



A BRIGHT FUTURE IN GLOBAL MARKETS

2002 ANNUAL REPORT YEAR ENDED MARCH 31, 2002

2002 ANNUAL REPORT CONTENTS

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KOITO MANUFACTURING CO., LTD. has led the way in optics since 1915, when it developed the fresnel lens for Japan's first railway signals. Today, the Company's integrated optical and electronic technologies—as applied in its lighting equipment for automobiles, aircraft parts, and other products—continue a tradition of global innovation for safety.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

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

Koito has published annual reports in Japanese from fiscal 2000 onward to ensure fair disclosure, in addition to an English annual report. A certified public accountant reviews the financial sections of Koito's Japanese annual reports to ensure consistency in presentation between the Japanese and English versions. We hope the information presented in this annual report serves to deepen your understanding of Koito.

The Koito Group has set its sights on becoming No. 1 in the global automotive lighting equipment market with a worldwide market share of 25%. To achieve this goal, we are enhancing our global manufacturing network in Japan, the U.S., Asia and Europe. This expansion is responsive to the needs of automakers, who are working to expand production overseas and looking to optimize procurement channels worldwide. The establishment of our Technical Center in China marked the completion of our quadrangular global network.



Junsuke Kato, President

Millions of yen
(except per share amounts)

2001 2002

Net sales	297,280	301,141
Operating income	10,991	9,779
Net income	3,072	2,784
Total assets	306,084	295,097
Total shareholders' equity	102,532	101,738
Net income per share	¥19.11	¥17.38

The Year in Review

In fiscal 2002, ended March 31, 2002, the global economy was weighed down by fears of a worldwide recession, as the U.S. economy slowed and impacted Asian economies suffered the reverberations. The events of September 11 dealt a further blow to global economic confidence. Japan's economy saw capital expenditures dragged down by the IT downturn and corporate earnings deteriorate due to falling production and sales levels. Furthermore, a protracted upward trend in the jobless rate and mounting uncertainty in the labor markets dampened consumer sentiment. In all, prospects of an economic recovery remained faint.

In the automotive industry, world automobile production in calendar 2001 was down 3.9% at 55.8 million units according to the International Organization of Motor Vehicle Manufacturers (OICA) due to a decline in North America. In Japan, sluggish consumer spending held down domestic automobile sales, and exports also

declined, particularly to Europe and Asia. In fiscal 2002, domestic automobile production was 9.8 million units, down 2.4% from last year's level.

In this challenging climate, the Koito Group posted net sales of ¥301.1 billion, an increase of 1.3% year on year. The increase was attributable to efforts to expand sales of new products, such as discharge headlamps, in our mainstay automotive lighting equipment business.

However, operating income fell 11.0% to ¥9.8 billion, on account of development costs incurred to stay on top of frequent model changes, and start-up costs for new products. This result came despite various cost-cutting and rationalization measures to combat escalating price competition in our industry. Net income dropped 9.4% to ¥2.8 billion, partly due to unrealized losses on investment securities resulting from falling stock prices on Japanese stock exchanges.

Management Policy

The global automotive industry is likely to experience medium- to long-term growth in overall demand and production volumes, despite slim prospects for sharp increases in demand from Japan, the U.S. and Western European countries. Higher demand is forecast in the EU as a whole, especially in Eastern Europe, and Southeast Asia as economic development progresses in those regions. Fast-growing China is also poised for expansion, although its accession to the WTO will likely be followed by a transitional period before growth can fully take hold.

Under its corporate banner of “Entrusting Safety to Light,” the Koito Group is committed to creating new value for customers by delivering needed technologies and fostering relationships of trust, as a first-rate manufacturer of automotive lighting equipment as well as electrical equipment for railway, traffic and aircraft. We will advance the following strategies to build an even stronger Koito Group.

(1) Capture a 25% share of the global automotive lighting equipment market

Automobile manufacturers are trying to fashion optimal global production, procurement and supply networks. We have responded to their needs with the establishment of the global product development and manufacturing framework I mentioned earlier. Using this network to capture new orders, we aim to eventually stake claim to 25% of the global market for automotive lighting equipment.

(2) Develop and expand new businesses and products

At Koito, delivering products with value rooted in cutting-edge technology that anticipates customer and market trends is a key priority. In automotive lighting equipment, we have promoted the adoption of discharge headlamps worldwide. Furthermore, Koito is at the vanguard

of next-generation headlamp systems. Developing new businesses is also a key activity to respond to emerging needs in a timely and accurate fashion. One example is ITS-related fields.

(3) Enhance Group-wide management

We are constantly looking to use the collective resources of the Group more efficiently. Key to this is a two-track approach that seeks to optimally allocate resources and enable Group companies to compensate for each other's shortcomings. This dual approach will raise Group-wide operating efficiency and renew our organization, ultimately building a profit structure capable of supporting higher earnings.

(4) Pursue quality and environmental preservation

Through regular QS 9000 activities, we are working to cement and enhance our quality assurance system. Equally important are regular ISO 14001 activities—recycling, energy

conservation, and eliminating the use of hazardous materials. These activities are all directed toward raising our stature as a corporate citizen by contributing to the creation of a recycling-oriented society.

Guided by these basic strategies, Koito and its Group companies will make every effort to implement concrete measures to deliver a high level of satisfaction for shareholders, employees and customers.

Outlook

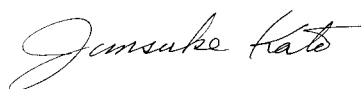
The macroeconomic environment is expected to present even more challenges to moving forward. The U.S. economy is shrouded in uncertainty. And in Japan a recovery in consumer spending remains a distant prospect in view of deteriorating levels of corporate earnings, employment and personal income.

Meanwhile, the outlook for the automotive industry is mixed. Automobile sales in Japan will likely remain flat, but there is some hope that automobile sales in the

U.S. may pick up again, lifted by attractive financing terms offered by local automobile manufacturers. Meanwhile, the aviation industry is experiencing a continuing drop-off in aircraft production, prompted by weak demand for air travel in the aftermath of the events of September 11.

In this climate, the Koito Group is working to strengthen product development, which is essential to capturing a greater volume of orders in the automotive lighting equipment business over the medium-to long-term. As mentioned earlier, the completion of the new Technical Center in China, run by Shanghai Koito Automotive Lamp, marked the completion of a global product development framework based in four regions around the world. Our three other global R&D bases include a Technical Center in the U.S., operated by North America Lighting, Inc. (NAL), the Koito Europe Technical Center in Belgium, and Koito Manufacturing's Technical Center in Japan. On the manufacturing front, Koito is significantly expanding production capacity through the opening of new plants around the world. July 2002 saw the completion of NAL's third plant, and

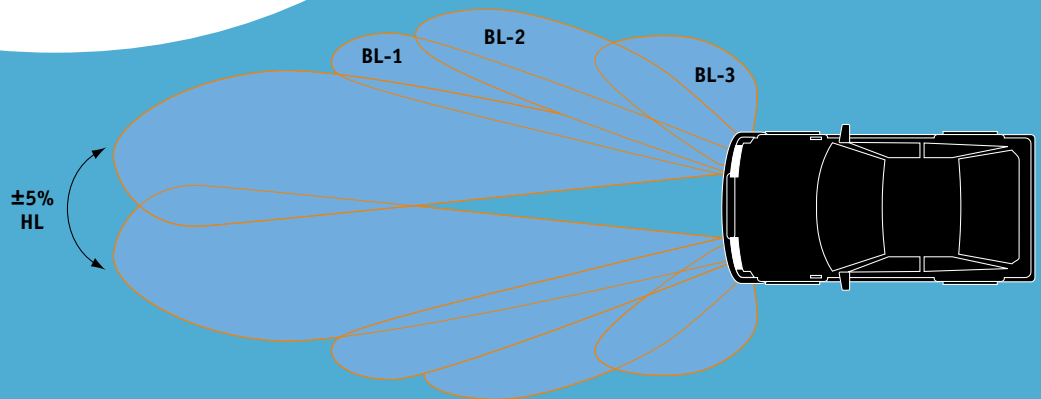
in September of 2002 another new factory to be operated by Koito Czech s.r.o. was completed. We are also redoubling efforts in other areas to ensure long-term growth for the entire Koito Group. This involves strengthening our competitiveness by shortening development periods and implementing various cost-cutting measures, as well as expanding our share of the global market to secure overseas earnings streams.



JUNSUKE KATO, President
September 2002

TECHNOLOGY

Together with expanding its production bases as a truly global automobile parts supplier, Koito has a quadrangular R&D system with research facilities in Japan, the United States, Europe and Asia. The nucleus of this framework is the Technical Center in Japan. This system facilitates surveys and analysis of technical and regulatory requirements in the United States and Europe, as well as technological trends and the needs of the rapidly motorizing Asian market. The results of these surveys and analyses help the Company to develop proprietary technologies and products and propose lamps and other products that remain a step ahead of the competition.



AFS (Adaptive Front Lighting System)

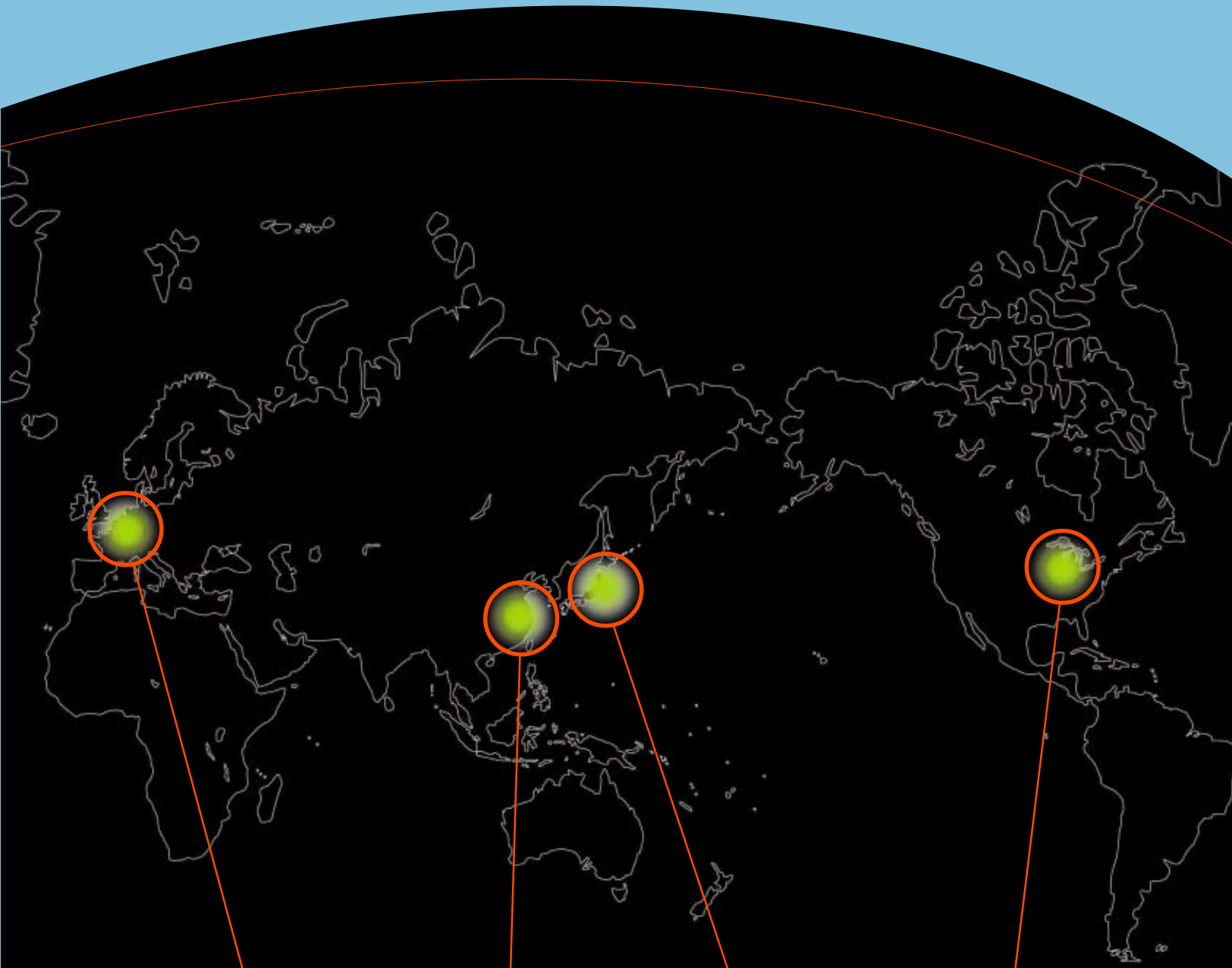
Koito offers a wide product range, from incandescent lamps to halogen and discharge bulbs. Currently, the Company is concentrating on an AFS, an ideal headlamp system borne out of the desire to provide safety through lighting. This system automatically controls the intensity of light to suit changes in weather, road and other driving conditions. The AFS system not only makes driving easier, but is designed with oncoming traffic and pedestrians in mind.

BL-1: Cornering under normal conditions/rainy weather

BL-2: Low-speed cornering

BL-3: Illumination at intersections

(BL: Bending Lamp)



EUROPE



Koito Europe Technical Center
Location: Zaventem, Belgium
Established: July 1999
Employees: 40

ASIA



Shanghai Koito Technical Center
Location: Shanghai, China
Established: May 2002
Employees: 60

JAPAN



Koito Technical Center
Location: Shimizu City,
Shizuoka Prefecture
Established: May 1997
Employees: 1,010

NORTH AMERICA



North American Lighting
(NAL) Technical Center
Location: Farmington Hills,
Michigan, U.S.A.
Established: April 1993
Employees: 190

JAPAN

Review of Operations and Outlook

■ Automotive Lighting Equipment Segment Expanding Sales of Gas Discharge Headlamps (GDHLs)

The Koito Group continues to post strong sales of GDHLs. These headlamps are brighter than existing halogen lamps, but have a relatively high unit price. We have made every effort to expand sales further with the development of a two-lamp GDHL system. Our GDHLs are steadily finding their way into compact cars and light vehicles as a result.

In fiscal 2002, automobile production in Japan decreased 2.4% year on year to 9.8 million units. However, the share of new cars equipped with GDHLs rose to 12%, from 9% in the preceding fiscal year. Toyota Motor Corporation, in particular, actively adopted GDHLs for use in model changes. In all, Koito shipped 1,588,000 GDHLs during the year, 54% more than in the previous fiscal year. This made a sizable contribution to sales growth. In fiscal 2002, Koito headlamps were installed in 55% of new vehicles manufactured in Japan. Looking at GDHLs only, Koito captured a high market share of 68%. This strong showing prompted us to start construction of a new wing at the Shizuoka Plant dedicated to GDHLs in July 2001. This wing has played a key role in enhancing quality and lowering costs. We anticipate the share of vehicles equipped with GDHLs to rise steadily in coming years. Specifically, we project the percentage of GDHL-equipped vehicles to reach 34% by fiscal 2005. Although domestic automobile production is projected to continue on a downward path, Koito intends to maintain a consistent level of sales by expanding GDHL shipments.



New Signaling Lamp Products

Signaling lamps, particularly rear combination lamps (RCLs), perform a vital safety role by indicating the driver's intention to following cars. At the same time, signaling lamps are a key design element. Emphasizing the design aspect of these lamps, we have proposed replacing the miniature light bulbs that have served as traditional RCL light sources with light-emitting diodes (LEDs) in order to enhance vehicle appearance. These proposals have been well received, and LED-source RCLs were adopted for use in the Toyota Estima Hybrid and the Nissan Skyline during the fiscal year under review. Koito expects these new products to rapidly penetrate the market, owing to their elegant design, improved visibility and energy efficiency.

Quality Assurance

Koito is working to "assure quality so as to secure the confidence of customers and guarantee customer satisfaction." With this in mind, the Company has implemented a variety of quality assurance programs. In July 2001, Koito's Haibara Plant and Sagara Plant obtained the QS 9000 and ISO 9001 international certifications for quality assurance systems. All Koito manufacturing facilities located in Japan are now QS 9000- and ISO 9001-certified as a result. Of course, Koito views full certification as only a beginning. From here, we intend to redouble our efforts to enhance quality assurance.

Shortening Development Time-Frames

Automobile manufacturers are embroiled in fierce competition in the quest to roll out new, strong-selling models at the lowest possible cost, based on a precise understanding of market needs. In particular, shortening the time required to develop new models is vital. This is naturally a major theme for automotive components suppliers, too. Automobile lamps in particular are a critical component of new cars, developed together with automobile manufacturers, right from the concept stage. Koito aims to shorten development periods, first to 10 months or less, and eventually to 6 months. This will be accomplished by extending the application of an existing proprietary system called "evolution—KOITO Innovation of Neo-Digital System (e-KINDS)." Brandishing a framework that permits short development periods, Koito looks to capture even more orders in the years ahead.

■ Non-Automotive Electrical Equipment Segment

Subsidiary KOITO INDUSTRIES, LIMITED ("KOITO INDUSTRIES") is responsible for manufacturing and sales in this segment. Sales in this segment were down 5.8% year on year at ¥57.1 billion.

Fiscal 2002 saw sales growth in traffic information devices, thanks to efforts to expand sales of new products. However, these gains were outweighed by a fall in sales of traffic signals, streetlights and stadium lighting, which reflected cutbacks

in public-works projects. Another factor was the separation of washlet toilet operations.

KOITO INDUSTRIES had supplied washlet toilets to TOTO, LTD. on an OEM basis. In October 2001, this business was separated from KOITO INDUSTRIES and merged into a new joint-venture company called Pan Washlet Co., Ltd., which was established with Tokyo Stock Exchange-listed company TOTO and Nagoya Stock Exchange-listed Aichi Electric Co., Ltd. Pan Washlet is accounted for by the equity method by Koito Manufacturing Co., Ltd.

■ Other Products Segment

Segment sales rose 4.8% year on year to ¥22.3 billion. The Koito Group recorded strong sales of card readers for convenience stores, Shinkansen seats and airplane seats, mainly exports. These were partly offset by lower sales of power-window regulators and headlamp cleaners, which reflected a fall in production of vehicles that employ those products.

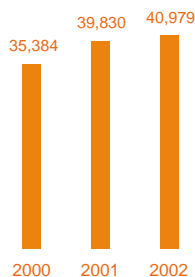
Automotive Lighting Equipment Segment by Region

NORTH AMERICA

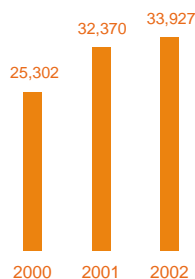
In North America, Illinois-based North American Lighting, Inc. (NAL), a consolidated subsidiary, manufactures and supplies automotive lighting equipment to automobile manufacturers based in the region. Located in Flora, Illinois, the company's Flora Plant mainly manufactures headlamps, while its Salem Plant specializes in signaling lamps. In the fiscal year ended March 31, 2002, NAL recorded net sales of ¥40,979 million, an increase of 2.9% year on year. Sales to Japanese automobile manufacturers accounted for approximately 70% of NAL's net sales.

NAL operates a Technical Center in Farmington Hills, a suburb of Detroit. The Technical Center and marketing divisions are working together to capture orders. In fact, some orders from North American automobile manufacturers run several years into the future. For example, NAL won a major order from General Motors Corporation for large standard fog lamps that far exceeded production capacity at the time. This led NAL to build a new plant for headlamps and fog lamps in Paris, Illinois. Completed in July 2002, the plant has already begun operations, significantly enhancing NAL's production capacity. Looking ahead, NAL will continue to build on its standing as North America's largest automotive lighting equipment manufacturer by expanding production capacity further.

NET SALES [North America] (Millions of yen)



NET SALES [Asia] (Millions of yen)



ASIA

China:

China's automotive industry has made significant progress, spurred on by a national motorization project. Today, China has over 20,000km of highway, ranking it second in the world. In calendar 2001, automobile production topped 2 million vehicles and high growth is forecast for the years ahead. Shanghai Koito Automotive Lamp Co., Ltd., our local subsidiary, is steadily expanding its volume of business in China. Its major customers include Shanghai Volkswagen Automotive Company Ltd. and Shanghai General Motors Co., Ltd. In the fiscal year ended March 31, 2002, net sales climbed 11.0% year on year to ¥9,198 million with lighting equipment for new models, such as the VWB5 Passat and GM Corsa, contributing significantly to sales growth.

Shanghai Koito Automotive Lamp's unrivaled technological expertise and production facilities, which outshine local competitors—combined with the country's growth potential—spells promising opportunities for the company to significantly expand orders. Fueling expectations are Japanese automobile manufacturers' plans to begin production in China. Toyota has already led the way with production at Tianjin Toyota Motor Co., Ltd.

Koito is encouraging its overseas Group companies to conduct product and technological development activities independently. Shanghai Koito Automotive Lamp is firmly positioned for the next stage of

growth with a larger technical staff and the completion of a new Technical Center in April 2002. China's accession to the WTO in December 2001 is likely to trigger fierce competition among China-based automobile manufacturers. Shanghai Koito Automotive Lamp will make use of its Technical Center to respond precisely to their needs.

Thailand:

Automobile production in Thailand is steadily expanding, having overcome a temporary setback in the wake of the events of September 11 and the economic malaise in the U.S. and Europe. Production has recovered to approximately 80% of 1996's peak level. THAI KOITO COMPANY LIMITED is responsible for manufacturing and sales of automotive lighting equipment in Thailand and elsewhere in Southeast Asia.

In fiscal 2002, THAI KOITO reported net sales of ¥4,154 million, an increase of 15.0% year on year. This mainly reflected a steady increase in sales to Siam Nissan Automobile Co., Ltd. and Toyota Motor Thailand Co., Ltd. as well as new orders from Honda Automobile (Thailand) Co., Ltd. for lighting equipment for motorcycles. In fiscal 2003, ending March 2003, THAI KOITO will begin supplying GDHLs to Toyota Motor Thailand Co., Ltd. for use in the Toyota Camry.

North America

To cope with a steady increase in orders from North American automobile manufacturers, NAL has built its third plant in Paris, Illinois. The plant came online in July 2002. Plans call for the annual production of 2 million headlamps by 2004 at NAL's new Paris Plant.



Korea:

Korea's economy has been slowing recently, despite having overcome the 1997 currency crisis. In the Korean automotive industry, production is increasingly centered on the Hyundai/Kia Group. In fiscal 2002, Inhee Lighting Co., Ltd. recorded net sales of ¥12,854 million, an increase of 13.0% year on year. This increase mainly reflected higher production levels at the Hyundai Group, and new orders for large headlamps, high-end rear combination lamps and foglamps. Inhee Lighting has grown into a major overseas subsidiary, second only to NAL in the U.S. Inhee Lighting is committed to enhancing marketing and product development in an effort to increase orders.

Taiwan:

Taiwan's economy is facing mounting difficulties after being thrown into a tailspin by the downturn in the IT industry. The automotive industry is also in a crunch, as seen in slumping automobile production. In Taiwan, our local subsidiary Ta Yih Industrial Co., Ltd. has nearly cornered the entire market. In fiscal 2002, Ta Yih Industrial reported net sales of ¥7,578 million, down 14.0% year on year due mainly to declines in automobile production and the effects of the economic slowdown. In March 2002, the company began delivering GDHLs to Kokuzui Motors, Ltd. for use in the Toyota Camry. Koito does not foresee substantial increases in local automobile production, which relate

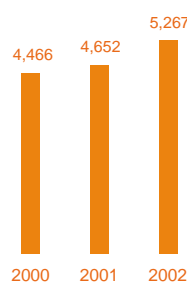
directly to sales growth in automotive lighting equipment, because the local automobile market is fairly limited in size. However, Ta Yih Industrial will work to improve its operating results by supplying molds, for instance, to other Koito Group companies.

India:

Although India's economy remains sluggish, automobile production is thriving as Japanese, European and Korean automobile manufacturers begin full-scale production of new models. Nonetheless, the automotive lighting industry is embroiled in heated price competition. India Japan Lighting Ltd. is responsible for Koito's production of automotive lighting equipment in the country. Main customers include Maruti Udyog Ltd., Toyota Kirloskar Motor Ltd., TATA ENGINEERING & LOCOMOTIVE CO. LTD. and Honda Siel Cars India Ltd. India Japan Lighting also welcomed a host of new customers during the year, including Fiat India Automobiles Ltd. and Ford India Ltd. In the fiscal year ended March 31, 2002, however, India Japan Lighting's sales were held to ¥909 million, a year-on-year increase of 3.0%. Looking ahead, India Japan Lighting will try to capture new orders, while working to trim costs in order to deliver improved operating results.

**NET SALES
[Europe]**

(Millions of yen)



UK-based Koito Europe Limited (KEL) is responsible for supplying automotive lighting equipment in this region. In fiscal 2002, KEL reported sales of ¥5,267 million, an increase of 13.2% year on year, mainly reflecting shipments of rear combination lamps to Toyota Motor Manufacturing France S.A.S. for the Yaris model, and headlamps to Renault S.A. for the Velsatis model. However, the company's operating loss widened to ¥1,322 million due to fierce price competition. But KEL began producing GDHLs in the year under review and began shipments to Volvo for use in trucks in November 2001 and to Renault for the Velsatis model the following March. Meanwhile, with full support from Koito Manufacturing, KEL has secured orders for new models, which should lift sales in the near future. To expand production capacity in Europe, Koito Czech s.r.o. was established in March 2001 as a second European production base in the Czech Republic. Immediately afterwards, construction of an automotive lighting equipment plant began. The new plant was completed in September 2002. Koito is realigning its operating structure in Europe by transferring headlamp production from KEL to the new plant in the Czech Republic in order to improve earnings.

Europe

In September 2002, Koito Czech s.r.o. completed the construction of a new plant in the Czech Republic. The plant will serve as a second European production base for Koito and will respond to a greater volume of orders from the European market. Plans call for annual production of 1.6 million headlamps by 2005 and 1 million signal lamps by 2007.



RESEARCH AND DEVELOPMENT

The Koito Group is engaged in the creation of original systems and products capable of ensuring the highest degree of safety. These systems and products incorporate the latest ideas in electronics as well as other technologies. The Group's technological development activities rest on two main pillars: R&D for the creation of new technologies, and R&D for the commercialization of new products. Aiding the environment is another research theme. The Group is actively engaged in development activities connected with recycling, non-polluting materials and manufacturing methods that have a lower environmental impact.

In Japan, the Koito Group's technology development in the area of automotive lighting equipment is carried out at Koito

Manufacturing's Engineering Headquarters and Research Laboratory. KOITO INDUSTRIES, LIMITED, on the other hand, mainly undertakes development in the field of non-automotive electronic equipment. Overseas, the Koito Group has three global R&D bases: a Technical Center in the U.S. run by North American Lighting; the Koito Europe Technical Center in Belgium; and a Technical Center in China run by Shanghai Koito Automotive Lamp. In all, the Koito Group has four R&D bases around the world that support a close-knit R&D framework. The Koito Group has 1,760 R&D personnel worldwide.

In fiscal 2002, R&D costs totaled ¥19,174 million, equivalent to 6.4% of consolidated net sales. This breaks down into ¥15,672 million in the automotive lighting segment, ¥1,692 million in the non-automotive lighting segment and ¥1,810 million in the others segment.

The main research themes in each segment in fiscal 2002 are outlined below.

Automotive lighting equipment

Main R&D themes were:

- (1) Next-generation automotive lighting equipment
(Adaptive Front Lighting System (AFS), Adaptive Rear Lighting System (ARS) and others)
- (2) Production technologies
- (3) Simulation technologies

Non-automotive lighting equipment

Main R&D themes were:

- (1) Image transmission technologies for railway rolling stock
- (2) System development for ITS-related machinery and materials
- (3) Internet-based systems

Others

Main R&D themes were:

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

Japan's Ministry of Land, Infrastructure and Transport has announced plans to begin drafting amendments to standards governing AFS, for enactment in October 2002. Koito is focusing sharply on implementing R&D advances in AFS, targeting commercialization of products as early as 2003 to coincide with the proposed new regulatory framework.

As the 21st century dawns, Koito is keenly aware that mitigating the impact of industrial activity on the environment is a priority issue for management. Automobile manufacturers are actively engaged in environmental issues, particularly in the areas of recycling and the development of fuel-cell cars. As a leading player in the automotive industry, Koito performs Life Cycle Assessments of all its manufactured products. At the same time, Koito is vigorously working to resolve environmental issues posed by non-manufacturing operations. The Environmental Committee was established in September 1998 to centralize the management of environmental activities performed by each division and business office, and to motivate all employees. The goal is to build a framework that unites the environmental activities of the entire Company. Indeed, the entire Koito Group is actively engaged in reducing its impact on the natural environment. The parent company has extended its environmental practices to Group companies, and assists in implementing environmental safeguards appropriate to a given region or country.

The Koito Environmental Management System comprises a cycle of daily environmental activities geared to meeting environmental goals and targets formulated based on environmental policy, review and modification of environmental systems by management, and the setting of new environmental targets and plans for the following year based on this review. Under the banner of "contributing to the recycling society by extensively implementing ISO 14001," Koito conducted environmental activities encompassing recycling, energy conservation, and elimination of hazardous substances in fiscal 2002.

The Koito Group pursued the following environmental activities during the year:

1. Legal compliance with all regulations on hazardous materials and enhanced self-assessment procedures
2. Reduction of the volume of waste sent to landfills, with the aim of achieving zero waste and emissions
3. Effective use of resources
4. Promotion of energy conservation measures

As a result, Koito reduced the volume of waste sent to landfills to 308 m³, a 49.0% decrease year on year, assisted by the development and installation of a new Bio-boost System that uses bacteria to reduce the weight of paint flakes. CO₂ emissions per net sales improved 2.4% to 121.8 grams per ¥1,000. In fiscal 2002, Koito also eliminated all dioxin-emitting incinerators and made steady progress in Pollutant Release and Transfer Register (PRTR) activities.

Koito remains committed to developing technologies in an environmentally sound manner, while pursuing active disclosure through regular environmental reports and the introduction of environmental accounting.

ENVIRONMENTAL ACTIVITIES

BOARD OF DIRECTORS



IWAO OKIJIMA
Chairman



JUNSUKE KATO
President



TAKASHI OHTAKE
Executive Vice President



AKIRA KOITO
Executive Vice President

Chairman

Iwao Okijima

President

Junsuke Kato

Executive Vice Presidents

Takashi Ohtake
Akira Koito

Executive Senior Managing Directors

Masahiro Ohtake
Toyofumi Nakagawa
Noriaki Yonezawa

Executive Managing Directors

Takao Sato
Shuichi Goto
Yutaka Furuyama
Koichi Katase
Keiji Kato
Hiroshi Koishihara

Directors

Haruo Ueno
Shigeo Mine
Mizuo Yamamuro
Isao Sano
Mitsuo Kikuchi
Shigeki Okuma
Yoshihisa Ogawa
Mikio Tsuruta
Toshiharu Suzuki
Koichi Sakakibara

Standing Corporate Auditors

Akira Kamada
Akira Nagasawa

Corporate Auditors

Koichi Kusano
Nobuyoshi Kawashima

FINANCIAL SECTION

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SIX-YEAR SUMMARY

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

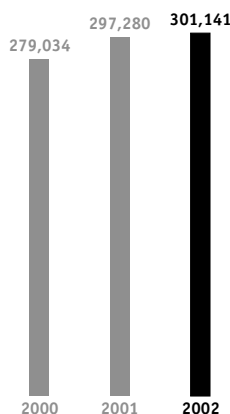
Consolidated	Millions of yen (except per share amounts)						Thousands of U.S. dollars (except per share amounts)
	1997	1998	1999	2000	2001	2002	2002
For the year:							
Net sales	¥220,045	¥226,134	¥275,934	¥279,034	¥297,280	¥301,141	\$2,259,970
INDUSTRY SEGMENT INFORMATION							
Lighting Equipment							
Division	134,962	138,979	191,334	198,381	215,381	221,718	1,663,925
Other Electric Equipment							
Division	67,867	66,932	60,294	59,168	60,628	57,130	428,743
Others	17,215	20,222	24,305	21,483	21,270	22,291	167,287
GEOGRAPHIC SEGMENT INFORMATION							
Japan	–	–	213,559	213,880	220,425	220,967	1,658,289
North America	–	–	35,462	35,384	39,830	40,979	307,535
Asia	–	–	21,862	25,302	32,370	33,927	254,612
Europe	–	–	5,049	4,466	4,652	5,267	39,527
Operating income	10,607	8,540	10,201	9,288	10,991	9,779	73,388
INDUSTRY SEGMENT INFORMATION							
Lighting Equipment							
Division	8,581	7,117	8,854	8,883	10,284	8,750	65,666
Other Electric Equipment							
Division	4,463	3,154	851	692	1,307	2,148	16,120
Others	572	1,231	2,116	1,748	854	410	3,077
GEOGRAPHIC SEGMENT INFORMATION							
Japan	–	–	8,703	8,859	11,301	9,959	74,739
North America	–	–	1,670	697	102	448	3,362
Asia	–	–	1,806	2,062	2,105	2,223	16,683
Europe	–	–	(358)	(294)	(1,062)	(1,322)	(9,921)
Income before income taxes and minority interests	10,899	9,771	8,451	7,341	6,190	6,292	47,220
Income taxes	6,310	5,836	3,486	2,997	2,476	2,516	18,882
Net income	4,702	4,285	3,846	3,412	3,072	2,784	20,893
Amounts per share (in yen and U.S. dollars):							
Net income	¥ 29.24	¥ 26.65	¥ 23.92	¥ 21.23	¥ 19.11	¥ 17.38	\$ 0.128
Cash dividends	9	8	8	10	8	8	0.06
At year-end:							
Working capital	¥ 59,053	¥ 55,348	¥ 40,393	¥ 51,060	¥ 16,724	¥ 27,340	\$ 205,178
Property, plant and equipment, less accumulated depreciation							
Total assets	54,742	46,174	65,857	61,448	64,856	69,148	518,934
Total shareholders' equity	218,079	217,741	267,783	275,063	306,084	295,097	2,214,612
Total shareholders' equity	78,881	81,313	90,291	92,848	102,532	101,738	763,512

Note: Amounts in U.S. dollars are translated from yen, for convenience only, at the rate of ¥133.25=\$1, the rate prevailing on March 31, 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS

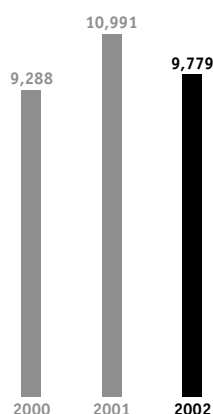
Net Sales

(Millions of yen)



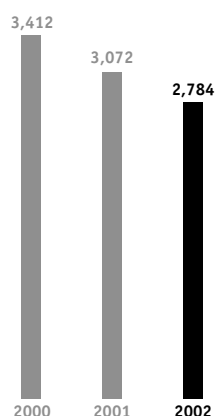
Operating Income

(Millions of yen)



Net Income

(Millions of yen)



Operating Results

The Koito Group comprises 21 consolidated subsidiaries, 4 affiliates, and the parent company KOITO MANUFACTURING CO., LTD. Three of the four affiliates are accounted for by the equity method. Effective from fiscal 2002, ended March 31, 2002, affiliate Pan Washlet Co., Ltd. ("Pan Washlet"), which was established in October 2001, will be accounted for by the equity method. Consolidated subsidiaries KOITO INDUSTRIES, LIMITED ("KOITO INDUSTRIES"), Koito Transport Co., Ltd., Minatsu, Ltd., and India Japan Lighting Ltd. end their fiscal years on March 31. The other 17 consolidated subsidiaries compute their financial statements by provisionally closing accounts on March 31. The Group's three major business categories are lighting equipment for automobiles, non-automotive electrical equipment and other products.

Net Sales

In fiscal 2002, Japan's domestic automobile production volume fell 2.4% to 9.8 million vehicles. This was due to sluggish domestic automobile sales during the economic recession and to decreased exports, especially to Europe and Asia. During calendar 2001, the production volume of vehicles worldwide also fell, by 3.9% to 55.8 million vehicles, due to lower sales in North America.

Against this backdrop, consolidated net sales increased ¥3,861 million, or 1.3%, to ¥301,141 million. This result mainly reflected the Company's efforts to create a business model that can deliver higher sales even as automobile production levels fall. To this end, Koito worked on introducing larger headlamps and high-added-value products in its mainstay automotive lighting equipment segment, and also succeeded in winning increased orders worldwide.

Business Results by Business Segment

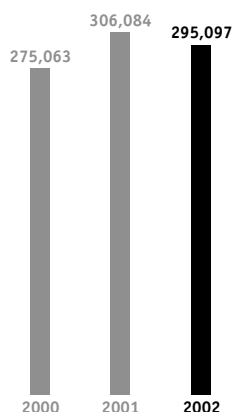
Sales in the automotive lighting equipment segment increased ¥6,337 million, or 2.9%, to ¥221,718 million. This was mainly attributable to efforts to improve product competitiveness, such as by introducing larger headlamps and high-added-value products, as well as to a steady increase in the number of new vehicles equipped with GDHLs. Of the approximate 9.8 million new vehicles produced in Japan during fiscal 2002, 12% were equipped with GDHLs, up 3 percentage points from the previous year. Koito sold 1,588,000 GDHL units, an increase of 557,000 units. This represents a GDHL market share of 68%. Segment operating income, however, declined ¥1,534 million to ¥8,750 million. This result came about despite various cost-cutting and rationalization measures to combat escalating price competition in our industry, and is mainly accounted for by development costs incurred to stay on top of frequent model changes and start-up costs for new products.

The non-automotive electrical equipment segment recorded net sales of ¥57,130 million, a year-on-year decrease of ¥3,498 million, or 5.8%. There are two main reasons for this decline. First, KOITO INDUSTRIES, Koito's largest consolidated subsidiary in 2001, transferred its washlet toilet business to Pan Washlet Co., Ltd. Second, the Company experienced difficulties in obtaining orders for railroad car equipment and traffic systems in an exacting operating environment. But operating income increased ¥841 million to ¥2,148 million, as rationalization measures bore fruit.

The other products segment posted sales of ¥22,291 million, an increase of ¥1,021 million, or 4.8%. This was mainly due to steady orders for aircraft seats. Operating income declined ¥444 million to ¥410 million.

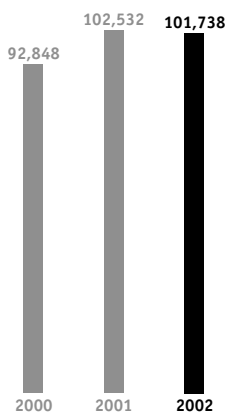
Total Assets

(Millions of yen)



Total Shareholders' Equity

(Millions of yen)



Business Results by Geographical Segment

Japan

The automotive lighting equipment and other products segments both saw sales increase, but sales decreased in the non-automotive electrical equipment segment. As a result, net sales were held to an increase of ¥542 million, or 0.2%, to ¥220,967 million. Operating income decreased ¥1,342 million, or 11.9%, to ¥9,959 million, mainly on account of development costs incurred to stay on top of frequent model changes and start-up costs for new products.

North America

Net sales of Koito's U.S. subsidiary North American Lighting, Inc. for fiscal 2002 increased ¥1,149 million, or 2.9%, to ¥40,979 million on increasing orders driven by higher sales at Japanese automobile manufacturers in the North American market. Plans call for the capturing of even more new orders through vigorous marketing activities. Operating income rose ¥346 million to reach ¥448 million. Although costs of measures to deal with defective products fell in the second half of fiscal 2002, costs were incurred in preparing to start up the new Paris plant.

Asia

Net sales in Asia increased ¥1,557 million to ¥33,927 million, reflecting the increased production of automobiles in China and Thailand, and the fact that Koito was able to successfully raise the unit price of lamps by offering various shapes made possible through improved functionality and attention to design. Operating income increased ¥118 million to ¥2,223 million due to improved profit margins resulting from Koito's introduction of high-added-value lamps and other actions.

Europe

Net sales in Europe improved ¥615 million to ¥5,267 million due to an increase in orders from new customers. However, the segment operating loss widened ¥260 million to ¥1,322 million. In September 2002, Koito Czech s.r.o. commenced production of headlamps. Together with Koito Europe Limited in the United Kingdom, the two companies will form a bipolar production framework in Europe. Moving forward, Koito is committed to improving its European business results.

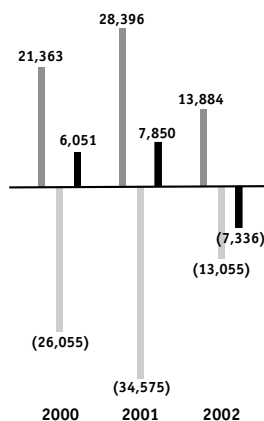
Net Income

Cost of sales increased ¥5,538 million, or 2.2%, to ¥259,378 million due to higher expenses in the year's first half, which stemmed from development costs incurred to stay on top of frequent model changes and start-up costs for new products. As a result, operating income decreased ¥1,212 million, or 11.0%, to ¥9,779 million. However, Koito expects to see results improve in the fiscal year ending March 2003 and thereafter, given that in the second half of fiscal 2002 it reduced costs through rationalization measures.

Income before income taxes and minority interests rose ¥102 million, or 1.6%, to ¥6,292 million. Due to a slump in share prices, Koito booked a loss of ¥1,036 million on revaluation of investment securities. However, income was boosted by the absence of a one-time write-off of R&D expenses of ¥2,293 million recorded in fiscal 2001 associated with a change in U.S. GAAPs. Net income declined ¥288 million, or 9.4%, to ¥2,784 million due partly to an increase in minority interests in consolidated subsidiaries.

Cash Flows

(Millions of yen)



- Cash flows from operating activities
- Cash flows from investing activities
- Cash flows from financing activities

Financial Position

As of March 31, 2002, total assets stood at ¥295,097 million, a decrease of ¥10,987 million, or 3.6%, from a year ago. Current assets were ¥139,565 million, down ¥4,925 million, or 3.4%, from a year earlier. This was mainly attributable to a decline in cash and cash equivalents of ¥6,507 million. Total investments declined ¥8,432 million to ¥70,852 million.

Current liabilities were ¥112,225 million, a decrease of ¥15,541 million from a year ago. This was principally due to a decrease in trade notes and accounts payable of ¥5,376 million and a decrease in short-term loans of ¥9,119 million, reflecting efforts to reduce liabilities. Total non-current liabilities rose ¥5,145 million to ¥54,898 million.

Total shareholders' equity fell ¥794 million to ¥101,738 million mainly owing to the acquisition of 1,160,000 shares of treasury stock for ¥736 million for sale to directors and employees in July 2001. The equity ratio rose by 1.0 percentage point to 34.5%.

Cash Flows

Consolidated cash and cash equivalents at the end of the year (hereafter referred to as net cash) stood at ¥15,449 million, a decrease of ¥6,507 million. Although net income and depreciation provided cash of ¥2,784 million and ¥17,493 million, respectively, the acquisition of property and equipment used cash of ¥20,363 million and the repayment of long-term debt used cash of ¥5,535 million.

Net cash provided by operating activities totaled ¥13,884 million. Major contributors of cash inflows of ¥28,326 million were net income of ¥2,784 million and depreciation of ¥17,493 million. Main outflows, including trade notes and accounts payable and income taxes payable, were ¥14,442 million.

Net cash used in investing activities totaled ¥13,055 million. This mainly reflected cash used to purchase marketable and investment securities of ¥30,729 million and the acquisition of property and equipment of ¥20,363 million.

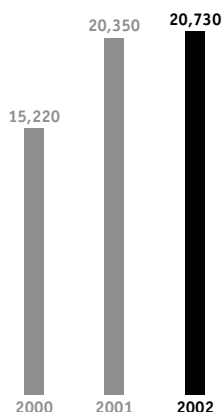
Net cash used in financing activities was ¥7,336 million. This primarily reflected the purchase of treasury stock of ¥734 million and the payment of cash dividends of ¥1,990 million.

Capital Expenditures

Capital expenditures totaled ¥20,730 million, an increase of ¥380 million. The majority of this amount went into streamlining and updating production facilities, boosting product quality and setting up cost-efficient facilities in the automobile lighting segment. By segment, capital expenditures were ¥19,145 million in the automotive lighting segment; ¥561 million in the non-automotive electrical equipment segment; and ¥1,024 million in the other products segment.

Capital Expenditures

(Millions of yen)



CONSOLIDATED BALANCE SHEETS

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries

At March 31,	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 21,956	¥ 15,449	\$ 115,940
Trade notes and accounts receivable	78,961	77,105	578,649
Less: Allowance for doubtful accounts	(1,181)	(1,112)	(8,345)
	77,780	75,993	570,304
Marketable securities	14,244	16,029	120,293
Inventories	18,306	19,943	149,666
Deferred income taxes (Note 7)	3,736	5,501	41,283
Prepaid expenses and others	8,466	6,650	49,906
Total current assets	144,490	139,565	1,047,392
Investments:			
Investment securities	69,924	59,038	443,062
Loans	1,871	1,969	14,777
Deferred income taxes (Note 7)	184	3,727	27,970
Other investments	7,435	6,266	47,024
Less: Allowance for doubtful accounts	(132)	(150)	(1,125)
Total investments	79,284	70,852	531,722
Property, plant and equipment, at cost:			
Buildings and structures	64,380	65,586	492,203
Machinery, equipment and tools	135,262	141,522	1,062,079
Less: Accumulated depreciation	(134,786)	(137,960)	(1,035,347)
	64,856	69,148	518,934
Land	13,392	12,891	96,743
Construction in progress	4,060	2,638	19,797
Property, plant and equipment, net	82,309	84,678	635,482
Total assets	¥ 306,084	¥ 295,097	\$ 2,214,612

At March 31,	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade notes and accounts payable	¥ 60,952	¥ 55,576	\$ 417,081
Short-term loans (Note 4)	34,732	25,613	192,218
Bonds due within one year (Note 4)	–	2,571	19,295
Income taxes payable (Note 7)	4,284	1,436	10,777
Accrued expenses and other current liabilities	27,796	27,029	202,844
Total current liabilities	127,766	112,225	842,214
Non-current liabilities:			
Long-term debt (Note 4)	22,359	28,008	210,191
Bonds (Note 5)	5,565	3,000	22,514
Accrued retirement benefits (Note 6)	19,388	21,829	163,820
Other non-current liabilities	2,439	2,058	15,445
Total non-current liabilities	49,753	54,898	411,992
Contingent liabilities (Note 9)			
Minority interests			
	26,031	26,235	196,886
Shareholders' equity:			
Common stock	14,270	14,270	107,092
320,000,000 shares authorized and 160,789,436 shares issued at 31 March, 2001 and 2002			
Additional paid-in capital	17,107	17,107	128,383
Retained earnings	62,786	64,373	483,099
Valuation adjustment on investment securities	9,454	6,719	50,424
Translation adjustments	(1,088)	4	30
Treasury common stock, at cost: 495 shares in 2001 and 1,164,239 shares in 2002	(0)	(736)	(5,523)
Total	102,532	101,738	763,512
Total liabilities and shareholders' equity	¥306,084	¥295,097	\$2,214,612

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries

For the years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Common stock:			
Beginning balance	¥ 14,270	¥ 14,270	\$107,092
Ending balance	¥ 14,270	¥ 14,270	\$107,092
Additional paid-in capital:			
Beginning balance	¥ 17,107	¥ 17,107	\$128,383
Ending balance	¥ 17,107	¥ 17,107	\$128,383
Retained earnings:			
Beginning balance	¥ 61,469	¥ 62,786	\$471,189
Increase by addition of equity investee	-	6	45
Adjustment for increase of subsidiaries	-	222	1,666
Beginning balance, as adjusted	¥ 61,469	¥ 63,014	\$472,901
Net income	¥ 3,072	¥ 2,784	\$ 20,893
Deductions:			
Cash dividends applicable to the year	(1,607)	(1,281)	(9,614)
Bonuses to directors and corporate auditors	(147)	(144)	(1,081)
Ending balance	¥ 62,786	¥ 64,373	\$483,099
Valuation adjustment on investment securities	¥ 9,454	¥ 6,719	\$ 50,424
Translation adjustments	¥ (1,088)	¥ 4	\$ 30
Treasury stock	(0)	(736)	(5,523)
Total	¥102,532	¥101,738	\$763,512

CONSOLIDATED STATEMENTS OF CASH FLOWS

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries

For the years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Cash flows from operating activities:			
Net income	¥ 3,072	¥ 2,784	\$ 20,893
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	17,513	17,493	131,280
Minority interests in consolidated subsidiaries	642	991	7,437
Provision for allowance for doubtful accounts	(97)	(120)	(901)
Provision for accrued retirement benefits	6,750	2,236	16,780
Loss on revaluation of marketable securities	176	960	7,205
Loss on sale and disposal of property and equipment	317	429	3,220
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	(5,488)	1,992	14,949
Marketable securities	0	(1,195)	(8,968)
Inventories	273	(1,538)	(11,542)
Prepaid expenses and others	3,706	1,441	10,814
Trade notes and accounts payable	2,692	(5,896)	(44,248)
Income taxes payable	(808)	(2,836)	(21,283)
Accrued expenses and other current liabilities	(671)	(1,418)	(10,642)
Others, net	319	(1,439)	(10,799)
Net cash provided by operating activities	28,396	13,884	104,195
Cash flows from investing activities:			
Acquisition of property and equipment	(20,350)	(20,363)	(152,818)
Proceeds from sale of property and equipment	1,068	635	4,765
Purchase of marketable and investment securities	(71,277)	(30,729)	(230,612)
Proceeds from sale of marketable and investment securities	58,059	35,842	268,983
Increase in long-term loans	(549)	(98)	(735)
Increase in other investments and other assets	(1,526)	1,658	12,443
Net cash used in investing activities	(34,575)	(13,055)	(97,974)
Cash flows from financing activities:			
Decrease in short-term bank loans	5,163	(9,575)	(71,857)
Increase in long-term bank loans	4,806	4,963	37,246
Purchase of treasury stock	-	(734)	(5,508)
Cash dividends	(2,119)	(1,990)	(14,934)
Net cash (used in) provided by financing activities	7,850	(7,336)	(55,054)
Change in cash and cash equivalents	1,671	(6,507)	(48,833)
Cash and cash equivalents at beginning of the year	20,285	21,956	164,773
Cash and cash equivalents at end of the year	¥ 21,956	¥ 15,449	\$ 115,940

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation

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

The accompanying consolidated financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan and compiled from the consolidated financial statements filed with the Ministry of Finance as required by the Securities and Exchange Law of Japan and include certain additional financial information for the convenience of readers outside Japan, although such statements are not required in Japan.

2. Summary of significant accounting policies

- (1) The accompanying consolidated financial statements for the years ended March 31, 2001 and 2002 include the accounts for the Company and the 21 subsidiaries 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
Shizuokadense 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
Kosmotec 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 Ltd.	50
Inhee Lighting Co., Ltd.	50
Koito Czech s.r.o.	100

(*) Represents ownership at March 31, 2002 and includes shares owned through consolidated subsidiaries.

- (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 historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year.

Foreign currency translation adjustments are included in 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, substantially all 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. A consolidated subsidiary, KOITO INDUSTRIES, LIMITED, expenses its transition obligation in installments over a period of five years starting from the last year.
Other domestic consolidated subsidiaries recorded their accrued severance indemnities at the amount which would be required if eligible employees retired voluntarily at the balance sheet date.
In addition to the above accrued severance indemnities, the consolidated subsidiaries have pension plans which cover a portion of severance payments at the retirement age.
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 a shareholders' meeting which 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**
Net income and dividend per share amounts are computed based on the weighted-average number of shares of common stock outstanding during the applicable 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 anticipating from these transactions and to fix the cash flows value resulting from future transactions denominated in foreign currencies and loans bearing interest. Due to the nature of the hedging arrangements, no significant losses are anticipated.

3. U.S. dollar amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥133.25=\$1, the approximate rate of March 31, 2002 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, 2001 and 2002, short-term loans consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Loans, principally from banks			
To the Company	-	-	-
To consolidated subsidiaries	¥34,732	¥25,613	\$192,218
Total	¥34,732	¥25,613	\$192,218

At March 31, 2001 and 2002, long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Loans, principally from banks			
To the Company	-	-	-
To consolidated subsidiaries	¥22,359	¥28,008	\$210,191
Total	¥22,359	¥28,008	\$210,191

5. Bonds

At March 31, 2001 and 2002, bonds consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Bonds			
Issued by the Company	-	-	-
Issued by consolidated subsidiaries	¥5,565	¥5,571	\$41,809
Total	¥5,565	¥5,571	\$41,809
Less: Current maturities	-	¥2,571	\$19,295
Total	¥5,565	¥3,000	\$22,514

6. Employee retirement benefits

Retirement benefit obligation at March 31, 2001 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Retirement benefit obligations originally	¥ 84,419	¥ 80,987	\$ 607,782
Plan assets	(58,744)	(53,333)	(400,248)
Funded status	25,675	27,654	207,535
Unrecognized net transition obligation	(6,287)	(4,715)	(35,385)
Unrecognized actuarial loss	-	(1,109)	8,323
Accrued retirement benefits on balance sheet	¥(19,388)	¥(21,829)	\$(163,820)

Net periodic cost for 2001 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Service cost	¥ 4,317	¥ 2,845	\$ 21,351
Interest cost	2,792	2,735	20,525
Expected return on plan assets	(2,030)	(1,789)	(13,426)
Amortization of transition obligation	2,505	1,571	11,790
Actuarial loss	(588)	277	2,079
Net periodic cost	¥ 6,996	¥ 5,639	\$ 42,319

7. Income taxes

Reconciliation of the differences between the statutory tax rate and the effective income tax rate of the Company and its subsidiaries is as follows:

At March 31,	2001	2002
Statutory tax rate	42.0%	42.0%
Permanently nondeductible expenses	6.9	6.6
Permanently nondeductible dividends received	(6.8)	(5.4)
Per capita rate on inhabitants' tax	1.3	1.3
Tax credit on increased research & development cost	(3.4)	(3.5)
Effective income tax rate	40.0%	40.0%

The significant components of deferred tax assets and liabilities at March 31, 2001 and 2002 were as follows:

At March 31,	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Deferred tax assets:			
Excess accrued bonus	¥ 1,105	¥ 1,444	\$ 10,837
Excess accrued retirement benefits	3,427	4,585	34,409
Retirement allowance to directors disallowed	599	528	3,962
Excess depreciation	3,673	4,671	35,054
Loss on revaluation of investment securities	-	493	3,700
Amortization of development cost	920	291	2,184
Others	1,077	2,263	16,983
Deferred tax assets total	¥10,802	¥14,275	\$107,129
Deferred tax liabilities:			
Condensed reserve on trade-in assets	¥ (578)	¥ (567)	\$ (4,255)
Valuation adjustment of investment securities	(6,303)	(4,479)	(33,614)
Deferred tax liabilities total	¥(6,881)	¥(5,046)	\$(37,869)
Net deferred tax assets (liabilities)	¥ 3,920	¥ 9,229	\$ 69,261

8. Stock option plans

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

9. Contingent liabilities

At March 31, 2001 and 2002, the Company and its consolidated subsidiaries had the following contingent liabilities:

As guarantor of employees' housing loans and other from banks and others	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
	¥65	¥56	\$420

10. Segment information

INDUSTRY SEGMENT INFORMATION

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

Lighting Equipment Division: Headlamps, miscellaneous car lamps, all-glass sealed beam lamp units, rear lamps, indicators, high-mount stop lamps and halogen bulbs.

Other Electric Equipment Division: Road traffic signals, traffic control systems, sanitary equipment and control systems for rail transports.

Others: Aircraft lights, environmental control systems, air conditioning equipment, various electric applications equipment, various special equipment, transportation, finance and insurance.

	Millions of yen				
	Lighting Equipment Division	Other Electric Equipment Division	Others	Elimination of Inter-Segment Items	Consolidated Total
For the year ended March 31, 2001					
Sales:					
Sales to outside customers	¥215,381	¥60,628	¥21,270	¥ -	¥297,280
Inter-segment sales and transfers	46,484	-	2,794	(49,278)	-
Total	<u>261,865</u>	<u>60,628</u>	<u>24,064</u>	<u>(49,278)</u>	<u>297,280</u>
Operating expenses	251,580	59,321	23,210	(47,823)	286,288
Operating income	¥ 10,284	¥ 1,307	¥ 854	¥ (1,455)	¥ 10,991
Identifiable assets at March 31, 2001	¥141,490	¥68,425	¥58,662	¥ 37,507	¥306,084
Depreciation	¥ 15,298	¥ 1,257	¥ 899	¥ 59	¥ 17,513
Capital expenditures	¥ 18,720	¥ 458	¥ 1,172	¥ -	¥ 20,350

	Millions of yen				
	Lighting Equipment Division	Other Electric Equipment Division	Others	Elimination of Inter-Segment Items	Consolidated Total
For the year ended March 31, 2002					
Sales:					
Sales to outside customers	¥221,718	¥57,130	¥22,291	¥ -	¥301,141
Inter-segment sales and transfers	42,845	-	2,785	(45,630)	-
Total	<u>264,563</u>	<u>57,130</u>	<u>25,077</u>	<u>(45,630)</u>	<u>301,141</u>
Operating expenses	255,813	54,982	24,666	(44,101)	291,361
Operating income	¥ 8,750	¥ 2,148	¥ 410	¥ (1,529)	¥ 9,779
Identifiable assets at March 31, 2002	¥149,965	¥60,081	¥53,996	¥ 31,055	¥295,097
Depreciation	¥ 15,371	¥ 1,169	¥ 891	¥ 62	¥ 17,493
Capital expenditures	¥ 19,145	¥ 561	¥ 1,024	¥ -	¥ 20,730

	Thousands of U.S. dollars				
	Lighting Equipment Division	Other Electric Equipment Division	Others	Elimination of Inter-Segment Items	Consolidated Total
For the year ended March 31, 2002					
Sales:					
Sales to outside customers	\$1,663,925	\$428,743	\$167,287	\$ -	\$2,259,970
Inter-segment sales and transfers	321,538	-	20,901	(342,439)	-
Total	<u>1,985,463</u>	<u>428,743</u>	<u>188,195</u>	<u>(342,439)</u>	<u>2,259,970</u>
Operating expenses	1,919,797	412,623	185,111	(330,964)	2,186,574
Operating income	\$ 65,666	\$ 16,120	\$ 3,077	\$ (11,475)	\$ 73,388
Identifiable assets at March 31, 2002	\$1,125,441	\$450,889	\$405,223	\$ 233,058	\$2,214,612
Depreciation	\$ 115,355	\$ 8,773	\$ 6,687	\$ 465	\$ 131,280
Capital expenditures	\$ 143,677	\$ 4,210	\$ 7,685	\$ -	\$ 155,572

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, 2001 and 2002 is as follows:

	Millions of yen						Consolidated
	Japan	North America	Asia	Europe	Total	Elimination and other	
For the year ended March 31, 2001							
Sales:							
Sales to outside customers	¥220,425	¥39,830	¥32,370	¥ 4,652	¥297,280	¥ -	¥297,280
Inter-area sales and transfers	48,652	-	626	-	49,278	(49,278)	-
Total	269,077	39,830	32,996	4,652	346,558	(49,278)	297,280
Operating expenses	257,776	39,728	30,890	5,714	334,111	(47,823)	286,288
Operating income (loss)	¥ 11,301	¥ 102	¥ 2,105	¥(1,062)	¥ 12,446	¥ (1,455)	¥ 10,991
Total assets	¥211,661	¥22,469	¥26,878	¥ 7,569	¥268,577	¥ 37,507	¥306,084

	Millions of yen						Consolidated
	Japan	North America	Asia	Europe	Total	Elimination and other	
For the year ended March 31, 2002							
Sales:							
Sales to outside customers	¥220,967	¥40,979	¥33,927	¥ 5,267	¥301,141	¥ -	¥301,141
Inter-area sales and transfers	44,851	-	767	11	45,630	(45,630)	-
Total	265,818	40,979	34,695	5,278	346,771	(45,630)	301,141
Operating expenses	255,859	40,531	32,471	6,601	335,462	(44,101)	291,361
Operating income (loss)	¥ 9,959	¥ 448	¥ 2,223	¥(1,322)	¥ 11,309	¥ (1,529)	¥ 9,779
Total assets	¥199,965	¥23,766	¥30,373	¥ 9,937	¥264,042	¥ 31,055	¥295,097

	Thousands of U.S. dollars						Consolidated
	Japan	North America	Asia	Europe	Total	Elimination and other	
For the year ended March 31, 2002							
Sales:							
Sales to outside customers	\$1,658,289	\$307,535	\$254,612	\$39,527	\$2,259,970	\$ -	\$2,259,970
Inter-area sales and transfers	336,593	-	5,756	83	342,439	(342,439)	-
Total	1,994,882	307,535	260,375	39,610	2,602,409	(342,439)	2,259,970
Operating expenses	1,920,143	304,173	243,685	49,538	2,517,538	(330,964)	2,186,574
Operating income (loss)	\$ 74,739	\$ 3,362	\$ 16,683	\$(9,921)	\$ 84,871	\$(11,475)	\$ 73,388
Total assets	\$1,500,675	\$178,356	\$227,940	\$74,574	\$1,981,553	\$ 233,058	\$2,214,612

11. Subsequent events

At the general shareholders' meeting held by the Company on June 27, 2002, appropriations of retained earnings were duly approved as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥4 per share (\$32.28 per 1,000 shares)	¥638	\$4,788
Bonuses to directors and corporate auditors	113	848

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS ON THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors
KOITO MANUFACTURING CO., LTD.

We have examined the consolidated balance sheets of KOITO MANUFACTURING CO., LTD. and its subsidiaries at March 31, 2001 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for the years ended March 31, 2001 and 2002, all expressed in Japanese yen. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express our opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the auditing standards generally accepted in Japan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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, 2001 and 2002, and the consolidated results of their operations and their cash flows for the years ended March 31, 2001 and 2002, in conformity with generally accepted accounting principles in Japan applied on a consistent basis.



TACHIJI MIZUNO

KINGO SAKURAI

AKIO NAGASAWA

Certified Public Accountants

June 28, 2002

NETWORK

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OVERSEAS TECHNICAL ASSOCIATES

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

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

Industrias Ardeb S. A. (Brazil)

Koito Europe Limited (U.K.)

Koito Czech s.r.o. (Czech)

Senalizacion y Accesorios del Automovil

Yorka, S.L. (Spain)

Bayraktarlar Motorlu Vasitalar Ticaret Ve

Sanayii A.S. (Turkey)

Automotive Lighting Italia S.p.A. (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)

Inhee Lighting Co., Ltd. (Korea)

India Japan Lighting Ltd. (India)

Bangkok Diecasting and Injection

Co., Ltd. (Thailand)

Hella Australia Pty Ltd (Australia)

Hella-Phil., Inc. (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

Kosmotec 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

CORPORATE DIRECTORY

HEAD OFFICE

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East-Asia Operations

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Euro-American Operations

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PLANTS

Shizuoka Plant (Shizuoka Pref.)
Haibara Plant (Shizuoka Pref.)
Kikkawa Plant (Shizuoka Pref.)
Sagara Plant (Shizuoka Pref.)
Fujikawa Tooling Plant (Shizuoka Pref.)
Fujikawa Plant (Shizuoka Pref.)

LABORATORY

Laboratory (Shizuoka Pref.)

DOMESTIC BUSINESS NETWORK

Tokyo Branch (Tokyo)
Toyota Branch (Aichi Pref.)
Osaka Branch (Osaka)
Hiroshima Branch (Hiroshima Pref.)
Sendai Sales Office (Miyagi Pref.)
Utsunomiya Sales Office (Tochigi Pref.)
Ohta Sales Office (Gunma Pref.)
Tokyo Sales Office (Tokyo)
Atsugi Sales Office (Kanagawa Pref.)
Shizuoka Sales Office (Shizuoka Pref.)
Nagoya Sales Office (Aichi Pref.)
Osaka Sales Office (Osaka)
Fukuoka Sales Office (Fukuoka Pref.)

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Facsimile: 1-206-386-5640

INVESTOR REFERENCE

As of March 31, 2002

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 (Non-consolidated)
Employees:	4,485 (Non-consolidated)
Common stock:	
Authorized:	320,000,000 shares
Issued:	160,789,436 shares
Number of shareholders:	8,670
Transfer Agent:	The Mitsubishi Trust and Banking Corporation Corporate Agency Department 1-7-7, Nishi-Ikebukuro, Toshima-ku, Tokyo 171-8508, Japan Phone: 81-3-5391-1900

Principal Shareholders:

TOYOTA MOTOR CORPORATION
The Mitsubishi Trust and Banking Corporation (Trust account)
Matsushita Electric Industrial Co., Ltd.
Japan Trustee Services Bank, Ltd. (Trust account)
NIPPON LIFE INSURANCE COMPANY
Sumitomo Mitsui Banking Corporation
THE DAI-ICHI KANGYO BANK, LIMITED
The Bank of Tokyo-Mitsubishi, Ltd.

Note: The operations of THE DAI-ICHI KANGYO BANK, LIMITED were consolidated with those of The Industrial Bank of Japan, Limited and The Fuji Bank, Limited, and they were reorganized into Mizuho Bank, Ltd. and Mizuho Corporate Bank, Ltd., on April 1, 2002.

For further information, please contact:

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 KOITTO MANUFACTURING CO., LTD.



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