159,011**
Translation adjustments	(1,723)	**382**	**3,252**
Treasury common stock, at cost:			
729,000 shares in 2005 and 251,000 shares in 2006	(445)	**(140)**	**(1,192)**
Total	119,278	**139,849**	**1,190,508**
Total liabilities and shareholders' equity	¥318,739	**¥366,254**	**$3,117,851**

CONSOLIDATED STATEMENTS OF INCOME

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries

For the years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Net sales	¥361,477	**¥397,509**	**$3,383,919**
Cost of sales	310,165	**342,504**	**2,915,672**
Gross profit	51,312	**55,005**	**468,247**
Selling, general and administrative expenses	33,350	**32,743**	**278,735**
Operating income	17,962	**22,262**	**189,512**
Other income (expenses):			
Interest income	960	**1,449**	**12,335**
Interest expenses	(826)	**(1,025)**	**(8,726)**
Loss on sale and disposal of property and equipment	(319)	**(248)**	**(2,111)**
Loss on impairment of property and equipment (Note 6)	–	**(413)**	**(3,516)**
Others, net	510	**1,251**	**10,650**
Income before income taxes and minority interests	18,287	**23,277**	**198,153**
Income taxes	7,225	**9,078**	**77,279**
Income before minority interests	11,062	**14,199**	**120,873**
Minority interests in consolidated subsidiaries	1,968	**1,468**	**12,497**
Net income	¥ 9,093	**¥ 12,731**	**$ 108,377**

	Yen		U.S. dollars
	2005	2006	2006
Per share:			
Net income	¥ 55.62	**¥ 79.39**	**$ 0.68**
Cash dividends	14	**20**	**0.17**
Average total number of shares during the year (thousands of shares)	159,812	**160,371**	**1,365,208**

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries

For the years ended March 31,	Millions of yen 2005	Millions of yen 2006	Thousands of U.S. dollars 2006
Common stock:			
Beginning balance	¥ 14,270	**¥ 14,270**	**$ 121,478**
Ending balance	¥ 14,270	**¥ 14,270**	**$ 121,478**
Additional paid-in capital:			
Beginning balance	¥ 17,107	**¥ 17,107**	**$ 145,629**
Ending balance	¥ 17,107	**¥ 17,107**	**$ 145,629**
Retained earnings:			
Beginning balance	¥ 73,306	**¥ 79,912**	**$ 680,276**
Net income	9,093	**12,731**	**108,377**
Deductions:			
Cash dividends applicable to the year	(2,236)	**(2,564)**	**(21,827)**
Bonuses to directors and corporate auditors	(186)	**(205)**	**(1,745)**
Loss on disposal of treasury stock	(4)	**(4)**	**(34)**
Decrease in unfunded pension liabilities associated with pension accounting of overseas subsidiaries	–	**(159)**	**(1,354)**
Other	(61)	**(162)**	**(1,379)**
Ending balance	¥ 79,912	**¥ 89,548**	**$ 762,305**
Valuation adjustment on investment securities	¥ 10,155	**¥ 18,679**	**$ 159,011**
Translation adjustments	(1,723)	**382**	**3,252**
Treasury stock	(445)	**(140)**	**(1,192)**
Total	¥119,278	**¥139,849**	**$1,190,508**

CONSOLIDATED STATEMENTS OF CASH FLOWS

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31,	2005	2006	2006
Cash flows from operating activities:			
Net income	¥ 9,093	**¥ 12,731**	**$ 108,377**
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	18,170	**19,920**	**169,575**
Impairment loss	–	**413**	**3,516**
Minority interests in consolidated subsidiaries	1,968	**1,468**	**12,497**
Provision for allowance for doubtful accounts	131	**(191)**	**(1,626)**
Provision for accrued retirement benefits	2,952	**1,447**	**12,318**
(Profit) loss on revaluation of marketable securities	(326)	**(127)**	**(1,081)**
Loss on sale and disposal of property and equipment	231	**285**	**2,426**
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	(2,082)	**(7,834)**	**(66,689)**
Inventories	(3,176)	**(5,123)**	**(43,611)**
Prepaid expenses and others	207	**(1,814)**	**(15,442)**
Trade notes and accounts payable	1,518	**11,310**	**96,280**
Income taxes payable	(7,359)	**(8,895)**	**(75,721)**
Accrued expenses and other current liabilities	1,805	**4,579**	**38,980**
Others, net	6,786	**9,031**	**76,879**
Net cash provided by operating activities	29,919	**37,200**	**316,677**
Cash flows from investing activities:			
Acquisition of property and equipment	(20,988)	**(28,895)**	**(245,978)**
Proceeds from sale of property and equipment	1,146	**1,483**	**12,624**
Purchase of marketable and investment securities	(39,014)	**(34,897)**	**(297,072)**
Proceeds from sale of marketable and investment securities	29,561	**30,725**	**261,556**
(Decrease) increase in long-term loans	(205)	**6**	**51**
Increase (decrease) in other investments and other assets	1,034	**673**	**5,729**
Net cash used in investing activities	(28,466)	**(30,905)**	**(263,088)**
Cash flows from financing activities:			
(Decrease) increase in short-term bank loans	(18,146)	**(4,912)**	**(41,815)**
Increase (decrease) in long-term bank loans	19,881	**5,978**	**50,890**
Decrease (increase) in treasury stock	282	**305**	**2,596**
Cash dividends	(3,450)	**(4,034)**	**(34,341)**
Net cash used in financing activities	(1,433)	**(2,663)**	**(22,670)**
Foreign currency translation adjustment on cash and cash equivalents	125	**216**	**1,839**
Change in cash and cash equivalents	145	**3,848**	**32,757**
Cash and cash equivalents at beginning of the year	11,780	**11,925**	**101,515**
Cash and cash equivalents at end of the year	¥ 11,925	**¥ 15,773**	**$ 134,273**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation

KOITO MANUFACTURING CO., LTD. (the "Company") and its subsidiaries maintain their accounts in conformity with the financial accounting standards of Japan, and its foreign subsidiaries maintain their accounts in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan.

In preparing the consolidated financial statements, certain rearrangements and reclassifications have been made and certain additional financial information has been included in the consolidated financial statements issued in Japan for the convenience of readers outside Japan.

2. Summary of significant accounting policies

(1) The accompanying consolidated financial statements for the years ended March 31, 2005 and 2006 include the accounts for the Company and the 23 subsidiaries (Note) listed below:

Names of consolidated subsidiaries	Equity ownership percentage(*) %
KOITO KYUSHU LIMITED	100
KOITO INDUSTRIES, LIMITED	50
Koito Transport Co., Ltd.	100
Koito Enterprise Corporation	100
Aoitec Co., Ltd.	70
Shizuokadenso Co., Ltd.	100
Nissei Industries Co., Ltd.	62
Fujieda Auto Lighting Co., Ltd.	100
Shizuoka Wire Harness Co., Ltd.	100
Haibara Machine and Tools Co., Ltd.	100
Shizuoka Kanagata Co., Ltd.	40
Minatsu, Ltd.	100
North American Lighting, Inc.	100
Koito Europe NV	100
Koito Europe Limited	100
Koito Czech s.r.o.	100
Shanghai Koito Automotive Lamp Co., Ltd.	45
GUANGZHOU KOITO AUTOMOTIVE LAMP CO., LTD.	100
FUZHOU TAYIH INDUSTRIAL CO., LTD.	67
THAI KOITO COMPANY LIMITED	62
Innovative Hightech Lighting Corporation	50
Ta Yih Industrial Co., Ltd.	33
INDIA JAPAN LIGHTING PRIVATE LIMITED	50

(*) Represents ownership at March 31, 2006 and includes shares owned through consolidated subsidiaries.

(Note) In the period under review, KOITO KYUSHU LIMITED, GUANGZHOU KOITO AUTOMOTIVE LAMP CO., LTD. and FUZHOU TAYIH INDUSTRIAL CO., LTD. became consolidated subsidiaries. On March 31, 2006, Koito's subsidiaries Shizuokadenso Co., Ltd. and Shimizu Plating Co., Ltd. merged, with Shizuokadenso Co., Ltd. remaining as the successor company.

(2) Principles 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 excess of the costs over the underlying net equity of investments in the consolidated subsidiaries is amortized over five years.

Investments in three affiliates (owned 20% to 50%) are stated at cost plus equity in their undistributed earnings. Consolidated net income or loss includes the Company's equity in the current net income or loss of such companies, after the elimination of unrealized intercompany profits.

(3) Translation of foreign currency financial statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into yen at the rate of exchange in effect at the balance sheet date, except for the components of shareholders' equity, which are translated at exchange rates in effect at acquisition dates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year.

Foreign currency translation adjustments are included in minority interest and shareholders' equity in the accompanying consolidated financial statements.

(4) Inventories

Inventories are stated principally at cost. The cost of finished products and work in process are determined primarily by the weighted average method.

Raw materials and supplies are determined by the moving-average method. Inventories in the consolidated foreign subsidiaries are stated at the lower of cost or market as determined by the moving-average method.

(5) Securities

Securities for the year are valued by type of security as follows:

Securities held for trading	Market value
Securities held to maturity	Depreciable cost
Other securities	
Where there is a market quotation	Market value as determined by the quoted price at the end of the fiscal year.
Where there is no market quotation	Cost as determined by the moving-average method.
Specified money trusts	Market value

(6) Property, plant and equipment and depreciation

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is computed with the declining-balance method or straight-line method, at rates based on the estimated useful lives of the assets.

Machinery held by the Company is depreciated over useful lives estimated by the Company, which are between 3 to 7 years. Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(7) Accounting for impairment of fixed assets

On August 9, 2002, the Business Accounting Council issued "Statement of opinion: Accounting for Impairment of Fixed Assets" and on October 31, 2003, the Accounting Standards Board (ASB) of Japan issued ASB Guidance No. 6 "Guidance for Accounting Standard for Impairment of Fixed Assets." The Company and its domestic subsidiaries have applied them to its consolidated financial statements for the year ended March 31, 2006. As a consequence, income before income taxes and minority interests was impacted by an impairment loss of ¥413 million for the year ended March 31, 2006. The loss on impairment of fixed assets is deducted directly from each asset's cost in accordance with the new accounting standards and guidelines.

(8) Accrued retirement benefits

Under the terms of the retirement plans of the Company, certain employees are entitled to severance payments upon retirement or termination from the Company. The amount of the payment is based on the length of service, salary at the time of severance, and the cause of the severance.

The Company has a non-contributory funded pension plan which covers substantially all of the benefits at the retirement age under the above retirement plan.

Accrued retirement benefits are recorded based on the amount that would be required if all eligible employees retired at the balance sheet date less the amount funded by plan assets.

Consolidated subsidiary KOITO INDUSTRIES, LIMITED has two types of defined benefit retirement plan: a fund-type corporate pension plan and a lump-sum retirement benefit plan. Other domestic consolidated subsidiaries have qualified retirement plans and lump-sum retirement benefit plans. Certain overseas subsidiaries have defined contribution retirement plans or defined benefit retirement plans.

The directors and corporate auditors of the Company are covered by a retirement benefit plan which allows retiring directors and corporate auditors to receive lump-sum retirement benefits. The amount of such benefits is determined based on the length of service and the level of remuneration at the time of retirement.

The amount of the retirement benefits for directors and auditors is recorded in other non-current liabilities.

(9) Income taxes

The Company and its subsidiaries adopt tax-effect accounting and account for income taxes using the asset and liability method. Under this method deferred tax assets and deferred tax liabilities are recognized for the future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities using enacted rates.

(10) Appropriation of retained earnings

Under the Commercial Code of Japan, proposals by the Board of Directors for the appropriation of retained earnings (principally the payment of annual cash dividends) should be approved by shareholders' meeting that must be held within three months of the end of each financial year. In addition to such appropriation, the Code permits the Board of Directors to distribute cash to shareholders at an interim date (interim dividend). The appropriation of retained earnings reflected in the accompanying consolidated financial statements for each financial year represents the appropriation which was approved by the shareholders' meeting or by the Board of Directors and disposed of during that year.

Bonuses to directors and corporate auditors for the year ended March 31, 2006 were charged to income for the fiscal year as accrued instead of being made out of retained earnings as is customary practice in Japan.

(11) Research and development costs

Research and development costs are charged to income as incurred.

(12) Net income and dividends per share

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Cash dividends per share represent dividends, including "interim dividends" declared, as applicable to the respective periods.

(13) Cash equivalents

Cash and cash equivalents include time deposits and readily marketable securities with original maturities of three months or less.

(14) Consumption tax

Consumption tax is imposed at the flat rate of 5 percent on all domestic consumption of goods and services with certain exceptions. The consumption tax withheld on sales and consumption tax paid by the Companies on the purchases of goods and services is not included in the amounts of respective revenues or costs and expenses in the accompanying consolidated statements of income, but is recorded as an asset or a liability, as the case may be, and the net balance is included in other current liabilities.

(15) Derivative transactions

The Company utilizes foreign exchange forward contracts and interest rate swap agreements designated as hedges. The hedge transactions are only utilized on foreign exchange forward transactions and interest rate swap transactions when the transactions are fixed to hedge any risk anticipating from these transactions and to fix the cash flows value resulting from future transactions denominated in foreign currencies and loans bearing interest. Due to the nature of the hedging arrangements, no significant losses are anticipated.

3. U.S. dollar amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥117.47=US$1, the approximate rate of exchange at March 31, 2006, has been used. This translation should not be construed as a representation that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

4. Short-term loans and long-term debt

At March 31, 2005 and 2006, short-term loans consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Loans, principally from banks			
To the Company	–	**–**	**–**
To consolidated subsidiaries	¥26,073	**¥24,470**	**$208,309**
Total	¥26,073	**¥24,470**	**$208,309**

At March 31, 2005 and 2006, long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Loans, principally from banks			
To the Company	–	**–**	**–**
To consolidated subsidiaries	¥24,624	**¥28,826**	**$245,390**
Total	¥24,624	**¥28,826**	**$245,390**

5. Employee retirement benefits

Retirement benefit obligations at March 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Projected benefit obligations	¥(51,256)	**¥(55,549)**	**$(472,878)**
Plan assets	23,492	**25,534**	**217,366**
Unfunded pension liabilities	(27,764)	**(30,014)**	**(255,504)**
Unrecognized net transition obligation	–	**–**	**–**
Unrecognized actuarial differences	4,146	**4,582**	**39,006**
Accrued retirement benefits on balance sheet	¥(23,617)	**¥(25,431)**	**$(216,489)**

Net periodic cost for the fiscal years ended March 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Service cost	¥2,280	¥2,188	$18,626
Interest cost	1,694	1,262	10,743
Expected return on plan assets	(677)	(581)	(4,946)
Amortization of transition obligation	951	–	–
Actuarial loss	1,758	2,307	19,639
Total	¥6,007	¥5,176	$44,062

6. Impairment of fixed assets

The Company and its domestic subsidiaries reviewed their fixed assets for impairment as of the year ended March 31, 2006 and as a result, recognized an impairment loss of ¥413 million as follows;

			Millions of yen	Thousands of U.S. dollars
Location	Use	Type	2006	2006
KOITO INDUSTRIES, LIMITED	Idle assets	Land	¥413	$3,516

KOITO INDUSTRIES, LIMITED, a subsidiary of the Company reviewed its idle land owned at Ibaraki Prefecture and the land was tested for impairment by comparing the fair value with its carrying amount. As the fair value of the land was much less than the carrying amount, the carrying amount was reduced to the fair value.

Impairment loss of ¥413 million was recorded in Other expenses in Consolidated Statements of Income.

7. Income taxes

The Company and its domestic subsidiaries are subject to Japanese national and local taxes based on income, which in the aggregate resulted in a normal statutory tax rate of approximately 40%.

Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The significant components of deferred tax assets and liabilities at March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
At March 31,	2005	2006	2006
Deferred tax assets:			
Excess accrued bonus	¥ 1,792	¥ 1,851	$ 15,757
Excess accrued retirement benefits	8,017	8,847	75,313
Disallowed retirement allowance to directors	659	567	4,827
Excess depreciation, other	2,738	2,495	21,239
Loss on revaluation of investment securities, other	946	609	5,184
Loss on revaluation of land	509	507	4,316
Reserve for liability claims	834	914	7,781
Reserve for product warranties	474	528	4,495
Others	628	144	1,226
Deferred tax assets total	¥16,601	¥ 16,462	$ 140,138
Deferred tax liabilities:			
Reserve for reduction of asset costs	¥ (548)	¥ (535)	$ (4,554)
Valuation adjustment on investment securities	(6,630)	(11,942)	(101,660)
Deferred tax liabilities total	¥ (7,178)	¥(12,478)	$(106,223)
Net deferred tax assets (liabilities)	¥ 9,423	¥ 3,984	$ 33,915

8. Contingent liabilities

At March 31, 2005 and 2006, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
As guarantor of employees' housing loans and other from financial institutions and others	¥33	**¥27**	**$230**

9. Stock option plans

At an ordinary shareholders' meeting held on June 28th, 2001, the Company resolved to grant to all directors and key employees the right to purchase the treasury shares of the Company. The purchase price is an amount obtained by multiplying by 1.05 an average of the closing market price of the shares on the Tokyo Stock Exchange on all trading days for the month immediately preceding the month of the date of the grant, provided that the exercise price shall not be less than the closing market price on the grant date. The exercise price is, then, decided as ¥624 per share. The options are exercisable for three years from July 1st, 2003 to June 30th, 2006. The Company acquired 1,160,000 shares of its common stock for the plan up to March 31, 2003, from which 1,021,000 shares were exercised from September, 2003 to March, 2006 by directors and employees. The Company owns 139,000 shares for the plan as of March 31, 2006.

10. Segment information

INDUSTRY SEGMENT INFORMATION

The Companies operate principally in three industrial segments. Each segment has the following main products:

Automotive Lighting Equipment:	Headlamps, miscellaneous car lamps, discharge headlamps, all-glass sealed beam lamp units, rear lamps, indicators, high-mount stop lamps and halogen bulbs, various miniature bulbs and other lighting products.
Non-automotive Electrical Equipment:	Control systems for rail transports, road traffic signals, traffic control systems and sanitary equipment.
Other Products & Services:	Aircraft lights and electronic components, special-feature seats, environmental control systems, finance and insurance services, transportation.

	Millions of yen					
	Automotive Lighting Equipment	Non-automotive Electrical Equipment	Other Products & Services	Total	Corporate and Elimination	Consolidated Total
For the year ended March 31, 2005						
Sales:						
Sales to outside customers	¥295,537	¥41,599	¥24,340	¥361,477	¥ –	¥361,477
Inter-segment sales and transfers	45,183	1,601	2,902	49,687	(49,687)	–
Total	¥340,721	¥43,201	¥27,243	¥411,165	¥(49,687)	¥361,477
Operating expenses	322,812	42,904	25,761	391,478	(47,963)	343,515
Operating income (loss)	¥ 17,908	¥ 296	¥ 1,481	¥ 19,687	¥ (1,724)	¥ 17,962
Identifiable assets at March 31, 2005	¥172,354	¥54,375	¥50,825	¥277,554	¥ 41,185	¥318,739
Depreciation	¥ 16,474	¥ 892	¥ 757	¥ 18,123	¥ 47	¥ 18,170
Capital expenditures	¥ 19,491	¥ 1,118	¥ 491	¥ 21,100	¥ –	¥ 21,100

	Millions of yen					
	Automotive Lighting Equipment	Non-automotive Electrical Equipment	Other Products & Services	Total	Corporate and Elimination	Consolidated Total
For the year ended March 31, 2006						
Sales:						
Sales to outside customers	¥337,604	¥35,160	¥24,745	¥397,509	¥ –	¥397,509
Inter-segment sales and transfers	80,229	1,228	3,093	84,551	(84,551)	–
Total	¥417,833	¥36,389	¥27,838	¥482,061	¥(84,551)	¥397,509
Operating expenses	394,569	37,445	26,583	458,599	(83,351)	375,247
Operating income (loss)	¥ 23,264	¥ (1,056)	¥ 1,255	¥ 23,462	¥ (1,200)	¥ 22,262
Identifiable assets at March 31, 2006	¥209,631	¥50,502	¥51,361	¥311,494	¥ 54,760	¥366,254
Depreciation	¥ 17,981	¥ 984	¥ 911	¥ 19,876	¥ 44	¥ 19,920
Impairment loss	¥ –	¥ –	¥ –	¥ –	¥ 413	¥ 413
Capital expenditures	¥ 23,537	¥ 834	¥ 564	¥ 24,935	¥ –	¥ 24,935

	Thousands of U.S. dollars					
	Automotive Lighting Equipment	Non-automotive Electrical Equipment	Other Products & Services	Total	Corporate and Elimination	Consolidated Total
For the year ended March 31, 2006						
Sales:						
Sales to outside customers	$2,873,959	$299,310	$210,650	$3,383,919	$ –	$3,383,919
Inter-segment sales and transfers	682,974	10,454	26,330	719,758	(719,767)	–
Total	$3,556,934	$309,773	$236,980	$4,103,687	$(719,767)	$3,383,919
Operating expenses	3,358,892	318,762	226,296	3,903,950	(709,551)	3,194,407
Operating income (loss)	$ 198,042	$ (8,990)	$ 10,684	$ 199,736	$ (10,215)	$ 189,512
Identifiable assets at March 31, 2006	$1,784,549	$429,914	$437,227	$2,651,690	$ 466,162	$3,117,851
Depreciation	$ 153,069	$ 8,377	$ 7,755	$ 169,201	$ 375	$ 169,575
Impairment loss	$ –	$ –	$ –	$ –	$ 3,516	$ 3,516
Capital expenditures	$ 200,366	$ 7,100	$ 4,801	$ 212,267	$ –	$ 212,267

GEOGRAPHIC SEGMENT INFORMATION

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sales of products in the automotive lighting equipment and electric equipment segment. These products are sold in Japan and overseas, principally North America, Asia and Europe.

The geographic segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2006 is as follows:

	Millions of yen						
	Japan	North America	Asia	Europe	Total	Corporate and Elimination	Consolidated Total
For the year ended March 31, 2005							
Sales:							
Sales to outside customers	¥233,669	¥45,479	¥62,405	¥19,923	¥361,477	¥ –	¥361,477
Inter-area sales and transfers	45,999	–	2,453	1,234	49,687	(49,687)	–
Total	¥279,669	¥45,479	¥64,858	¥21,158	¥411,165	¥(49,687)	¥361,477
Operating expenses	265,243	43,714	61,138	21,382	391,478	(47,963)	343,515
Operating income (loss)	¥ 14,426	¥ 1,765	¥ 3,720	¥ (224)	¥ 19,687	¥ (1,724)	¥ 17,962
Total assets	¥196,661	¥22,059	¥40,653	¥18,181	¥277,554	¥ 41,185	¥318,739

	Millions of yen						
	Japan	North America	Asia	Europe	Total	Corporate and Elimination	Consolidated Total
For the year ended March 31, 2006							
Sales:							
Sales to outside customers	**¥252,825**	**¥51,418**	**¥72,118**	**¥21,146**	**¥397,509**	**¥ –**	**¥397,509**
Inter-area sales and transfers	**60,940**	**–**	**2,842**	**20,769**	**84,551**	**(84,551)**	**–**
Total	**¥313,765**	**¥51,418**	**¥74,961**	**¥41,916**	**¥482,061**	**¥(84,551)**	**¥397,509**
Operating expenses	**296,503**	**49,255**	**70,954**	**41,885**	**458,599**	**(83,351)**	**375,247**
Operating income (loss)	**¥ 17,261**	**¥ 2,162**	**¥ 4,006**	**¥ 30**	**¥ 23,462**	**¥ (1,200)**	**¥ 22,262**
Total assets	**¥206,969**	**¥24,012**	**¥58,678**	**¥21,835**	**¥311,494**	**¥ 54,760**	**¥366,254**

	Thousands of U.S. dollars						
	Japan	North America	Asia	Europe	Total	Corporate and Elimination	Consolidated Total
For the year ended March 31, 2006							
Sales:							
Sales to outside customers	**$2,152,252**	**$437,712**	**$613,927**	**$180,012**	**$3,383,919**	**$ –**	**$3,383,919**
Inter-area sales and transfers	**518,771**	**–**	**24,193**	**176,803**	**719,767**	**(719,767)**	**–**
Total	**$2,671,022**	**$437,712**	**$638,129**	**$356,823**	**$4,103,695**	**$(719,767)**	**$3,383,919**
Operating expenses	**2,524,074**	**419,299**	**604,018**	**356,559**	**3,903,967**	**(709,551)**	**3,194,407**
Operating income (loss)	**$ 146,940**	**$ 18,405**	**$ 34,102**	**$ 255**	**$ 199,728**	**$ (10,215)**	**$ 189,512**
Total assets	**$1,761,888**	**$204,410**	**$499,515**	**$185,877**	**$2,651,690**	**$ 466,162**	**$3,117,851**

11. Subsequent events

At the general shareholders' meeting held by the Company on June 29, 2006, appropriations of retained earnings were duly approved as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥11 per share ($93.64 per 1,000 shares)	**¥1,766**	**$15,034**

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
KOITO MANUFACTURING CO., LTD.

We have examined the consolidated balance sheets of KOITO MANUFACTURING CO., LTD. and its subsidiaries at March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity and cash flows for the years ended March 31, 2005 and 2006, all expressed in Japanese yen. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express our opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KOITO MANUFACTURING CO., LTD. and its subsidiaries at March 31, 2005 and 2006, and the consolidated results of their operations and their cash flows for the years ended March 31, 2005 and 2006, in conformity with generally accepted accounting principles in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit 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.

Tachiji Mizuno Kingo Sakurai Akio Nagasawa

TACHIJI MIZUNO KINGO SAKURAI AKIO NAGASAWA

Certified Public Accountants
June 29, 2006

CORPORATE INFORMATION

As of March 31, 2006

KOITO MANUFACTURING CO., LTD.

Head office:	4-8-3, Takanawa, Minato-ku, Tokyo 108-8711, Japan
Founded:	April 1, 1915
Incorporated:	April 1, 1936
Capital:	¥14,270 million
Employees:	13,894 (Consolidated) 4,188 (Non-consolidated)
Common stock:	
Authorized:	320,000,000 shares
Issued:	160,789,436 shares
Number of shareholders:	7,478
Transfer agent:	Mitsubishi UFJ Trust and Banking Corporation
Official address as transfer agent	Mitsubishi UFJ Trust and Banking Corporation Corporate Agency Department 1-4-5, Marunouchi, Chiyoda-ku, Tokyo 100-8212, Japan
Contact address	Mitsubishi UFJ Trust and Banking Corporation Corporate Agency Department 1-7-7, Nishi-Ikebukuro, Toshima-ku, Tokyo 171-8508, Japan Phone: 81-3-5391-1900
Principal shareholders:	TOYOTA MOTOR CORPORATION Japan Trustee Services Bank, Ltd. Matsushita Electric Industrial Co., Ltd. The Master Trust Bank of Japan, Ltd. NIPPON LIFE INSURANCE COMPANY Sumitomo Mitsui Banking Corporation The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mizuho Corporate Bank, Ltd.
For further information, please contact:	KOITO MANUFACTURING CO., LTD. 4-8-3, Takanawa, Minato-ku, Tokyo 108-8711, Japan Phone: 81-3-3443-7111 Facsimile: 81-3-3447-1520 Or via our website at: http://www.koito.co.jp

CORPORATE DIRECTORY

HEAD OFFICE
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Tokyo 108-8711, Japan
Phone: 81-3-3443-7111
Facsimile: 81-3-3447-1520

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Facsimile: 81-3-3447-5173
Overseas Planning Department
Phone: 81-543-45-4237
Facsimile: 81-543-45-4959
Pan-Pacific Operations
Phone: 81-3-3447-5172
Facsimile: 81-3-3447-5173
Euro-American Operations
Phone: 81-3-3447-5166
Facsimile: 81-3-3447-5173

PLANTS
Shizuoka Plant (Shizuoka Pref.)
Phone: 81-543-45-2251
Facsimile: 81-543-46-9174
Haibara Plant (Shizuoka Pref.)
Kikkawa Plant (Shizuoka Pref.)
Sagara Plant (Shizuoka Pref.)
Fujikawa Tooling Plant (Shizuoka Pref.)

LABORATORY
Laboratory (Shizuoka Pref.)

DOMESTIC BUSINESS NETWORK
Tokyo Branch (Tokyo)
Phone: 81-3-3447-5161
Facsimile: 81-3-3447-1660
Toyota Branch (Aichi Pref.)
Phone: 81-565-28-1129
Facsimile: 81-565-29-1217
Osaka Branch (Osaka)
Phone: 81-6-6391-6731
Facsimile: 81-6-6395-1154
Hiroshima Branch (Hiroshima Pref.)
Phone: 81-82-893-1281
Facsimile: 81-82-893-1341

Sendai Sales Office (Miyagi Pref.)
Utsunomiya Sales Office (Tochigi Pref.)
Ohta Sales Office (Gunma Pref.)
Atsugi Sales Office (Kanagawa Pref.)
Shizuoka Sales Office (Shizuoka Pref.)
Fukuoka Sales Office (Fukuoka Pref.)

OVERSEAS REPRESENTATIVE OFFICES

Detroit Office (U.S.A.)
c/o North American Lighting, Inc.
38900 Hills Tech Drive, Farmington Hills, MI 48331,
U.S.A.
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Facsimile: 1-248-553-6454

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c/o Sojitz Corporation of America
Bank of America Tower, Suite 1160,
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WA 98104, U.S.A.
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Facsimile: 1-206-386-5640

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c/o Shanghai Koito Automotive Lamp Co., Ltd.
767 Ye-cheng RD. Jia Ding South Door,
Shanghai, 201800
People's Republic of China
Phone: 86-21-6952-2673
Facsimile: 86-21-6952-6246

GLOBAL NETWORK

OVERSEAS SUBSIDIARIES AND AFFILIATES

North American Lighting, Inc.
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Facsimile: 1-217-465-6610

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Facsimile: 32-16-7213-01

Koito Europe Limited
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Hampton Lovett Industrial Estate,
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Facsimile: 44-1905-794-466

Koito Czech s.r.o.
Na Astre 3001, 438 01 Zatec, Czech Republic
Phone: 420-415-930-111
Facsimile: 420-415-930-109

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767 Ye-cheng RD. Jia Ding South Door,
Shanghai, 201800
People's Republic of China
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Facsimile: 86-21-5916-2899

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338, Qinhe East Road, Shiqiao, Panyu District,
Guangzhou City, Guangdong,
People's Republic of China
Phone: 86-20-3460-3575
Facsimile: 86-20-3460-3579

FUZHOU TAYIH INDUSTRIAL CO., LTD.
South East Motor Zone, Qingkou, Minhou, Fujian,
People's Republic of China
Phone: 86-591-2276-5266
Facsimile: 86-591-2276-7466

THAI KOITO COMPANY LIMITED
370 Moo 17 Tambol Bangsaothong
King Amphur Bangsaothong,
Samutprakarn 10540, Thailand
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Facsimile: 66-2-315-3281

Innovative Hightech Lighting Corporation
742-28, Munsan-Ri, Oedong-Eup,
Kyongju-shi, Kyongbuk 780-820, Korea
Phone: 82-54-770-7700
Facsimile: 82-54-770-7770

Ta Yih Industrial Co., Ltd.
No. 11 Shin-Sin Road, An-Ping Industrial District,
Tainan, Taiwan, Republic of China
Phone: 886-6-261-5151
Facsimile: 886-6-264-4614

INDIA JAPAN LIGHTING PRIVATE LIMITED
No. 1, Puduchathram, (Via) Tirumazhisai,
Tiruvellore High Road,
Tamilnadu 602-107, India
Phone: 91-44-2681-1300
Facsimile: 91-44-2681-1750

OVERSEAS TECHNICAL ASSOCIATES

North American Lighting, Inc. (U.S.A.)

Electro Optica, S.A. de C.V. (Mexico)

Industrias Arteb S.A. (Brazil)

Koito Europe NV (Belgium)

Koito Europe Limited (U.K.)

Koito Czech s.r.o. (Czech Republic)

Senalizacion y Accesorios del Automovil Yorka, S.A. (Spain)

Farba Otomotiv Aydinlatma ve Plastik Fabrikalari A.S. (Turkey)

Automotive Lighting Italia S.p.A. (Italy)

Automotive Lighting UK Ltd. (U.K.)

Shanghai Koito Automotive Lamp Co., Ltd. (China)

GUANGZHOU KOITO AUTOMOTIVE LAMP CO., LTD. (China)

FUZHOU TAYIH INDUSTRIAL CO., LTD. (China)

THAI KOITO COMPANY LIMITED (Thailand)

Innovative Hightech Lighting Corporation (Korea)

Ta Yih Industrial Co., Ltd. (Taiwan)

INDIA JAPAN LIGHTING PRIVATE LIMITED (India)

Bangkok Diecasting and Injection Co., Ltd. (Thailand)

Hella Australia Pty Ltd (Australia)

Hella-Phil., Inc. (The Philippines)

Hella (South Africa) (Pty.) Ltd. (South Africa)

EP Polymers (M) Sdn. Bhd. (Malaysia)

DOMESTIC SUBSIDIARIES AND AFFILIATES

KOITO KYUSHU LIMITED
(Saga Pref.)
Business lines: Manufacturing and marketing of automotive lighting equipment

KOITO INDUSTRIES, LIMITED
(Kanagawa Pref.)
Business lines: Manufacturing and marketing of railroad car equipment, special seats, lighting equipment, electrical machinery, traffic light maintenance equipment, water and sewage products, and environmental equipment

Koito Transport Co., Ltd.
(Shizuoka Pref.)
Business lines: Transportation services and logistics

Koito Enterprise Corporation
(Tokyo)
Business lines: Financial services, insurance, leasing

Aoitec Co., Ltd.
(Shizuoka Pref.)
Business lines: Manufacturing and marketing of electronic components, electrical devices, telecommunications equipment and precision machinery

Shizuokadenso Co., Ltd.
(Shizuoka Pref.)
Business lines: Manufacturing and marketing of automotive lighting equipment

Nissei Industries Co., Ltd.
(Shizuoka Pref.)
Business lines: Manufacturing and marketing of miniature bulbs and automotive accessories

Fujieda Auto Lighting Co., Ltd.
(Shizuoka Pref.)
Business lines: Manufacturing and marketing of automotive lighting equipment

Shizuoka Wire Harness Co., Ltd.
(Shizuoka Pref.)
Business lines: Manufacturing and marketing of automotive lighting equipment

Haibara Machine and Tools Co., Ltd.
(Shizuoka Pref.)
Business lines: Manufacturing and marketing of resin metal molds

Shizuoka Kanagata Co., Ltd.
(Shizuoka Pref.)
Business lines: Manufacturing and marketing of resin metal molds

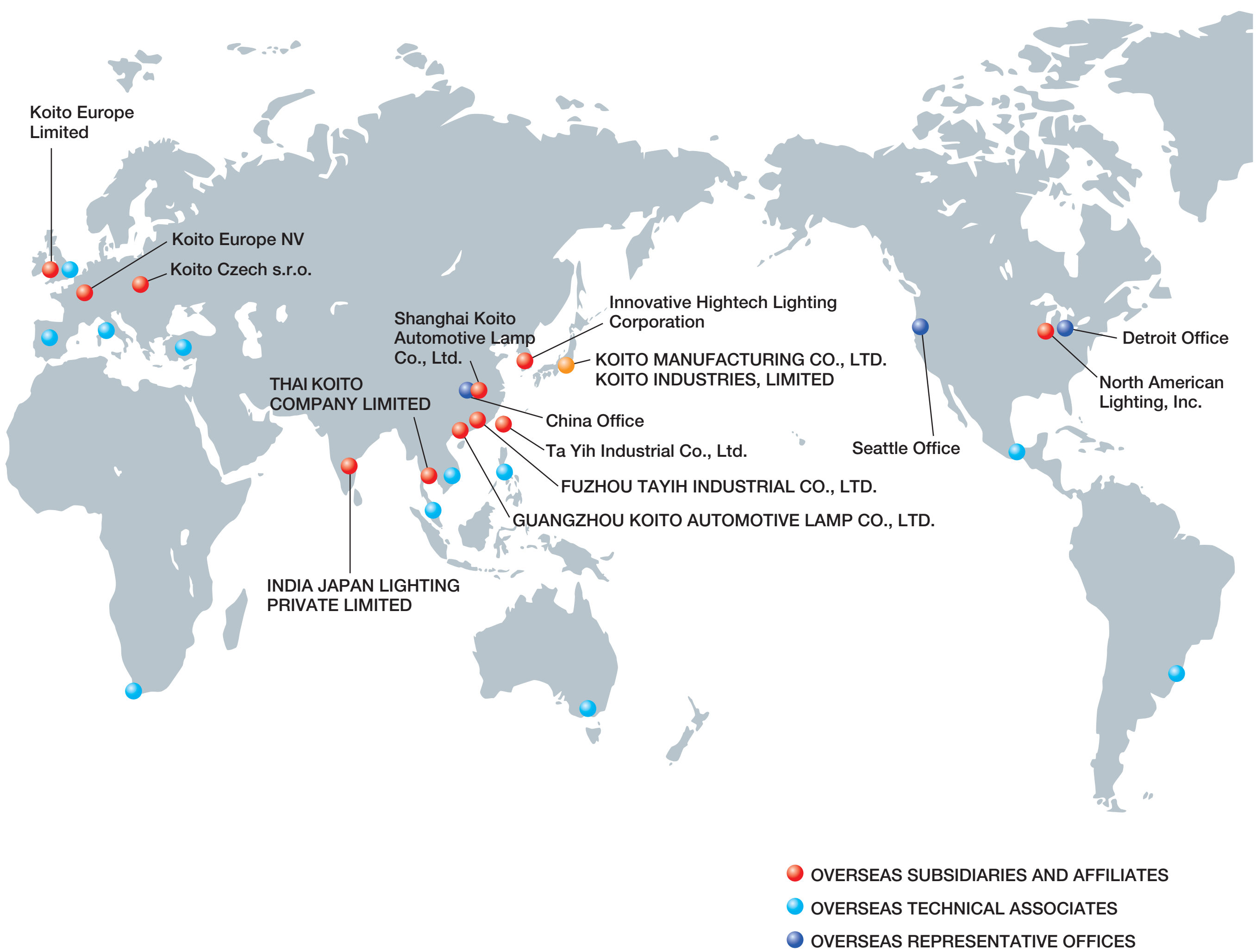
Takeda Suntech Co., Ltd.
(Shizuoka Pref.)
Business lines: Manufacturing and marketing of resin metal molds

New Fuji Co., Ltd.
(Shizuoka Pref.)
Business lines: Service businesses

Minatsu, Ltd.
(Kanagawa Pref.)
Business lines: Signals and safety equipment maintenance

DOROKEISO CO., LTD.
(Tokyo)
Business lines: Installation and maintenance of axle weight measuring systems

Pan Washlet Co., Ltd.
(Fukuoka Pref.)
Business lines: Manufacturing and marketing of water and sewage products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Koito Europe NV
Koito Czech s.r.o.
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China Office
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GUANGZHOU KOITO AUTOMOTIVE LAMP CO., LTD.
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Detroit Office
North American Lighting, Inc.
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OVERSEAS TECHNICAL ASSOCIATES
OVERSEAS REPRESENTATIVE OFFICES

KOITO MANUFACTURING CO., LTD.

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Printed in Japan