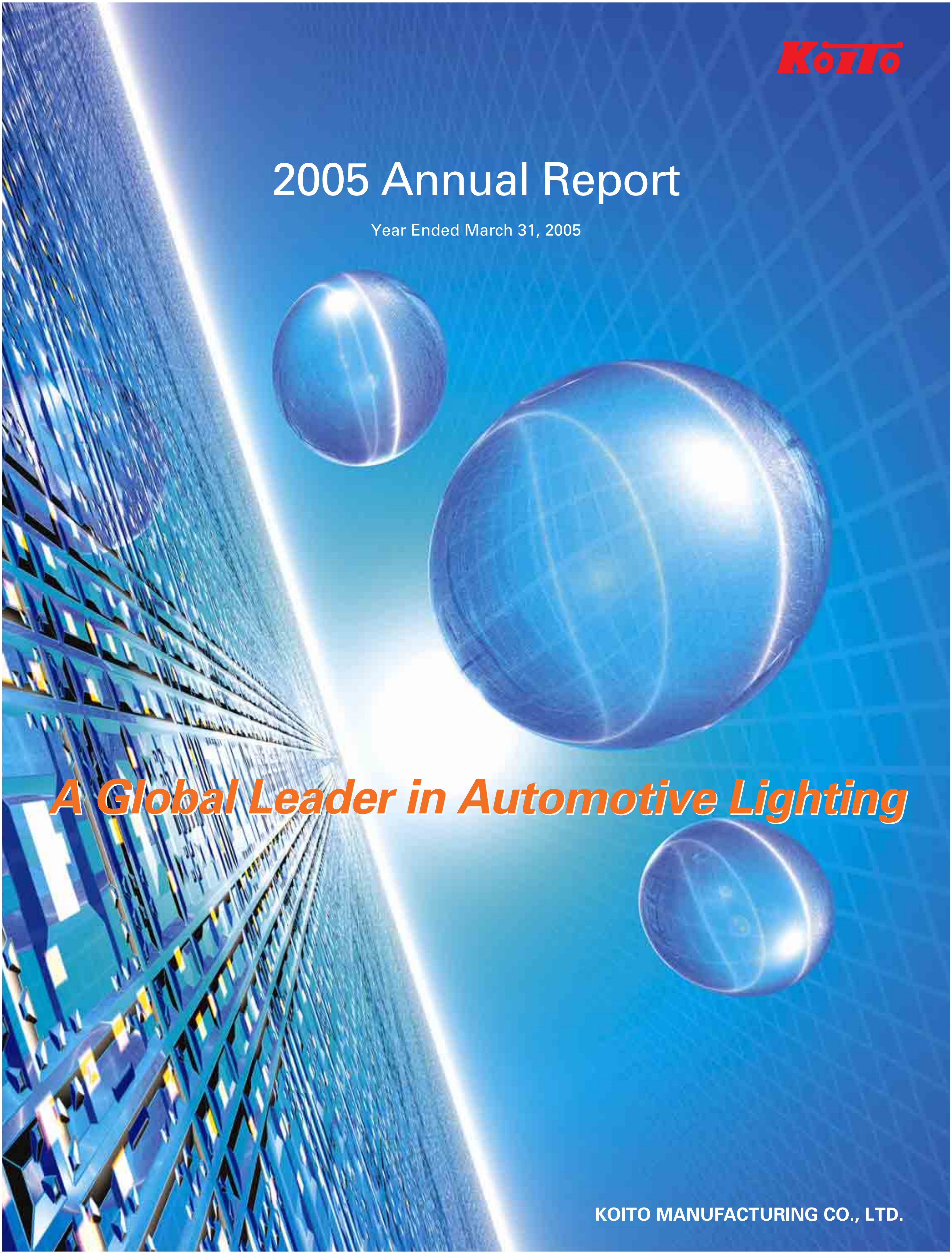


# 2005 Annual Report

Year Ended March 31, 2005

## A Global Leader in Automotive Lighting

KOITO MANUFACTURING CO., LTD.

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."

## 2005 Annual Report Contents

# TO OUR SHAREHOLDERS AND OTHER INVESTORS

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.

Our financial results for the fiscal year ended March 31, 2005 continued the achievements of the previous fiscal year with further record highs, ensuring that we reached the historic milestone year of our 90th anniversary on a firm financial footing. I thank all our stakeholders for making this possible through the indispensable support and patronage they have granted us over the years.

The global automobile industry has entered a phase of rapid structural change as automobile manufacturers conduct production, procurement, and supply functions at optimal locations. Looking ahead, the industry is projected to grow further, due to the steady demand in Europe and North America and higher demand and production in newly emerging economies such as Brazil, Russia, India and China (BRIC). At the same time, competition is growing increasingly fierce worldwide.

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 a Group-wide effort 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 supplying products that are outstanding in terms of safety and quality, earning the trust of customers and reflecting the demands of people and the global environment. We also consistently strive to develop industry-leading products, including 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 September 2004, we opened the Guangzhou Office in Guangzhou Province, China, to establish a production base in the South China region. Two months later, Koito Europe NV was launched in Belgium to take charge in strengthening Koito's R&D and marketing activities and overseeing business activities in Europe. These moves exemplify Koito's ongoing efforts to globally expand operations.

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 aim to make 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 2005

**Takashi Ohtake**
*President & CEO*

### Fiscal 2005 Results

During fiscal 2005, the year ended March 31, 2005, Japan saw relatively strong economic conditions in the first half of the year, underpinned by higher exports to the U.S. and China and growth in consumer spending, as seen in such fields as digital home appliances. However, in the second half, the economy reached an impasse due mainly to soaring crude oil and raw materials prices. These and other factors continue to cloud the economic outlook.

Overseas, the U.S. economy performed well, due to higher capital expenditures and improvements in employment. In Asia outside Japan, China's economic growth benefited other Asian nations and regions, while Europe also saw a gradual economic recovery.

In the Japanese automobile industry, there was a slight increase in unit automobile production on brisk passenger car sales and steady exports. Overseas, automobile production in North America and Europe held firm, while higher automobile production was reported in newly emerging regions in Asia, Latin America and elsewhere. On the whole, worldwide automobile production grew at healthy levels.

In this climate, the Koito Group aggressively boosted product development capabilities in the automotive lighting equipment segment to win more orders over the medium and long terms. In parallel, the Group is developing and marketing the world's first mercury-free high-intensity discharge headlamp and introducing other environmentally friendly products, as part of efforts to increase orders and sales.

With respect to overseas businesses, in the continuously expanding Chinese market, construction of a third plant at Shanghai Koito Automotive Lamp Co., Ltd. is under way, which is scheduled to come on-stream in January 2006. Furthermore, the Guangzhou Office was opened as part of plans to build a new plant in the fast-growing South China region. In Europe, Koito Europe NV (KENV) was established to strengthen Koito's ability to fulfill the needs of major local customers. To this end, KENV will promote the localization of technological development, develop sales and management strategies, and coordinate and manage European businesses. KENV will also be taking a range of other initiatives to win more orders and drive growth over the medium term.

Supported by a strong performance of its mainstay automotive lighting equipment the Koito Group reported an 8.1% year-on-year increase in consolidated net sales to ¥361.4 billion. This was the third consecutive year of top-line growth.

On the earnings front, amid intensifying price competition in automotive lighting equipment at home and abroad, there was an increase in prices for plastics due to higher crude oil prices. However, efforts by Koito and Group companies to streamline operations by aggressively promoting various cost-cutting measures lifted operating income by 30.9% to ¥17.9 billion and net income by 41.2% to ¥9.0 billion. Both results represented year-on-year gains. As a result, both net sales and earnings were all-time highs for the third straight fiscal year.

## 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) |
|---|---|---|---|---|
| | 2003 | 2004 | **2005** | **2005** |
| **Annual:** | | | | |
| Net sales | ¥311,133 | ¥334,254 | **¥361,477** | **$3,366,021** |
| Operating income | 13,157 | 13,723 | **17,962** | **167,260** |
| Net income | 5,826 | 6,440 | **9,093** | **84,673** |
| **Per share** (Yen and U.S. dollars)**:** | | | | |
| Net income | ¥ 35.51 | ¥ 39.19 | **¥ 55.62** | **$ 0.52** |
| **Year-end:** | | | | |
| Total assets | ¥290,397 | ¥299,344 | **¥318,739** | **$2,968,051** |
| Total shareholders' equity | 102,475 | 111,707 | **119,278** | **1,110,699** |

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, 2005 of ¥107.39=US$1.

In light of this substantial improvement in operating results, Koito set the year-end dividend per share at ¥7 in recognition of the continued support of shareholders. Accordingly, the annual dividend per share, including the interim dividend, was ¥14 for fiscal 2005, marking the third consecutive year of dividend growth.

### Outlook for Fiscal 2006

Regarding the outlook for the economic environment, the global economy is expected to remain strong on the whole, driven by continued growth in the U.S. and Chinese economies.

However, soaring crude oil and raw materials prices, widening twin deficits in the U.S. and slowdowns in the Chinese and European economies are casting a shadow over the prospects for the Koito Group's business environment. 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.

In an uncertain and challenging business environment, 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 will also implement far-reaching 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, 2006, Koito forecasts net sales of ¥375.2 billion, up 3.8% year on year, operating income of ¥22.0 billion, up 22.5%, and net income of ¥11.5 billion, up 26.5%.

## Medium-term Outlook

The world's automobile industry is undergoing a structural transformation driven by advances in the global optimization of production, procurement, and supply frameworks. Japan is certainly no exception. Mature markets, including Japan, North America, and Europe, cannot be counted on to deliver significant further growth in demand for automobiles. However, improving income levels in line with economic development and other factors in China, ASEAN nations, Eastern Europe and elsewhere, offer the prospect of continued growth in both demand and production over the medium and long terms.

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 developing its business centered on 12 existing production bases run by 9 companies in 9 overseas countries. One crucial theme for making the Koito Group even more competitive is to further strengthen and enhance the structure of each Group company. And in China, as part of efforts to take advantage of the growing automobile market, Koito is currently exploring the possibility of constructing a plant in Guangzhou to commence operations in fiscal 2007.

In Japan, Koito is working to efficiently reallocate resources and optimize business structures, assuming a gradual decrease in unit automobile production in Japan over the medium and long terms along with structural change. It is imperative that we accelerate the implementation of these initiatives.

Aiming to build an even stronger organization, Koito has formulated a medium-term management plan targeting net sales of at least ¥450.0 billion on a consolidated basis. We intend to work closely with our Group companies to achieve these goals.

To achieve its medium-term net sales target, Koito is currently expanding its core automotive lighting equipment business. One major thrust is strategic 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 seeking to launch 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 globally 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.

Our medium-term net sales target represents a key step toward our next stage of growth and development. If we bring together the knowledge and energy of Koito and its Group companies, encourage bold thinking based on changes in perspective and mindset, and take rapid and decisive actions, we are confident we can achieve this target without fail.

Under the keywords of "Communication and Collaboration," Koito's president has set five key management policies for 2005. Our hope is to instigate a change in mindset among employees to help us achieve our medium-term goals. Looking ahead, all of us at Koito will make concerted efforts to deliver products and services that satisfy customers.

## President's Policies for 2005
## "Communication and Collaboration"

1. Provide customer-oriented products and services
2. Identify, prevent, and resolve problems rapidly
3. Endeavor to improve existing approaches and reduce costs to "zero"
4. Step up collaboration and speed up operations to improve efficiency
5. Promote innovation through a change in mindset and perspective

**In fiscal 2005, 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 catering to automakers who seek to develop optimal production, procurement and supply frameworks around the world. Under the leadership of Koito, all Group companies are aiming to 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.**

# Japan

During fiscal 2005, Japan saw relatively strong economic conditions in the first half of the year, underpinned by higher exports to the U.S. and China and growth in consumer spending, as seen in such fields as digital home appliances. However, in the second half, the economy reached an impasse due mainly to soaring crude oil and raw materials prices. These and other factors continue to cast a cloud over the economic outlook.

In Japan’s automobile industry, domestic automobile production rose 2.5% year on year to 10.61 million units, surpassing the 10 million-unit mark for the third consecutive year. This reflected strong domestic sales of both passenger cars and minicars, as well as brisk exports to Europe and Latin America.

## KOITO MANUFACTURING CO., LTD.

In this climate, Koito worked to expand sales of new products in its mainstay automotive lighting equipment segment. In fiscal 2005, net sales at Koito in Japan rose 5.0% to ¥178.6 billion, a record-high. Results for each segment were as follows.

### Automotive Lighting Equipment Segment

This segment recorded net sales of ¥170.7 billion, a year-on-year increase of 5.2%. Several factors were behind this result. One was technological advances to produce larger headlamps with more functions. Other factors were the growing adoption of

KOITO MANUFACTURING Shizuoka Plant

KOITO MANUFACTURING Kikkawa Plant

high-intensity gas discharge headlamps (GDHLs) and headlamp leveling systems in new cars, as well as the contribution from new products, such as Adaptive Front Lighting System (AFS) products.

**Aircraft Equipment Segment**
Segment sales increased 6.3% to ¥2.9 billion, due to growth in sales of lighting equipment to The Boeing Company and various fittings overseas.

**Other Products Segment**
The other products segment recorded sales of ¥4.9 billion, slightly down from the previous fiscal year. This was due to sluggish sales of electronic components, which outweighed healthy growth in sales of headlamp cleaners and other products.

On the earnings front, amid intensifying price competition in automotive lighting equipment, there was an increase in prices for plastics due to higher crude oil prices. However, 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 32.3% to ¥8.9 billion. Net income also climbed, rising 22.1% to ¥7.3 billion. Both operating income and net income were record highs.

During fiscal 2005, Koito made total capital expenditures of ¥8.9 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 price competitiveness and raise operating efficiency.

Head Office,
KOITO MANUFACTURING

KOITO MANUFACTURING Haibara Plant

KOITO MANUFACTURING Sagara Plant

KOITO MANUFACTURING
Fujikawa Tooling Plant

KOITO INDUSTRIES, LIMITED
Head Office

### KOITO INDUSTRIES, LIMITED

In fiscal 2005, consolidated net sales at KOITO INDUSTRIES declined 6.9% to ¥54.6 billion, despite strong growth in the transportation equipment segment. This result reflected lackluster performances in the non-automotive electrical equipment and home appliances and environment segments. Results by segment were as follows.

**Transportation Equipment Segment**

Segment sales rose 9.2% to ¥18.3 billion, due to growth in both the railroad car equipment and aircraft seat divisions.

**Non-automotive Electrical Equipment Segment**

Segment sales dropped 13.1% to ¥31.7 billion, due to declines in both non-automotive lighting equipment and information systems, and traffic systems.

**Home Appliances and Environment Segment**

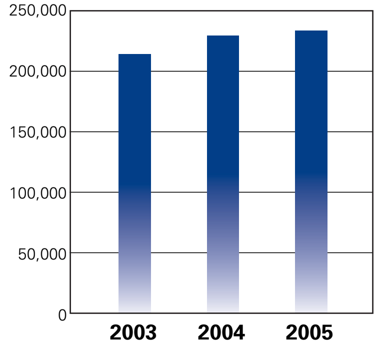
Segment sales declined 15.6% to ¥4.4 billion, due to lower sales in both home appliances and environmental systems.

Consolidated operating income fell 38.5% to ¥0.9 billion, mainly because of sluggishness in public works-related areas, despite initiatives to cut costs involving rigorous enforcement of earnings targets. Consolidated net income dropped 45.2% to ¥0.5 billion, due in part to the booking of a transitional charge arising from a change in retirement benefit accounting standards.

Looking ahead in the transportation equipment segment, efforts will target higher orders for railroad car equipment in the Chinese and U.S. markets. The segment also aims to expand sales of aircraft seats in Japan and overseas, particularly newly developed lightweight seats. In the non-automotive electrical equipment segment, although the downward trend in public investment is expected to continue, efforts will be made to increase sales by providing new products based on proprietary technologies and further cutting costs. The home appliances and environment segment's goal is to strengthen its earnings structure in various ways, including expanding sales overseas and shifting production offshore.

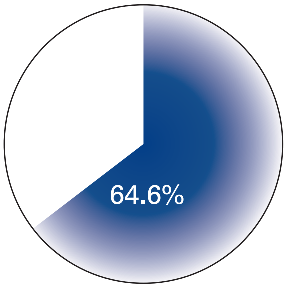
**Net Sales [Japan]**

(Millions of yen)




**Share of Sales [Japan]**

(%)

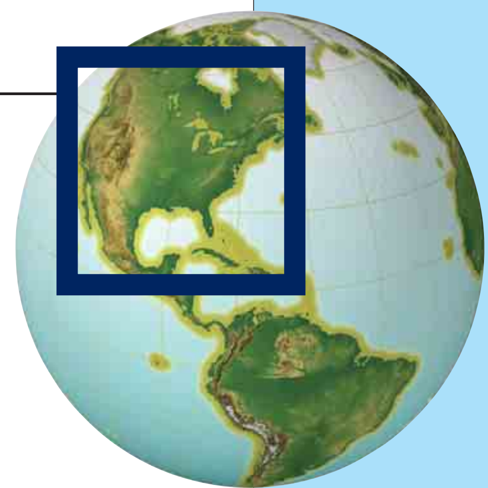


# North America

Automobile production in North America in 2004 rose 2% year on year to 14.69 million units on the back of growth at Japanese automakers, which offset lower production at the Big 3 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 has three plants in the state of Illinois in the U.S.: a plant in Flora making headlamps; a plant in Salem, which manufactures signaling lamps; and a plant in Paris, which produces headlamps and fog lamps. The company also has a Technical Center in Farmington Hills, Michigan. The Paris Plant, which came onstream in July 2002, manufactures headlamps employing state-of-the-art AFS technology.

In fiscal 2005, net sales rose 5.6% to ¥45.4 billion on the back of strong sales to Japanese automakers.

At the end of 2005, NAL's headquarters will be relocated to the Paris Plant to bolster the technology and management divisions. Efforts will continue to be made to boost sales and reinforce operations by enhancing order-winning activities, raising productivity and promoting cost-cutting initiatives.



NAL Flora Plant

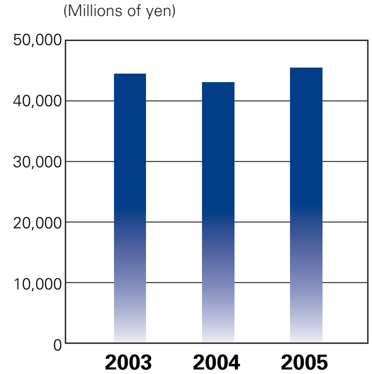
NAL Salem Plant

NAL Paris Plant

NAL Technical Center

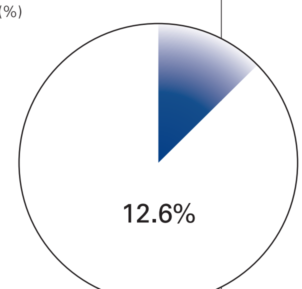
**Net Sales [North America]**

(Millions of yen)




**Share of Sales [North America]**

(%)



# Europe

Automobile production in Europe in 2004 edged up 3% year on year to 20.15 million units. This reflected strong growth in Central and Eastern Europe and Russia, while production in Western Europe was on a par with the previous year.

Previously, Koito's automotive lighting equipment business in Europe was developed by two operational bases—Koito Europe Limited (KEL) in Droitwich, England, and Koito Czech s.r.o. (KCZ) in Zatec, the Czech Republic. During the year under review, a new addition was made with the establishment in November 2004 of Koito Europe NV (KENV) in Leuven, Belgium to control and manage European operations. 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, develop strategic order-winning initiatives, and boost competitiveness and profitability through improved operational efficiency.

In fiscal 2005, net sales were ¥19.9 billion, the result of an increase in new orders for headlamps. Although fixed expenses increased due to the start of full-scale operations at KCZ, the operating loss narrowed, thanks to higher sales. 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 2006.

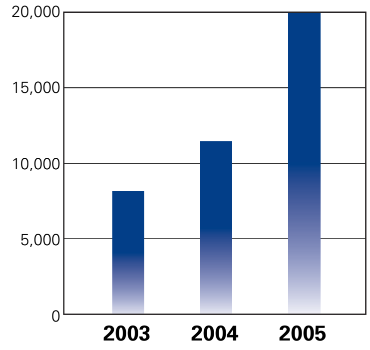
KENV

KEL

KCZ

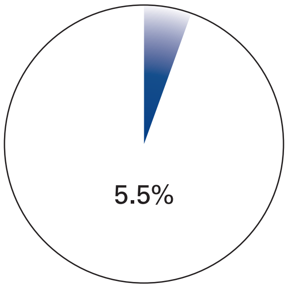
**Net Sales [Europe]**

(Millions of yen)




**Share of Sales [Europe]**

(%)



# Asia

## China

China's automobile production increased 14% year on year to 5.07 million units in 2004, despite various causes for concern such as the government's fiscal-tightening policy.

Koito is developing its automotive lighting equipment business in China through Shanghai Koito Automotive Lamp Co., Ltd. A joint venture established in 1989, Shanghai Koito Automotive Lamp, receives orders for lamps for all models of vehicle produced by Shanghai Volkswagen Automotive Company Ltd. (Shanghai VW) and Shanghai General Motors Co., Ltd. (Shanghai GM). In addition, the company supplies lamps to 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, enabling it to win high marks from automakers.

In fiscal 2005, net sales at Shanghai Koito Automotive Lamp were ¥16.2 billion, due to sales growth at Tianjin Toyota and Shanghai GM, despite lower production at Shanghai VW.

The Chinese auto industry is poised to develop further, spurred by high economic growth. By 2010, China is expected to be producing at least 10 million units annually. Eyeing this trend, in January 2006, Shanghai Koito Automotive Lamp plans to start operation of a third plant presently under construction. At the same time, Koito aims to establish new production bases in Guangzhou in 2007.

Head Office, Shanghai Koito Automotive Lamp

Shanghai Koito Automotive Lamp's Technical Center

# Thailand

THAI KOITO

Thailand's economic growth in recent years has been remarkable, with both new vehicle sales and exports expanding. Supported by these trends, automobile production in Thailand rose 23% in 2004 to 0.92 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 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 2005, THAI KOITO posted net sales of ¥9.3 billion, 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 globally strategic vehicles of all automakers.

# South Korea

Innovative Hightech Lighting

Automobile production in South Korea rose 10% to 3.46 million units in 2004.

The Koito Group's automotive lighting equipment operations in South Korea are conducted through Inhee Lighting Co., Ltd. (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 has bolstered production capacity by expanding its plant in December 2003.

In fiscal 2005, an increase in automobile production units and higher orders led to net sales of ¥23.4 billion. In February 2005, Inhee Lighting was renamed Innovative Hightech Lighting Corporation (IHL).

Moving forward, sales are forecast to increase on the back of new orders in the coming years, and IHL plans to capture a much greater share of sales of headlamps to Hyundai. South Korea is now one of the world's leading manufacturers of automobiles, making it an important country for the Koito Group from the perspective of increasing its market share. Efforts will thus be directed at further expanding orders.

## Taiwan

Automobile production grew strongly in Taiwan in 2004, climbing 11% to 0.43 million units.

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

For fiscal 2005, Ta Yih Industrial recorded net sales of ¥13.5 billion on increased automobile production and 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.

Ta Yih Industrial

## India

Automobile production in India in 2004 jumped 34% year on year to 1.47 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 and low interest rates.

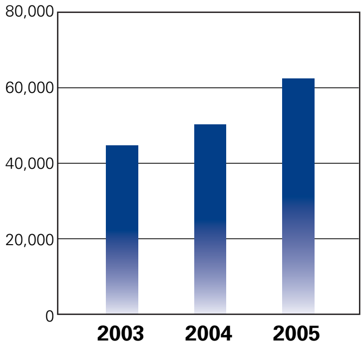
INDIA JAPAN LIGHTING PRIVATE LIMITED (IJL), a joint venture established in 1997 with Lucas-TVS Limited, is seeing its operating results increase steadily. For fiscal 2005, IJL recorded net sales of ¥2.1 billion on higher sales of automotive lamps to Japanese automakers, Telco and other companies.

In recent years, the development of new vehicles in India has risen in tempo 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 examining the construction of a second plant in northern India to bolster its production capacity.

INDIA JAPAN LIGHTING (IJL)

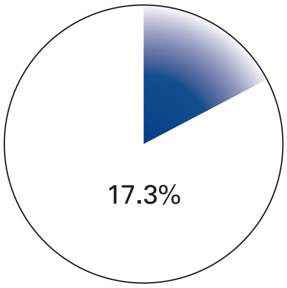
**Net Sales [Asia]**

(Millions of yen)




**Share of Sales [Asia]**

(%)



## 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 carried out 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, 2005, 2,012 personnel were engaged in the Koito Group's R&D activities.

In fiscal 2005, R&D costs totaled ¥19.2 billion. By segment, the automotive lighting equipment segment used ¥17.8 billion, the non-automotive electrical segment ¥0.9 billion and the other products segment ¥0.3 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

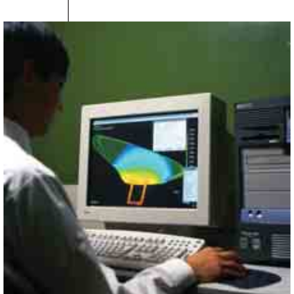
**Non-automotive Electrical Equipment**

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**

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

Technical Center,
KOITO MANUFACTURING



# ENVIRONMENTAL ACTIVITIES

**Promotional Framework and Environmental Management System**

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.

**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. Each and every employee will continue to actively engage in activities that contribute to society so as to help Koito fulfill its obligations as a good corporate citizen.

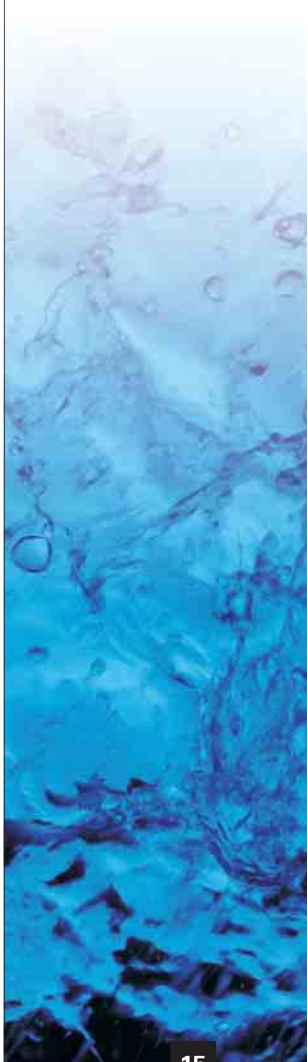
**Promoting Manufacturing That Puts the Environment First**

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 active 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.

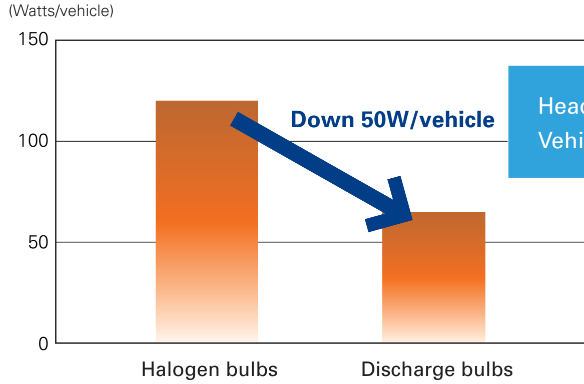
**Development of Mercury-free Discharge Headlamps**

Discharge headlamps offer three times the brightness and twice the lifetime of conventional halogen bulbs. On top of this, discharge headlamps consume only about two-thirds the power of halogen bulbs. This translates into a 1% improvement in fuel economy of automobiles, a factor that is driving up demand for discharge headlamps. By fiscal 2004, the percentage of new vehicles fitted with discharge headlamps in Japan had risen to approximately 24%.

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 indispensable to producing light, has proven to be no easy feat. In light of the technical difficulties inherent in finding a replacement, mercury in discharge bulbs was exempted from the ELV (End-of-life Vehicle) Directive issued by the EU. This directive prohibits the use of all hazardous substances, including mercury, in vehicles sold in the EU from July 2003.



**Headlamp Power Consumption (per vehicle)**

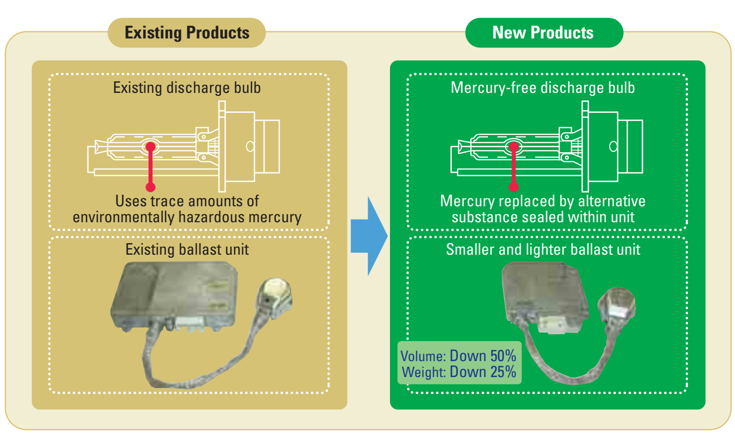



Headlamp power consumption: Down 41.7%
Vehicle fuel economy: Up 1.0%

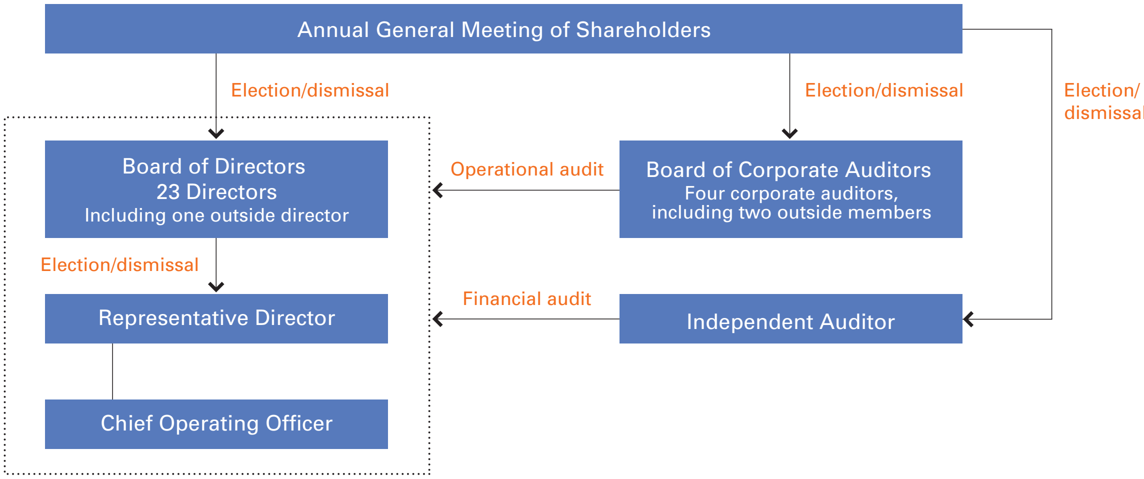
However, aware that mercury must eventually be eliminated from discharge headlamps, Koito pressed ahead with R&D in collaboration with other bulb, ballast and automobile manufacturers. The Koito Group played a central role with its expertise in both bulb and ballast manufacturing technologies. Through 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.

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 volume 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.




The Koito Group is strongly aware of the importance of observing ethical standards and upholding the integrity of management. Strengthening corporate governance and compliance is therefore viewed as a top 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, the formation of various committees, and other actions to strengthen the role of corporate auditors and the Board of Auditors.




**(1) Corporate Governance Structure and Internal Control System**

Koito's Board of Directors and Board of Corporate Auditors supervise and audit business execution, respectively. The Board of Directors, which comprises 23 directors, including 1 outside director, is responsible for determining management policies, matters stipulated by law and other important management issues. Meeting once every month, it is also positioned as the supervisory body for business execution.

The Board of Corporate Auditors comprises four corporate auditors, including two outside auditors. Each corporate auditor audits the performance of directors through such means as surveys of their participation in meetings of the Board of Directors, the Company's operations and financial condition in line with auditing policies, the assignment of duties, and other matters determined by the Board of Corporate Auditors.

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, 2005 was as follows:

Remuneration for Directors and Corporate Auditors:

| | |
|---|---|
| For Directors | ¥466 million |
| For Corporate Auditors | 50 million |
| Total | ¥517 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

**Executive Managing Directors**

Mizuo Yamamuro
Isao Sano
Mitsuo Kikuchi
Shigeki Okuma
Yoshihisa Ogawa
Yuji Yokoya

**Directors**

Mikio Ito
Mikio Tsuruta
Toshiharu Suzuki
Koichi Sakakibara
Youhei Kawaguchi
Hiroshi Mihara
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, 2005)

## Contents

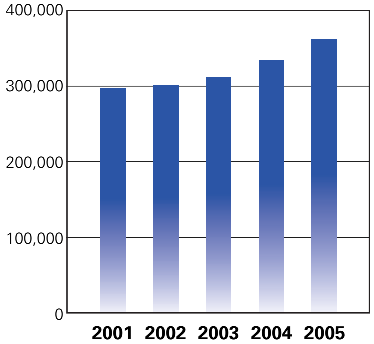
# *TEN-YEAR SUMMARY*

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

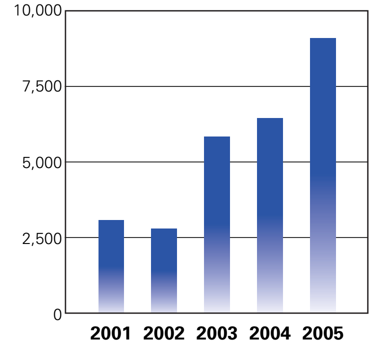
| | Millions of yen (except per share amounts) | | | |
|---|---|---|---|---|
| Consolidated | 1996 | 1997 | 1998 | 1999 |
| **For the year:** | | | | |
| Net sales | ¥212,357 | ¥220,045 | ¥226,134 | ¥275,934 |
| Operating income | 9,608 | 10,607 | 8,540 | 10,201 |
| Income before income taxes and minority interests | 10,669 | 10,899 | 9,771 | 8,451 |
| Income taxes | 6,427 | 6,310 | 5,836 | 3,486 |
| Net income | 3,917 | 4,702 | 4,285 | 3,846 |
| **Amounts per share** (in yen and U.S. dollars)**:** | | | | |
| Net income | ¥ 24.39 | ¥ 29.24 | ¥ 26.65 | ¥ 23.92 |
| Cash dividends | 8.00 | 9.00 | 8.00 | 8.00 |
| **At year-end:** | | | | |
| Working capital | ¥ 64,752 | ¥ 59,053 | ¥ 55,348 | ¥ 40,393 |
| Property, plant and equipment, less accumulated depreciation | 49,297 | 54,742 | 46,174 | 65,857 |
| Total assets | 207,104 | 218,079 | 217,741 | 267,783 |
| Total shareholders' equity | 75,589 | 78,881 | 81,313 | 90,291 |

Note: Amounts in U.S. dollars are translated from yen, for convenience only, at the rate of ¥107.39=$1, the rate prevailing on March 31, 2005.

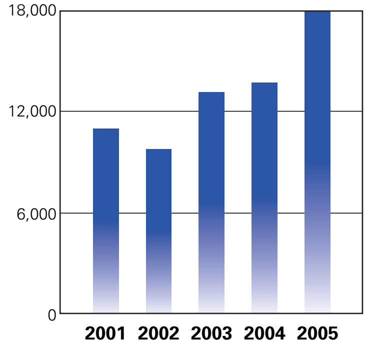
**Net Sales**
(Millions of yen)



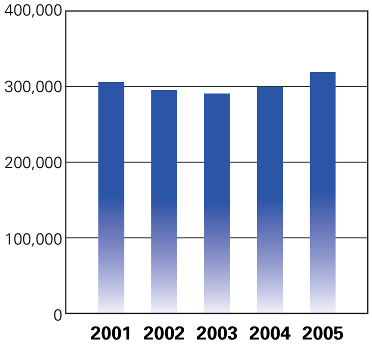

**Net Income**
(Millions of yen)




**Operating Income**
(Millions of yen)

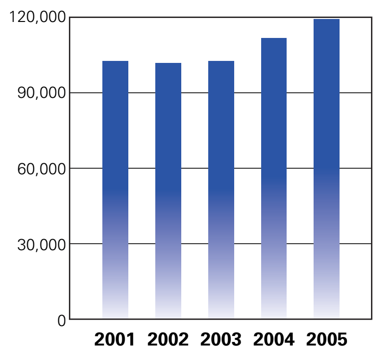



**Total Assets**
(Millions of yen)

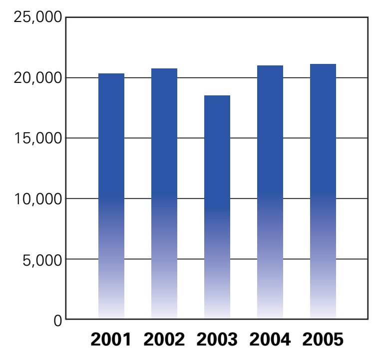


| | | | | | | | Thousands of U.S. dollars (except per share amounts) |
|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2004 | **2005** | **2005** |
| | ¥279,034 | ¥297,280 | ¥301,141 | ¥311,133 | ¥334,254 | **¥361,477** | **$3,366,021** |
| | 9,288 | 10,991 | 9,779 | 13,157 | 13,723 | **17,962** | **167,260** |
| | 7,341 | 6,190 | 6,292 | 12,766 | 14,061 | **18,287** | **170,286** |
| | 2,997 | 2,476 | 2,516 | 5,113 | 5,554 | **7,225** | **67,278** |
| | 3,412 | 3,072 | 2,784 | 5,826 | 6,440 | **9,093** | **84,673** |
| | ¥ 21.23 | ¥ 19.11 | ¥ 17.38 | ¥ 35.51 | ¥ 39.19 | **¥ 55.62** | **$ 0.52** |
| | 10.00 | 8.00 | 8.00 | 10.00 | 12.00 | **14.00** | **0.13** |
| | ¥ 51,060 | ¥ 16,724 | ¥ 27,340 | ¥ 26,663 | ¥ 18,085 | **¥ 24,043** | **$ 223,885** |
| | 61,448 | 64,856 | 69,148 | 66,342 | 66,981 | **70,106** | **652,817** |
| | 275,063 | 306,084 | 295,097 | 290,397 | 299,344 | **318,739** | **2,968,051** |
| | 92,848 | 102,532 | 101,738 | 102,475 | 111,707 | **119,278** | **1,110,699** |

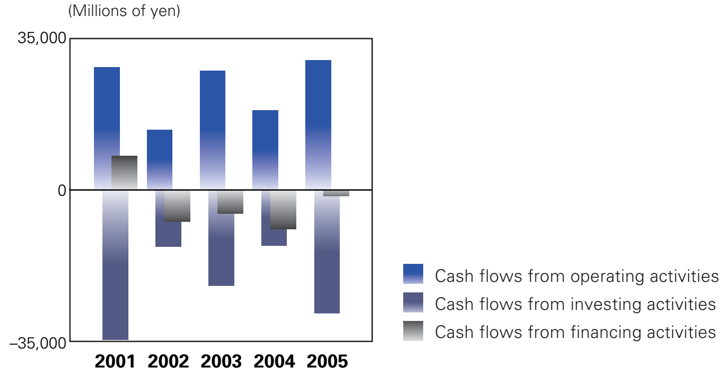
**Total Shareholders' Equity**
(Millions of yen)




**Capital Expenditures**
(Millions of yen)




**Cash Flows**
(Millions of yen)



## Overview

The Koito Group comprises the parent company (KOITO MANUFACTURING CO., LTD.), 21 consolidated 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 November 2004, Koito Europe NV (KENV) was established in Belgium to control and manage European operations. Moreover, in February 2005, Inhee Lighting Co., Ltd., based in South Korea, was renamed Innovative Hightech Lighting Corporation (IHL).

### Net Sales

During the past fiscal year in the Japanese automobile industry, there was a slight increase in automobile production on brisk passenger car sales and steady exports. Overseas, automobile production in North America and Europe held firm, while higher automobile production was reported in newly emerging regions in Asia, Latin America and elsewhere. On the whole, worldwide automobile production grew at healthy levels.

In this climate, the Koito Group boosted product development capabilities in the automotive lighting equipment segment to win more orders over the medium and long terms. To the same end, the Group is developing and marketing the world's first mercury-free discharge headlamp and introducing other new environmentally friendly products.

With respect to overseas businesses, in the continuously expanding Chinese market, Koito began construction of a third plant for Shanghai Koito Automotive Lamp Co., Ltd. and opened Guangzhou Office as part of plans to build a new plant in the fast-growing South China region. In the European market, KENV was established to strengthen Koito's capabilities to fulfill the requirements of major local customers. To this end, KENV will promote the localization of technological development, develop sales and management strategies, and coordinate and manage European businesses. KENV will also be taking a range of other initiatives to win more orders and drive growth over the medium term.

Supported by a strong performance of its mainstay automotive lighting equipment segment, the Koito Group reported an 8.1% year-on-year increase in consolidated net sales to ¥361.4 billion.

### Results by Business Segment

*Automotive Lighting Equipment*

Sales in the automotive lighting equipment segment rose 11.7% to ¥295.5 billion, fueled by technological advances in manufacturing larger, multifunctional headlamps, and greater use of high-intensity discharge headlamps, Adaptive Front Lighting System (AFS) headlamps and headlamp leveling systems in Japan. Another contributing factor was a steady volume of orders at overseas subsidiaries, mainly in Europe, China and South Korea. Segment operating income climbed 34.8% to ¥17.9 billion.

*Non-automotive Electrical Equipment*

This segment saw sales decline 11.3% to ¥41.5 billion. This mainly reflected declining orders in the road lighting, information equipment and traffic systems divisions, which outweighed brisk sales of railroad car equipment. Segment operating income fell 79.6% to ¥0.2 billion.

*Other Products & Services*

This segment recorded sales of ¥24.3 billion, up 7.1% from the previous fiscal year. This increase reflected higher sales of automobile headlamp cleaners for the increased number of vehicles exported to North America and Europe, as well as higher sales of aircraft seats and various fittings, including electronic components, due to a recovery in passenger aircraft production. Segment operating income soared 82.2% to ¥1.4 billion.

## Results by Geographical Segment

*Japan*

In Japan, net sales increased 1.8% to ¥233.6 billion, the result of healthy growth in the mainstay automotive lighting equipment segment, which was driven by factors such as technological advances in larger, multi-functional headlamps, as well as the growing adoption of gas discharge headlamps (GDHL) and intelligent AFS headlamps. Operating income rose 13.6% to ¥14.4 billion.

*North America*

Net sales in North America rose 5.6% year on year to ¥45.4 billion, reflecting strong automobile output coupled with efforts to increase orders. Operating income jumped 83.7% to ¥1.7 billion.

*Asia*

Net sales in Asia rose 24.2% to ¥62.4 billion, due to efforts to expand orders for automotive lighting equipment, particularly at Shanghai Koito Automotive Lamp in China and IHL in South Korea. Operating income increased 9.0% to ¥3.7 billion.

*Europe*

Net sales in Europe increased 74.3% to ¥19.9 billion, owing to the benefits of activities to expand sales of automotive lighting equipment. While the Europe segment posted an operating loss of ¥0.2 billion, there were improvements in earnings at Koito Europe Limited (KEL) in England and Koito Czech s.r.o. (KCZ) in the Czech Republic.

**Business Results by Geographic Segment**

| | (Millions of yen) | | | | |
|---|---|---|---|---|---|
| For the years ended March 31, | 2001 | 2002 | 2003 | 2004 | **2005** |
| Japan | | | | | |
| Net Sales | ¥220,425 | ¥220,967 | ¥213,891 | ¥229,500 | **¥233,669** |
| Operating Income | 11,301 | 9,959 | 11,404 | 12,694 | **14,426** |
| North America | | | | | |
| Net Sales | 39,830 | 40,979 | 44,428 | 43,087 | **45,479** |
| Operating Income | 102 | 448 | 1,465 | 961 | **1,765** |
| Asia | | | | | |
| Net Sales | 32,370 | 33,927 | 44,674 | 50,234 | **62,405** |
| Operating Income | 2,105 | 2,223 | 3,651 | 3,414 | **3,720** |
| Europe | | | | | |
| Net Sales | 4,652 | 5,267 | 8,138 | 11,432 | **19,923** |
| Operating Loss | (1,062) | (1,322) | (1,697) | (1,513) | **(224)** |

Note: Net sales in each geographic segment represent sales to outside customers, as shown in the segment information section of the notes to consolidated financial statements.

*Earnings*

Operating income rose ¥4.2 billion, or 30.9%, to ¥17.9 billion. This was the result of efforts to rationalize operations by pushing through strategies together with Group companies to lower costs, amid increasingly fierce price-based competition in Japan and overseas for automotive lighting equipment orders.

Income before income taxes and minority interests was ¥18.2 billion, ¥4.2 billion, or 30.1%, higher year on year. Net income was up ¥2.6 billion, or 41.2%, to ¥9.0 billion.

Net sales, operating income, income before income taxes and minority interests and net income were all record highs for the Koito Group in the fiscal year ended March 31, 2005.

## Financial Position

As of March 31, 2005, total assets were ¥318.7 billion, up ¥19.3 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 ¥13.3 billion increase in investment securities due to an increase in investments in fixed assets.

On the other side of the balance sheet, total liabilities were ¥170.3 billion, ¥10.2 billion more than a year ago. One of the main factors was an increase in non-current liabilities due to higher long-term debt. This outweighed a decrease in total current liabilities in line with the repayment of bonds and short-term loans, although there was an increase in accounts payable accompanying higher production.

Total shareholders' equity rose ¥7.5 billion from a year ago to ¥119.2 billion, reflecting mainly an increase in retained earnings due to net income of ¥9.0 billion.

## Cash Flows

Operating activities provided net cash of ¥29.9 billion, an ¥11.5 billion increase from the previous fiscal year. This was mainly due to increases in net income.

Investing activities used net cash of ¥28.4 billion, ¥15.6 billion more than the previous fiscal year. The increase in cash outflows was mostly attributable to an increase in payments for the purchase of marketable and investment securities.

Financing activities used net cash of ¥1.4 billion, ¥7.6 billion less than in the previous fiscal year. While dividends paid increased, this overall decrease mainly reflected an increase in debt.

As a result, cash and cash equivalents as of March 31, 2005 were ¥11.9 billion, ¥0.1 billion higher than a year ago.

## Capital Expenditures

Capital expenditures totaled ¥21.1 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 received exclusive of consumption tax, is as follows.

In the automotive lighting equipment segment, capital expenditures were ¥19.4 billion, mainly for streamlining and updating production facilities and lowering costs. Capital expenditures in the non-automotive electrical equipment segment were ¥1.1 billion, mainly for upgrading facilities for traffic management systems. The other products segment made capital expenditures of ¥0.4 billion, primarily for production facilities for new products such as electronics.

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*

Regarding the outlook for the economic environment, the global economy is expected to remain strong on the whole, driven by continued growth in the U.S. and China. However, high crude oil and raw materials prices, widening twin deficits in the U.S. and slowdowns in the Chinese and European economies are casting a shadow over the prospects for the Koito Group's business environment.

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.

In an uncertain and challenging business environment, the Koito Group will work to expand orders and production capacity, mainly in the automotive lighting equipment segment and focusing on the world's four key market regions. The Company will also implement thorough cost-cutting measures, including steps to improve supply network and structure among Group companies, with the goal of further improving operating results.

*(2) Key Issues*

To position itself 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 that specializes in 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 "Entrusting Safety to Light." 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.

The development of new technologies such as equipment for Intelligent Transportation Systems (ITS), expected to become a huge market, is also an important Koito policy. Another key focus is promoting new businesses, such as the science and technology field related to global environmental protection.

*(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. This will include promoting a complementary supply structure and network within the Group.

(2) Amid rapid advancement in IT, the Koito Group will formulate timely and appropriate approaches to Intelligent Transportation Systems (ITS)-related fields. The Koito Group will also bring attractive products to the market by developing cutting-edge technologies that stay ahead of customer and market needs and commercializing products at the earliest opportunity.

(3) Aiming to create a profit structure that ensures a suitable level of earnings, the Koito Group plans to enhance its corporate structure by optimally and effectively allocating resources.

(4) The Koito Group will strive to earn even greater trust by pursuing the highest standards of quality and safety and protecting 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, 2005.

*(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.

- Unanticipated changes in laws and regulations
- Disadvantageous changes in political and economic conditions
- 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 price of plastics, key raw materials for the Koito Group's businesses, have been rising along with the surging price of crude oil. This trend has also caused a rise in procurement costs for the Koito Group. Any further escalation in prices going forward 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, to prepare for such events, 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 Shizuoka Prefecture. 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 2004 | Millions of yen 2005 | Thousands of U.S. dollars 2005 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents | ¥ 11,780 | ¥ 11,925 | $ 111,044 |
| Trade notes and accounts receivable | 84,848 | 87,730 | 816,929 |
| Less: Allowance for doubtful accounts | (979) | (1,151) | (10,718) |
| | 83,869 | 86,579 | 806,211 |
| Marketable securities | 12,141 | 9,949 | 92,644 |
| Inventories | 20,481 | 24,121 | 224,611 |
| Deferred income taxes (Note 7) | 6,021 | 5,630 | 52,426 |
| Prepaid expenses and others | 8,666 | 5,618 | 52,314 |
| Total current assets | 142,958 | 143,822 | 1,339,249 |
| **Investments:** | | | |
| Investment securities | 68,992 | 82,359 | 766,915 |
| Loans | 992 | 1,015 | 9,452 |
| Deferred income taxes (Note 7) | 2,713 | 3,793 | 35,320 |
| Other investments | 4,010 | 4,498 | 41,885 |
| Less: Allowance for doubtful accounts | (327) | (286) | (2,663) |
| Total investments | 76,382 | 91,380 | 850,917 |
| **Property, plant and equipment, at cost:** | | | |
| Buildings and structures | 67,181 | 68,097 | 634,109 |
| Machinery, equipment and tools | 152,692 | 164,221 | 1,529,202 |
| Less: Accumulated depreciation | (152,890) | (162,212) | (1,510,494) |
| | 66,981 | 70,106 | 652,817 |
| Land | 11,625 | 11,824 | 110,103 |
| Construction in progress | 1,393 | 1,604 | 14,936 |
| Property, plant and equipment, net | 80,003 | 83,536 | 777,875 |
| **Total assets** | ¥299,344 | ¥318,739 | $2,968,051 |

| At March 31, | Millions of yen 2004 | 2005 | Thousands of U.S. dollars 2005 |
|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current liabilities:** | | | |
| Trade notes and accounts payable | ¥ 58,504 | ¥ 60,408 | $ 562,510 |
| Short-term loans (Note 4) | 32,969 | 26,073 | 242,788 |
| Bonds due within one year (Note 5) | 3,000 | – | – |
| Income taxes payable (Note 7) | 3,358 | 4,343 | 40,441 |
| Accrued expenses and other current liabilities | 27,040 | 28,955 | 269,625 |
| Total current liabilities | 124,873 | 119,779 | 1,115,365 |
| **Non-current liabilities:** | | | |
| Long-term debt (Note 4) | 12,255 | 24,624 | 229,295 |
| Accrued retirement benefits (Note 6) | 20,788 | 23,617 | 219,918 |
| Other non-current liabilities | 2,245 | 2,355 | 21,929 |
| Total non-current liabilities | 35,290 | 50,598 | 471,161 |
| **Contingent liabilities** (Note 8) | | | |
| **Minority interests** | 27,472 | 29,082 | 270,807 |
| **Shareholders' equity:** | | | |
| Common stock | 14,270 | 14,270 | 132,880 |
| 320,000,000 shares authorized and 160,789,436 shares issued at March 31, 2004 and 2005 | | | |
| Additional paid-in capital | 17,107 | 17,107 | 159,298 |
| Retained earnings | 73,306 | 79,912 | 744,129 |
| Valuation adjustment on investment securities | 10,658 | 10,155 | 94,562 |
| Translation adjustments | (2,904) | (1,723) | (16,044) |
| Treasury common stock, at cost: | | | |
| 1,190,000 shares in 2004 and 729,000 in 2005 | (731) | (445) | (4,144) |
| Total | 111,707 | 119,278 | 1,110,699 |
| **Total liabilities and shareholders' equity** | ¥299,344 | ¥318,739 | $2,968,051 |

## CONSOLIDATED STATEMENTS OF INCOME

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries

| For the years ended March 31, | Millions of yen 2004 | Millions of yen 2005 | Thousands of U.S. dollars 2005 |
|---|---|---|---|
| **Net sales** | ¥334,254 | ¥361,477 | $3,366,021 |
| Cost of sales | 287,013 | 310,165 | 2,888,211 |
| Gross profit | 47,241 | 51,312 | 477,810 |
| Selling, general and administrative expenses | 33,517 | 33,350 | 310,550 |
| **Operating income** | 13,723 | 17,962 | 167,260 |
| **Other income (expenses):** | | | |
| Interest income | 762 | 960 | 8,939 |
| Interest expenses | (626) | (826) | (7,692) |
| Loss on sale and disposal of property and equipment | (381) | (319) | (2,970) |
| Others, net | 583 | 510 | 4,749 |
| **Income before income taxes and minority interests** | 14,061 | 18,287 | 170,286 |
| Income taxes | 5,554 | 7,225 | 67,278 |
| Income before minority interests | 8,507 | 11,062 | 103,008 |
| Minority interests in consolidated subsidiaries | (2,066) | 1,968 | 18,326 |
| **Net income** | ¥ 6,440 | ¥ 9,093 | $ 84,673 |

| | Yen 2004 | Yen 2005 | U.S. dollars 2005 |
|---|---|---|---|
| **Per share:** | | | |
| Net income | ¥ 39.19 | ¥ 55.62 | $ 0.52 |
| Cash dividends | 12 | 14 | 0.13 |
| **Average total number of shares during the year** | | | |
| (thousands of shares) | 159,566 | 159,812 | 159,812 |

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries

| For the years ended March 31, | Millions of yen 2004 | Millions of yen 2005 | Thousands of U.S. dollars 2005 |
|---|---|---|---|
| **Common stock:** | | | |
| Beginning balance | ¥ 14,270 | **¥ 14,270** | **$ 132,880** |
| Ending balance | ¥ 14,270 | **¥ 14,270** | **$ 132,880** |
| **Additional paid-in capital:** | | | |
| Beginning balance | ¥ 17,107 | **¥ 17,107** | **$ 159,298** |
| Ending balance | ¥ 17,107 | **¥ 17,107** | **$ 159,298** |
| **Retained earnings:** | | | |
| Beginning balance | ¥ 68,782 | **¥ 73,306** | **$ 682,615** |
| Net income | 6,440 | **9,093** | **84,673** |
| Deductions: | | | |
| Cash dividends applicable to the year | (1,755) | **(2,236)** | **(20,821)** |
| Bonuses to directors and corporate auditors | (160) | **(186)** | **(1,732)** |
| Loss on disposal of treasury stock | 0 | **(4)** | **(37)** |
| Others | – | **(61)** | **(568)** |
| Ending balance | ¥ 73,306 | **¥ 79,912** | **$ 744,129** |
| Valuation adjustment on investment securities | ¥ 10,658 | **¥ 10,155** | **$ 94,562** |
| Translation adjustments | (2,904) | **(1,723)** | **(16,044)** |
| Treasury stock | (731) | **(445)** | **(4,144)** |
| **Total** | ¥111,707 | **¥119,278** | **$1,110,699** |

## CONSOLIDATED STATEMENTS OF CASH FLOWS

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries

| For the years ended March 31, | Millions of yen 2004 | Millions of yen 2005 | Thousands of U.S. dollars 2005 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net income | ¥ 6,440 | **¥ 9,093** | **$ 84,673** |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation | 16,580 | **18,170** | **169,196** |
| Minority interests in consolidated subsidiaries | 2,066 | **1,968** | **18,326** |
| Provision for allowance for doubtful accounts | 156 | **131** | **1,220** |
| Provision for accrued retirement benefits | 1,710 | **2,952** | **27,489** |
| (Profit) loss on revaluation of marketable securities | (563) | **(326)** | **(3,036)** |
| Loss on sale and disposal of property and equipment | 296 | **231** | **2,151** |
| Changes in operating assets and liabilities: | | | |
| Trade notes and accounts receivable | (8,602) | **(2,082)** | **(19,387)** |
| Inventories | (1,093) | **(3,176)** | **(29,574)** |
| Prepaid expenses and others | (2,430) | **207** | **1,928** |
| Trade notes and accounts payable | 4,005 | **1,518** | **14,135** |
| Income taxes payable | (7,347) | **(7,359)** | **(68,526)** |
| Accrued expenses and other current liabilities | 2,195 | **1,805** | **16,808** |
| Others, net | 5,006 | **6,786** | **63,190** |
| Net cash provided by operating activities | 18,419 | **29,919** | **278,601** |
| **Cash flows from investing activities:** | | | |
| Acquisition of property and equipment | (19,752) | **(20,988)** | **(195,437)** |
| Proceeds from sale of property and equipment | 777 | **1,146** | **10,671** |
| Purchase of marketable and investment securities | (26,581) | **(39,014)** | **(363,293)** |
| Proceeds from sale of marketable and investment securities | 30,830 | **29,561** | **275,268** |
| (Decrease) increase in long-term loans | 183 | **(205)** | **(1,909)** |
| Increase (decrease) in other investments and other assets | 1,691 | **1,034** | **9,628** |
| Net cash used in investing activities | (12,852) | **(28,466)** | **(265,071)** |
| **Cash flows from financing activities:** | | | |
| (Decrease) increase in short-term bank loans | (10,250) | **(18,146)** | **(168,973)** |
| Increase (decrease) in long-term bank loans | 3,683 | **19,881** | **185,129** |
| Decrease (increase) in treasury stock | 37 | **282** | **2,626** |
| Cash dividends | (2,508) | **(3,450)** | **(32,126)** |
| Net cash used in financing activities | (9,038) | **(1,433)** | **(13,344)** |
| **Foreign currency translation adjustment on cash and cash equivalents** | (243) | **125** | **1,164** |
| **Change in cash and cash equivalents** | (3,714) | **145** | **1,350** |
| **Cash and cash equivalents at beginning of the year** | 15,494 | **11,780** | **109,694** |
| **Cash and cash equivalents at end of the year** | ¥11,780 | **¥11,925** | **$111,044** |

## 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, 2004 and 2005 include the accounts for the Company and the 21 subsidiaries (Note) listed below:

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

(*) Represents ownership at March 31, 2005 and includes shares owned through consolidated subsidiaries.

(Note) In November 2004, Koito Europe NV (KENV) was established in Belgium. In February 2005, Inhee Lighting Co., Ltd. was renamed Innovative Hightech Lighting Corporation (IHL).

(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 include 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 interests 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) 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 three types of defined benefit retirement plan: a funded government welfare pension plan, a qualified retirement 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.

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.

(8) 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.

(9) 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 the 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.

The payment of bonuses to directors and corporate auditors is made out of retained earnings instead of being charged to income for the year and constitutes a part of the appropriations referred to above.

(10) Research and development costs

Research and development costs are charged to income as incurred.

(11) 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.

(12) Cash equivalents

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

(13) 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.

(14) 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 that may result 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 ¥107.39=$1, the approximate rate on March 31, 2005, 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, 2004 and 2005, short-term loans consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Loans, principally from banks | | | |
| To the Company | – | **–** | **–** |
| To consolidated subsidiaries | ¥32,969 | **¥26,073** | **$242,788** |
| Total | ¥32,969 | **¥26,073** | **$242,788** |

At March 31, 2004 and 2005, long-term debt consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Loans, principally from banks | | | |
| To the Company | – | **–** | **–** |
| To consolidated subsidiaries | ¥12,255 | **¥24,624** | **$229,295** |
| Total | ¥12,255 | **¥24,624** | **$229,295** |

## 5. Bonds

At March 31, 2004 and 2005, bonds consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Bonds | | | |
| Issued by the Company | – | **–** | **–** |
| Issued by consolidated subsidiaries | ¥3,000 | **–** | **–** |
| Total | ¥3,000 | **–** | **–** |
| Less: Current maturities | ¥3,000 | **–** | **–** |
| Total | ¥3,000 | **–** | **–** |

## 6. Employee retirement benefits

Retirement benefit obligation at March 31, 2004 and 2005 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Original retirement benefit obligations | ¥(49,490) | **¥(51,256)** | **$(477,288)** |
| Plan assets | 20,346 | **23,492** | **218,754** |
| Funded status | (29,144) | **(27,764)** | **(258,534)** |
| Unrecognized net transition obligation | 951 | **–** | **–** |
| Unrecognized actuarial loss | 7,404 | **4,146** | **38,607** |
| Accrued retirement benefits on balance sheet | ¥(20,788) | **¥(23,617)** | **$(219,918)** |

Net periodic cost for the fiscal years ended March 31, 2004 and 2005 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Service cost | ¥2,074 | **¥2,280** | **$21,231** |
| Interest cost | 1,477 | **1,694** | **15,774** |
| Expected return on plan assets | (585) | **(677)** | **(6,304)** |
| Amortization of transition obligation | 951 | **951** | **8,856** |
| Actuarial loss | 1,772 | **1,758** | **16,370** |
| Net periodic cost | 5,689 | **6,007** | **55,936** |
| Gain on the return of substitutional component of Employees Welfare Annuity fund | (428) | **–** | **–** |
| Total | ¥5,261 | **¥6,007** | **$55,936** |

## 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, 2004 and 2005 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| At March 31, | 2004 | **2005** | **2005** |
| Deferred tax assets: | | | |
| Excess accrued bonus | ¥ 1,940 | **¥ 1,792** | **$ 16,687** |
| Excess accrued retirement benefits | 6,388 | **8,017** | **74,653** |
| Disallowed retirement allowance to directors | 650 | **659** | **6,137** |
| Excess depreciation, other | 2,968 | **2,738** | **25,496** |
| Loss on revaluation of investment securities, other | 1,105 | **946** | **8,809** |
| Loss on revaluation of land | 509 | **509** | **4,740** |
| Reserve for liability claims | 985 | **834** | **7,766** |
| Reserve for product warranties | 316 | **474** | **4,414** |
| Others | 1,376 | **628** | **5,848** |
| Deferred tax assets total | ¥16,239 | **¥16,601** | **$154,586** |
| Deferred tax liabilities: | | | |
| Reserve for reduction of asset costs | ¥ (547) | **¥ (548)** | **$ (5,103)** |
| Valuation adjustment on investment securities | (6,958) | **(6,630)** | **(61,738)** |
| Deferred tax liabilities total | ¥ (7,505) | **¥ (7,178)** | **$ (66,840)** |
| Net deferred tax assets (liabilities) | ¥ 8,734 | **¥ 9,423** | **$ 87,746** |

## 8. Contingent liabilities

At March 31, 2004 and 2005, the Company and its consolidated subsidiaries had the following contingent liabilities:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| As guarantor of employees' housing loans and other from financial institutions and others | ¥38 | **¥33** | **$307** |

## 9. Stock option plans

At an ordinary shareholders' meeting held on June 28, 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 was, then, decided as ¥624 per share. The options are exercisable for three years from July 1, 2003 to June 30, 2006. The Company acquired 1,160,000 shares of its common stock for the plan up to March 31, 2003, from which 521,000 shares were exercised from September 2003 to March 2005 by the eligible directors and employees. The Company owns 639,000 shares for the plan as of March 31, 2005.

## 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, all-glass sealed beam lamp units, rear lamps, indicators, high-mount stop lamps and halogen bulbs. |
| Non-automotive Electrical Equipment: | Road traffic signals, traffic control systems, sanitary equipment and control systems for rail transports. |
| Other Products & Services: | Aircraft lights, environmental control systems, air conditioning equipment, various electric applications equipment, various special equipment, transportation, finance and insurance. |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Automotive Lighting Equipment | Non-automotive Electrical Equipment | Other Products & Services | Elimination of Inter-Segment Items | Consolidated Total |
| For the year ended March 31, 2004 | | | | | |
| Sales: | | | | | |
| Sales to outside customers | ¥264,613 | ¥46,912 | ¥22,728 | ¥ – | ¥334,254 |
| Inter-segment sales and transfers | 41,506 | 1,609 | 2,906 | (46,023) | – |
| Total | ¥306,120 | ¥48,522 | ¥25,635 | ¥(46,023) | ¥334,254 |
| Operating expenses | 292,831 | 47,067 | 24,822 | (44,189) | 320,531 |
| Operating income | ¥ 13,289 | ¥ 1,454 | ¥ 813 | ¥ (1,833) | ¥ 13,723 |
| Identifiable assets at March 31, 2004 | ¥159,292 | ¥57,646 | ¥47,461 | ¥ 34,945 | ¥299,344 |
| Depreciation | ¥ 14,755 | ¥ 878 | ¥ 898 | ¥ 49 | ¥ 16,580 |
| Capital expenditures | ¥ 20,189 | ¥ 522 | ¥ 298 | ¥ – | ¥ 21,010 |

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

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | Automotive Lighting Equipment | Non-automotive Electrical Equipment | Other Products & Services | Elimination of Inter-Segment Items | Consolidated Total |
| For the year ended March 31, 2005 | | | | | |
| Sales: | | | | | |
| Sales to outside customers | $2,751,997 | $387,364 | $226,651 | $ – | $3,366,021 |
| Inter-segment sales and transfers | 420,737 | 14,908 | 27,023 | (462,678) | – |
| Total | $3,172,744 | $402,281 | $253,683 | $(462,678) | $3,366,021 |
| Operating expenses | 3,005,978 | 399,516 | 239,883 | (446,624) | 3,198,762 |
| Operating income | $ 166,757 | $ 2,756 | $ 13,791 | $ (16,054) | $ 167,260 |
| Identifiable assets at March 31, 2005 | $1,604,935 | $506,332 | $473,275 | $ 383,509 | $2,968,051 |
| Depreciation | $ 153,403 | $ 8,306 | $ 7,049 | $ 438 | $ 169,196 |
| Capital expenditures | $ 181,497 | $ 10,411 | $ 4,572 | $ – | $ 196,480 |

GEOGRAPHIC SEGMENT INFORMATION

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sales of products in the automobile lighting 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, 2004 and 2005 is as follows:

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Japan | North America | Asia | Europe | Total | Elimination and other | Consolidated |
| For the year ended March 31, 2004 | | | | | | | |
| Sales: | | | | | | | |
| Sales to outside customers . . . | ¥229,500 | ¥43,087 | ¥50,234 | ¥11,432 | ¥334,254 | ¥ – | ¥334,254 |
| Inter-area sales and transfers . . | 43,990 | – | 2,001 | 31 | 46,023 | (46,023) | – |
| Total . . . . . . . . . . . . . . . . . . | 273,491 | 43,087 | 52,235 | 11,463 | 380,278 | (46,023) | 334,254 |
| Operating expenses . . . . . . . . | 260,796 | 42,126 | 48,820 | 12,977 | 364,721 | (44,189) | 320,531 |
| Operating income (loss) . . . . . | ¥ 12,694 | ¥ 961 | ¥ 3,414 | ¥ (1,513) | ¥ 15,557 | ¥ (1,833) | ¥ 13,723 |
| Total assets . . . . . . . . . . . . . | ¥191,473 | ¥22,957 | ¥35,546 | ¥14,423 | ¥264,399 | ¥34,945 | ¥299,344 |

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Japan | North America | Asia | Europe | Total | Elimination and other | Consolidated |
| 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** |

| | Thousands of U.S. dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | Japan | North America | Asia | Europe | Total | Elimination and other | Consolidated |
| For the year ended March 31, 2005 | | | | | | | |
| Sales: | | | | | | | |
| Sales to outside customers . . . | **$2,175,892** | **$423,494** | **$581,106** | **$185,520** | **$3,366,021** | **$ 0** | **$3,366,021** |
| Inter-area sales and transfers . . | **428,336** | **–** | **22,842** | **11,491** | **462,678** | **(462,678)** | **–** |
| Total . . . . . . . . . . . . . . . . . . | **2,604,237** | **423,494** | **603,948** | **197,020** | **3,828,708** | **(462,678)** | **3,366,021** |
| Operating expenses . . . . . . . . | **2,469,904** | **407,058** | **569,308** | **199,106** | **3,645,386** | **(446,624)** | **3,198,762** |
| Operating income (loss) . . . . . | **$ 134,333** | **$ 16,435** | **$ 34,640** | **$ (2,086)** | **$ 183,322** | **$ (16,054)** | **$ 167,260** |
| Total assets . . . . . . . . . . . . . | **$1,831,279** | **$205,410** | **$378,555** | **$169,299** | **$2,584,542** | **$383,509** | **$2,968,051** |

## 11. Subsequent events

At the general shareholders' meeting held by the Company on June 29, 2005, appropriations of retained earnings were duly approved as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash dividends, ¥7 per share ($65.18 per 1,000 shares) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | ¥1,120 | $10,429 |
| Bonuses to directors and corporate auditors . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 205 | 1,909 |

# REPORT OF INDEPENDENT AUDITORS

The Board of Directors
KOITO MANUFACTURING CO., LTD.

We have audited the consolidated balance sheets of KOITO MANUFACTURING CO., LTD. and its subsidiaries at March 31, 2004 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the years ended March 31, 2004 and 2005, all expressed in Japanese yen. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those 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, 2004 and 2005, and the consolidated results of their operations and their cash flows for the years ended March 31, 2004 and 2005, 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, 2005 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

Certified Public Accountants
June 29, 2005

# CORPORATE INFORMATION

As of March 31, 2005

**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: | 13,496 (Consolidated) |
| | 4,227 (Non-consolidated) |
| Common stock: | |
| Authorized: | 320,000,000 shares |
| Issued: | 160,789,436 shares |
| Number of shareholders: | 5,843 |
| Transfer agent: | The Mitsubishi Trust and Banking Corporation |
| Official address as transfer agent | Corporate Agency Department<br>1-4-5, Marunouchi, Chiyoda-ku, Tokyo 100-8212, Japan |
| Contact address | Corporate Agency Department<br>1-7-7, Nishi-Ikebukuro, Toshima-ku, Tokyo 171-8508, Japan<br>Phone: 81-3-5391-1900 |
| Principal shareholders: | TOYOTA MOTOR CORPORATION<br>Japan Trustee Services Bank, Ltd.<br>The Master Trust Bank of Japan, Ltd.<br>Matsushita Electric Industrial Co., Ltd.<br>NIPPON LIFE INSURANCE COMPANY<br>Sumitomo Mitsui Banking Corporation<br>The Bank of Tokyo-Mitsubishi, Ltd.<br>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
4-8-3, Takanawa, Minato-ku,
Tokyo 108-8711, Japan
Phone: 81-3-3443-7111
Facsimile: 81-3-3447-1520

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Facsimile: 81-543-45-4959
**Pan-Pacific Operations**
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Facsimile: 81-3-3447-5173
**East-Asia Operations**
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Facsimile: 81-3-3447-5173
**Euro-American Operations**
Phone: 81-3-3447-5166
Facsimile: 81-3-3447-5173
**Export Operations**
Phone: 81-3-3447-5167
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.)**
**Nagoya Sales Office (Aichi Pref.)**
**Fukuoka Sales Office (Fukuoka Pref.)**

## OVERSEAS REPRESENTATIVE OFFICES

**Detroit Office**
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38900 Hills Tech Drive, Farmington Hills,
MI 48331, U.S.A.
Phone: 1-248-553-6408
Facsimile: 1-248-553-6454

**Seattle Office**
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## OVERSEAS SUBSIDIARIES AND AFFILIATES

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Facsimile: 32-16-7213-01

**Koito Europe Limited**
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Phone: 44-1905-790-800
Facsimile: 44-1905-794-466

**Koito Czech s.r.o.**
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Phone: 420-415-930-111
Facsimile: 420-415-930-109

**Shanghai Koito Automotive Lamp Co., Ltd.**
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People's Republic of China
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Facsimile: 86-21-5916-2899

**THAI KOITO COMPANY LIMITED**
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King Amphur Bangsaothong,
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**Innovative Hightech Lighting Corporation**
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Kyongju-shi, Kyongbuk 780-820, Korea
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Facsimile: 82-54-770-7770

**Ta Yih Industrial Co., Ltd.**
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Tainan, Taiwan, Republic of China
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Facsimile: 886-6-264-4614

**INDIA JAPAN LIGHTING PRIVATE LIMITED**
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Tiruvellore High Road,
Tamil Nadu 602-107, India
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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 Italy Ltd. (Italy)**
**Automotive Lighting UK Ltd. (U.K.)**
**Ta Yih Industrial Co., Ltd. (Taiwan)**
**Shanghai Koito Automotive Lamp Co., Ltd. (China)**
**THAI KOITO COMPANY LIMITED (Thailand)**
**Innovative Hightech Lighting Corporation (Korea)**
**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 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

**Shimizu Plating Co., Ltd.**
(Shizuoka Pref.)
Business lines: Electroplating metals and metal products, surface treatment

**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

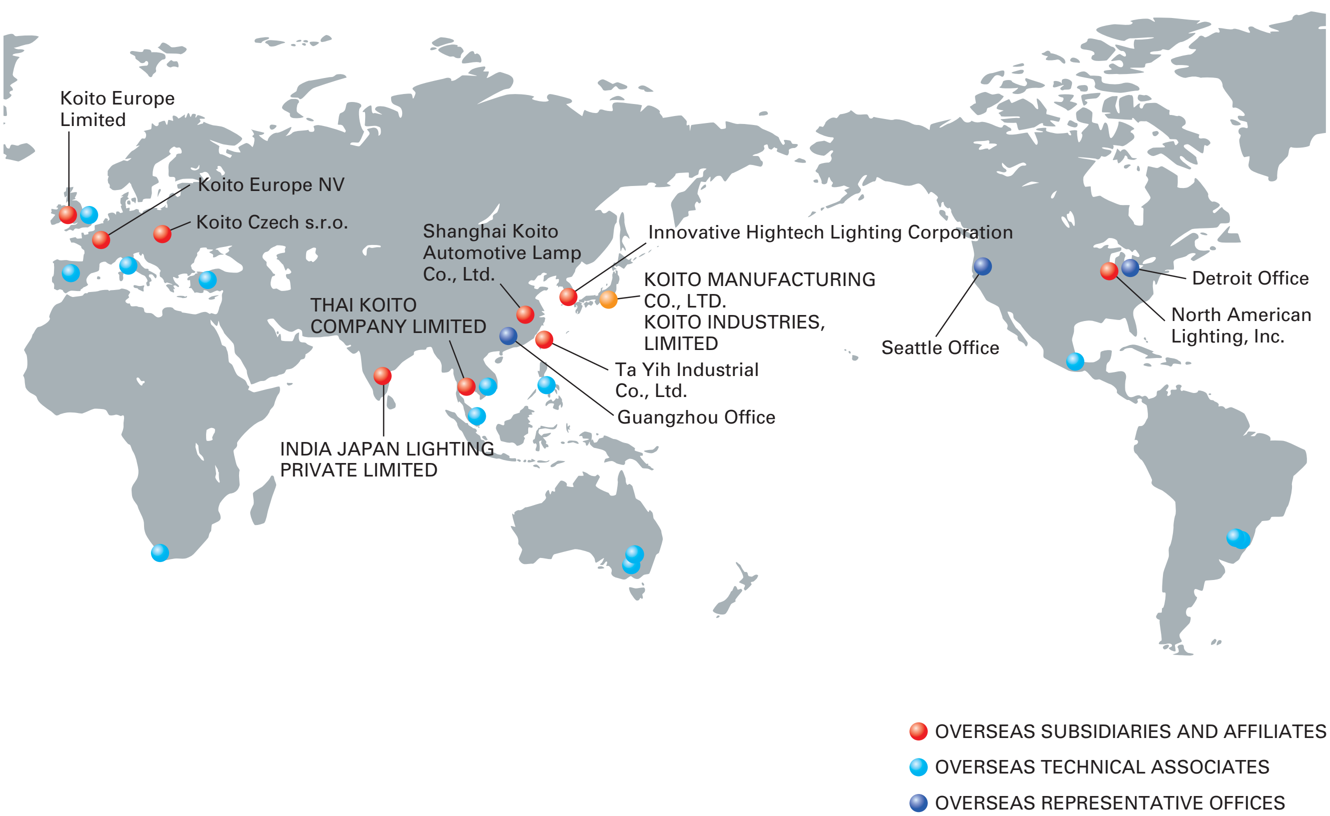
**New Fuji Co., Ltd.**
(Shizuoka Pref.)
Business lines: Service businesses

**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

## GLOBAL NETWORK



KOITO MANUFACTURING CO., LTD.

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