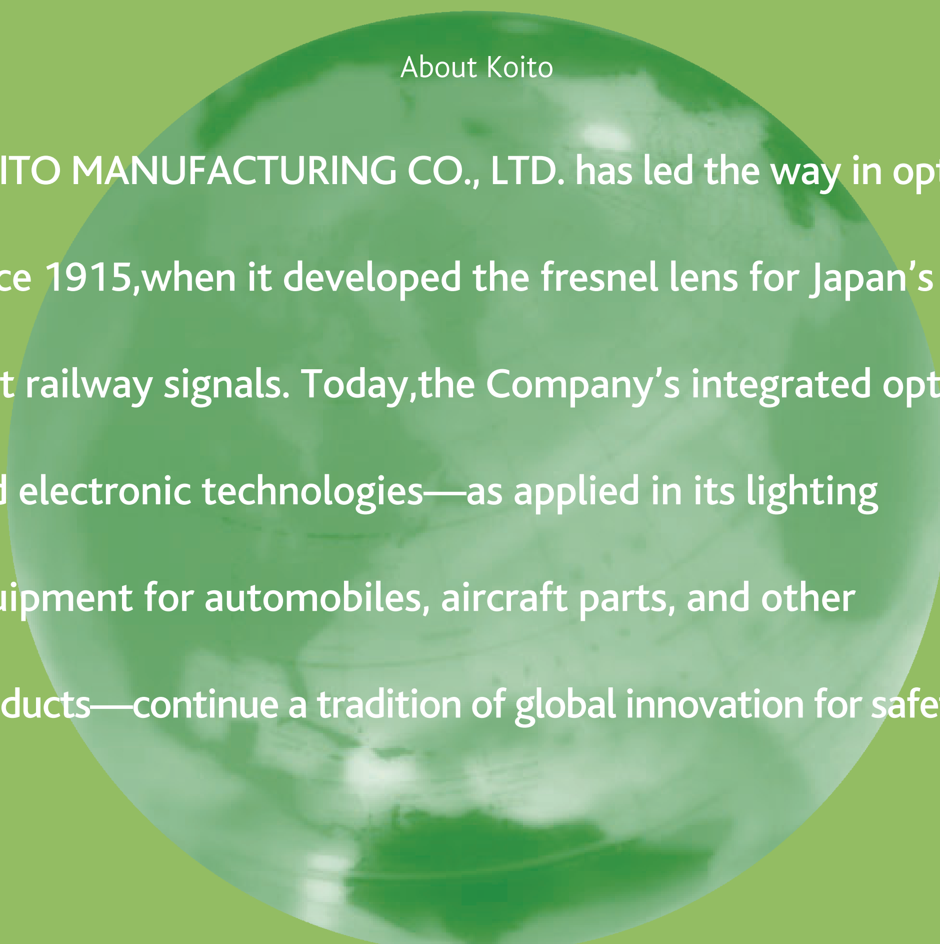
KOITO

2001 ANNUAL REPORT

YEAR ENDED MARCH 31, 2001

STRIVING FOR ACCELERATED GROWTH OVERSEAS



About Koito

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.

STRIVING FOR ACCELERATED GROWTH OVERSEAS

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

TO OUR SHAREHOLDERS

Junsuke Kato, President

Koito's goal is to capture a 25% share of the global market for automobile lighting devices as early as 2005. To this end, the company is aggressively promoting innovative technology and product development, while shortening the product development cycle and streamlining the production system.

Today, the automotive components industry is being called upon to lay the foundations for a worldwide optimal supply system. Competition for orders is expected to grow still more intense, while the business environment is likely to witness dramatic transformation. Koito will unfold a worldwide business strategy premised on the following imperatives: "Reinforce global management and increase global share," "Optimally allocate and effectively deploy resources to renew our organization," and "Establish a revolutionary R&D system and provide next-generation products." The aim is to create a powerful corporate organization that can speedily and flexibly meet customer needs.

	Millions of yen (except per share amounts)	
	2000	**2001**
Net sales	¥279,034	**¥297,280**
Operating income	9,288	**10,991**
Net income	3,412	**3,072**
Total assets	275,063	**306,084**
Total shareholders' equity	92,848	**102,532**
Net income per share	21.23	**19.11**

REVIEW OF FISCAL 2001

In fiscal 2001, ended March 31, 2001, Japan's economy continued to suffer from sluggish consumer spending, with no glimmer of light at the end of the tunnel. Under these conditions, Koito worked to establish a global operating network with bases in Japan, the U.S, Asia and Europe, and made a concerted effort to bolster R&D and production capacity while assuring the highest standards of quality.

As a result of these endeavors, consolidated sales climbed 6.5% to ¥297,280 million and operating income increased 18.3% to ¥10,991 million. However, the company booked a one-time extraordinary charge for a shortfall in retirement benefit liabilities arising from a change in accounting standards. Additionally, Koito incurred a write-down of R&D expenses carried forward at North American Lighting, Inc. (NAL), a U.S. subsidiary, likewise arising from a change in accounting standards. As a consequence, net income was ¥3,072 million, a decrease of 10.0% year on year.

Under its basic policy of returning stable profits to shareholders, the Koito Group makes dividend payments that reflect its operating results and business conditions. Concurrently, the company aims to bolster retained earnings to fund business ventures, new technology and product development, efforts to raise efficiency and reduce costs, and other initiatives targeted at improving earnings. In this way, Koito is committed to fulfilling the expectations of shareholders and establishing a corporate structure that can respond flexibly to change.

SEGMENT OPERATING RESULTS

The automotive lighting equipment division saw sales increase 8.6% to ¥215,381 million, thanks to higher orders for larger and multi-functional headlamps, and efforts to improve the strengths of Koito products.

Non-automotive electrical equipment division sales climbed 2.5% to ¥60,628 million, reflecting strong demand for Shinkansen devices, which spurred growth in railway equipment and offset cutbacks in orders for traffic signals and other public safety equipment from local governments.

In the other products division, sales declined 1.0% to ¥21,270 million. The marginal decrease was attributable to the aircraft parts business being adversely affected by lower aircraft production overseas, and also reflected a slowdown in bulk orders for aircraft seats.

KOITO'S AREA-FOCUSED STRATEGIES

Koito currently holds an 18% share in the worldwide market for automobile headlamps and a 19% share in rear combination lamps. The company is unfolding a strategy focused on capturing a 25% worldwide market share as early as 2005.

Japanese and overseas automakers are seeking to procure parts from optimal locations around the world. In the automotive components industry, automakers are faced with the urgent need to establish production and supply bases in optimal locations worldwide. Koito has built a solid position as a global supplier capable of meeting those needs. Under these market conditions, Koito will stay ahead of the competition by reinforcing its market position on two fronts: bolstering R&D, production, and sales systems at overseas bases and promoting a structure of mutual complementarity within the Koito Group.

Japan >> In the auto industry, some estimate that auto sales in Japan will hold a steady course owing to frequent model changes. However, Koito projects that domestic production volume will fall below 10 million vehicles this year due to higher overseas production and a decline in exports due to adverse economic conditions. Koito will work hard to set itself apart from the competition in the many areas where the company holds competitive advantages. These include Koito's unparalleled cost transparency, product technologies and standards of quality, as well as the responsiveness of its R&D to customer needs.

North America >> Although U.S. automobile production showed signs of slowing in the second half of 2000, a distinctive feature of this market is that unlike Japan, the U.S. market is not catering to an aging population. While U.S. production volume has already exceeded the 16 million vehicle mark, the market is unlikely to grow any further. However, sales to Japanese automobile manufacturers, which make up approximately 70% of NAL sales, are likely to remain unaffected, as Japanese automobile manufacturers have continued to perform well.

Asia >> The Asian region is home to several markets with high potential for growth. In China, the Shanghai Koito Technical Center is under construction and is scheduled to go online in autumn 2001. Koito will transfer 100 designers and technicians from Shanghai Koito Automotive Lamp Co., Ltd., a joint venture, to the new facility, and additional personnel increases are in the pipeline, with the goal of enhancing product development. Ta Yih Industrial Co., Ltd., a group company based in Taiwan, has suffered from sluggish economic conditions in that country. However, other group companies in the region are performing well. These include Inhee Lighting Co., Ltd. of South Korea, THAI KOITO COMPANY LIMITED and India Japan Lighting Ltd.

Europe >> Koito Europe Ltd., headquartered in the UK, saw a steady increase in orders, and production is projected to substantially exceed current capacity in 2002. Koito Czech s.r.o., established in March 2001, is Koito's second production base in Europe and will increase production capacity in the region. Koito is investing about ¥3.0 billion in a new plant to produce headlamps, with operations scheduled to begin in September 2002. Plans call for manufacturing 0.8 million headlamps per year by 2004, and for boosting production to 1.6 million headlamps per year by 2005. Koito will also launch production of signaling lamps in 2005. The new plant in the Czech Republic will play a vital role in promoting Koito's business strategy in Europe.

OUTLOOK

As a first-rate manufacturer of automotive lighting and electrical equipment, Koito is committed to creating value for customers while remaining steadfast to its polestar of "Entrusting safety to light." With this in mind, we will continue to provide innovative technologies while ensuring the highest standard of reliability. By promoting a keen awareness of this principle among all employees, Koito has improved productivity and operating efficiency. Above all, Koito has earned the confidence of its customers. This principle is kept firmly in mind in all the company's endeavors.

The Koito Group is working to dramatically advance R&D activities. At the same time, Koito is creating even more attractive products, shortening product-to-market lead times and slashing costs. The ultimate objective is to enhance the performance of the entire Koito Group.

I ask for the continued support of our shareholders as Koito moves ahead toward an even brighter future.

Junsuke Kato

JUNSUKE KATO, President
September 2001

STRIVING FOR ACCELERATED GROWTH OVERSEAS

Domestic operations cover not only automotive lighting, but a wide range of other lighting equipment and electrical components. These include aircraft lighting, control systems for rail transport, traffic control systems, external lighting, lighting components and metal dyes.

Domestic sales accounted for 74.1% of Koito's worldwide net sales in fiscal 2001, representing the bulk of Koito's global business.

MEASURES TO ENHANCE OPERATIONS IN JAPAN

In automotive lighting equipment, Koito worked to increase sales of gas discharge headlamps (GDHLs) based on a four-lamp system. GDHLs, which employ a hybrid system of High Intensity Discharge lamps for low beam lighting and halogen lamps for high-beam lighting, had been reserved for medium- to high-end vehicles because of their high price. In August 2000, however, Koito developed GDHLs based on a two-lamp system for small passenger cars and mini-vehicles. The development of these GDHLs will considerably enlarge our market. Indeed, by 2004, 29% of new vehicles in Japan are expected to be equipped with GDHLs. In the years ahead, Koito will continue to increase production of GDHLs and pursue a strategy to add even more value to products.

In response to global industry consolidation and the application of IT to automobiles, Koito is focusing on its human resources (HR) and corporate organization to create an agile operating structure. Instilling a new mindset in managerial staff is a critical challenge. In 1998, Koito established the Organizational Reform Committee. Since then, the company has been aggressively working to streamline its organization, lower the age requirements for promotion, introduce a new HR system for specialized professions and revise the personnel evaluation system.

The goal of reforming the personnel system is to foster managers who are capable of making decisions swiftly and appropriately. They will be called upon to perform not only in Japan, but will be stationed at overseas affiliates with the aim of enhancing Koito's overseas businesses. Overseas employees are also registered under a new system designed to foster human resources on a worldwide scale.

QUALITY ASSURANCE

Meanwhile, 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 made great strides in quality assurance. In January 2000, Koito obtained the QS 9000 and ISO 9001 international certifications for quality assurance systems.

R&D SETUP

Shorten the time required to develop new technologies and products

Shortening the development period for automotive lighting equipment bears crucially on securing new orders. For this reason, Koito is sharply focused on this issue. Strengthening the R&D setup is another priority.

In Japan, the automobile development timeframe has declined from roughly 24 months to 18 months. The shortest development period recorded is 11 months. Automobile headlamps not only play an important role in ensuring safe driving, but also heavily influence the external design of automobiles. Once vehicle designs are finalized, headlamps are often redesigned.

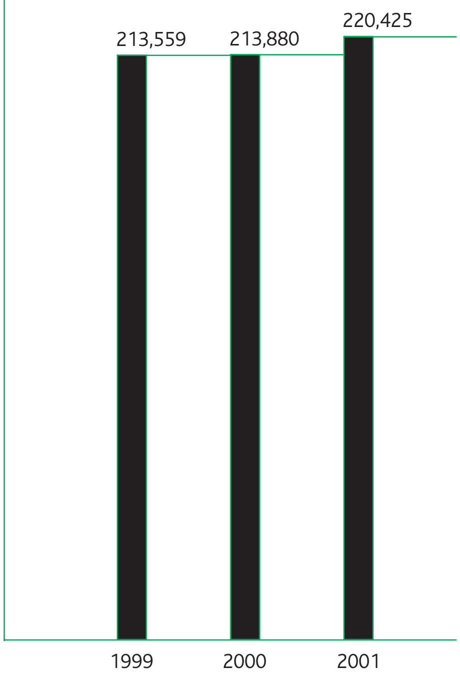
Evolution—Koito Innovation of Neo-Digital System (e-KINDs)

Koito has introduced a system called "e-Kinds" for the purpose of shortening development periods. By 2003, the company intends to reduce the development period—extending from the finalization of design for new models to mass production of lighting equipment—from 18 months to six months. Koito first obtains preliminary design sketches, product concepts and other information on new models before the design process is finalized. The company then uses this information to create computer graphic designs of headlamps, which are then submitted to automakers. Concurrent with this process, Koito also uses preliminary data to create digital designs of metal molds and manufacturing equipment. These designs are carefully developed and evaluated to slash the time required for development work, from the completion of new model designs through to headlamp specifications.

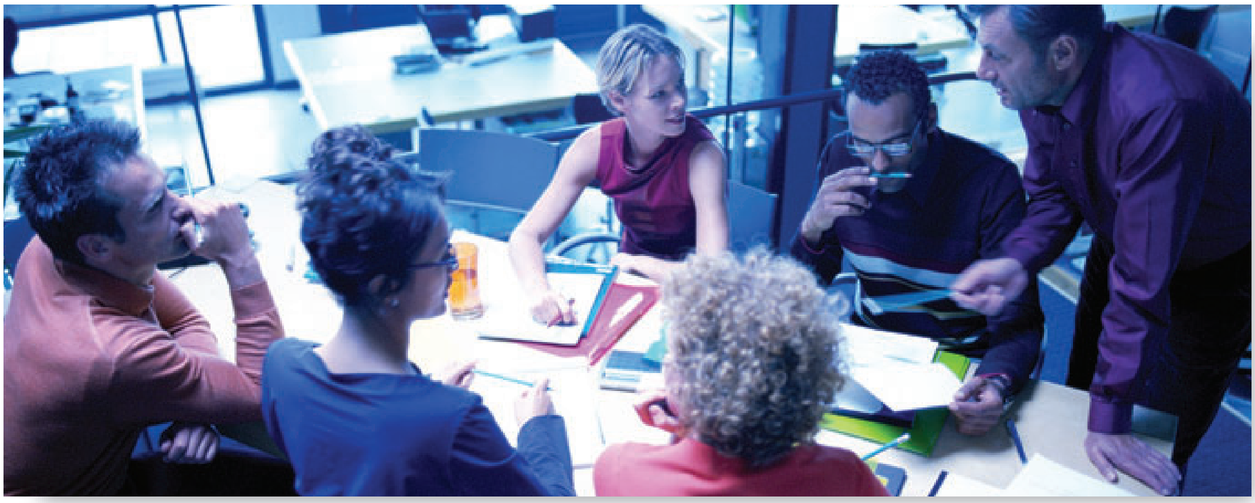
Summary of results—Net sales in Japan climbed 3.1% year on year to ¥220,425 million, primarily as a result of a number of initiatives. These included efforts to change the mindset of manager-level employees toward personnel and the organization as a whole, the development of gas discharge headlamps based on a two-lamp system, and shortening development lead-times for automotive lighting equipment.

Net Sales in Japan

(Millions of yen)



"Capitalizing on Core Strengths"



Sales in North America for fiscal 2001 were ¥39,830 million, representing 13.4% of worldwide net sales and approximately half of overseas sales. Koito is targeting sales of no less than ¥45.0 billion for the fiscal year ending March 2002.

MEASURES TO ENHANCE OPERATIONS IN NORTH AMERICA

North American Lighting, Inc. (NAL) Manufacturing System

Robust demand for new types of products, such as larger headlamps, ultra-clear lenses and larger signaling lamps, has driven significant increases in production volume not only in Japan, but at NAL as well. In a new round of capital expenditures, NAL has added new buildings, assembly facilities and molding equipment to the Flora Plant, which produces headlamps, and to the Salem Plant, which produces signaling lamps. These moves pave the way for the next stage of growth. Sales promotion activities targeting the Big Three automakers are already producing results. Koito is considering enhancing production capacity further, and the construction of a third plant remains a distinct possibility for the near future.

The U.S. automobile market has undergone a slowdown, precipitated by a slump in stock prices, which has led to production cutbacks and lay-offs at the Big Three automakers. Although U.S. auto production is beginning to show signs of slowing, one distinctive feature of this market is its demographics: the consumer population is not as advanced in age as that in Japan. Aggregate production volume has reached the 16 million mark, but is unlikely to exceed this figure in the near future. However, sales to Japanese automakers, which make up 70% of sales by NAL, remain brisk. Therefore, Koito projects that market conditions will have a negligible effect on NAL sales.

R&D SETUP

Previously, NAL maintained separate offices in Farmington Hills, a suburb of Detroit: one office for marketing and design, and another for product development. In July 2000, these two offices were combined. The new office has been positioned as Koito's U.S. Technical Center in a move to bolster the company's organization and capture more orders.

In December 2000, Koito and Ichikoh Industries, Ltd. reached an agreement for Koito to purchase Ichikoh's remaining shares in North American Lighting, Inc. Ichikoh will withdraw from the business within 2001, making NAL the second wholly owned subsidiary of the Koito Group, following Koito Europe Limited.

Summary of results—The economic slowdown in North America, which began with a slump in stock prices, brought about production cuts and layoffs at the Big Three automakers. However, NAL sales increased 12.6% year on year to ¥39,830 million, reflecting higher sales to Japanese automakers, which account for approximately 70% of NAL sales.

Net Sales in North America

(Millions of yen)

"Opportunity and Growth"

Asian economies returned to a growth track in 2000, after finally shaking off the effects of the Asian financial crisis. In the second half of the fiscal year, however, the region was affected by the slowdown in the U.S. and Japanese economies. The automobile industry is recovering in every region except Taiwan, and production volume continues to rise.

MEASURES TO ENHANCE OPERATIONS IN ASIA

China: There are nearly 200 manufacturers of automotive lighting equipment in China. In this competitive environment, Shanghai Koito Automotive Lamp Co., Ltd., our local subsidiary, boasts the leading local market share of 22%. Koito supplies a full range of lamps for its main customers in China: Shanghai Volkswagen and Shanghai GM. This is underpinning our strong performance in this region. However, as China's accession to the WTO approaches, Koito expects automobile manufacturers to renew calls for lower prices. Accordingly, Koito will improve its R&D capabilities and adopt a flexible manufacturing system.

Thailand: Automobile production in Thailand is well on the road to recovery, having overcome the currency crisis of July 1997. Since 2000, automakers have concentrated efforts on the production of export models, despite higher oil prices and the weak baht. As a result, overall production volume is expected to rise over the previous year. Sales by THAI KOITO COMPANY LIMITED mainly to Japanese automakers have steadily increased, and the bottom line has substantially improved despite persistently difficult market conditions since the currency crisis. Overall, THAI KOITO COMPANY LIMITED reported a substantial year-on-year increase in net income for fiscal 2000.

Republic of Korea: The Korean automotive industry was dealt a severe blow by a recession in 1998 and the depreciation of the won. However, the Hyundai Group's automobile production volume recovered owing to an abrupt turnaround in economic growth in the country. This, in turn, has driven sales growth at Inhee Lighting Co., Ltd., whose principal customer is the Hyundai Group. Although the company enjoys a 50% share of the domestic market for signaling lamps, its share of the headlamp market, for which production has just begun, remains small. This is another area where we will strive to increase orders for headlamps toward our goal of securing a 25% share of the global market.

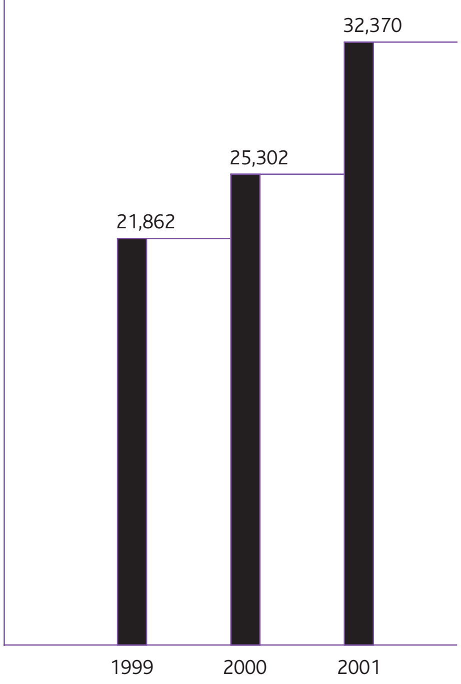
Taiwan: From the end of 2000, Taiwan's economy showed clear signs of a slowdown. However, sales and earnings both increased during fiscal 2001, on the back of increases in automobile production volume, higher unit sales prices due to the adoption of larger and high-end automotive lighting equipment, exports to the ASEAN region and higher sales of metal molds and parts for auto repairs. In calendar 2001, the sharp economic downturn in Taiwan will inevitably lead to a decline in automobile production volume. Under difficult market conditions, Koito will endeavor to sustain higher earnings by marking up unit sales prices and streamlining operations.

India: India's automobile market is one of the most promising in the world in terms of growth potential. Japanese, U.S. and European automakers have launched full-scale production in the region in competition with local manufacturers. Although an increase in sales tax dampened growth to a certain extent in 2000, prospects for high growth over the long-term remain positive. Intensified global competition among automakers has placed a stronger emphasis on style in the design of new models, and the use of resin headlamps has become more prevalent. However, Koito has yet to make a profit on resin headlamps due to the substantial start-up costs of this business. To become profitable in this area, Koito will continue to streamline and rationalize operations, while improving R&D capabilities.

Summary of results—Asian markets, with the exception of Taiwan, returned to recovery footings. Automobile production volume increased, notably in China and South Korea. As a result, sales in Asia rose 27.9% year on year to ¥32,370 million.

Net Sales in Asia

(Millions of yen)



"Poised for Growth"

European sales make up 1.6% of Koito's worldwide net sales. Although accounting for only a small proportion of Koito's global business, the European market is vital to Koito's goal of attaining 25% world market share. In the UK, an increase in orders from existing business partners and new contracts from several EU automobile manufacturers has prompted Koito to establish a new production base in the Czech Republic.

MEASURES TO ENHANCE OPERATIONS IN EUROPE

The strength of the pound against the euro has prevented Koito Europe Limited, the operator of Koito's production base in the UK, from making a profit. Moving forward, the company expects orders from existing and new business partners to increase. After careful consideration of the situation, Koito resolved to build a second European production base in the Czech Republic. Koito Czech s.r.o. was established in March 2001 to lay the foundations for production in this country.

Koito Czech is the company's second base for European operations, producing headlamps and signaling lamps. Koito is investing approximately ¥3.0 billion in a new plant, situated on a 62,400m^2 site. The first phase of construction will cover a building lot of 13,600m^2, and will see the introduction of facilities for molding, vacuum metalizing, assembly and other processes to manufacture headlamps. Plans call for the completion of construction in May 2002, and the launch of production in September 2002. Koito plans to employ 120 workers at the start of production, raising their number to 200 in 2004, and 400 in 2005. In terms of production capacity, Koito expects to manufacture 0.8 million headlamps in 2004, and 1.6 million by 2005. Production of signaling lamps will commence in 2005, with plans to manufacture one million units by 2007. The new plant marks the full-scale launch of our business expansion strategy in Europe. Furthermore, Eastern Europe offers lower fixed costs than the UK or Japan. Koito will turn this to its advantage in seeking to improve its bottom line.

R&D SETUP

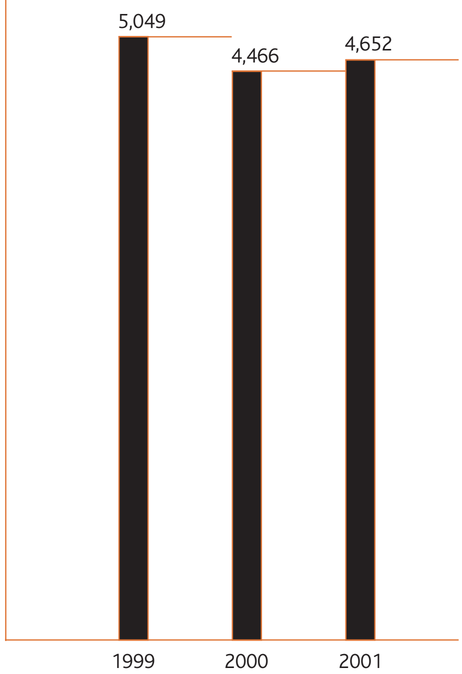
Expanding European Business Through Membership in CLEPA

On September 8, 2000, Koito became the first Japanese manufacturer of automotive lighting equipment to be approved for membership in CLEPA (European Association of Automotive Suppliers). Koito's application for membership was prompted by two key needs: to obtain accurate and timely information on trends in the European automotive components industry and strategies of European automobile manufacturers; and to exchange views with European automotive component manufacturers and thus gain a more accurate grasp of European technologies and legislation.

Summary of results—Sales in Europe were ¥4,652 million, an increase of 4.2%, owing mainly to higher orders from existing and new customers. Operating losses grew, however, due to the appreciation of the pound against the euro.

Net Sales in Europe

(Millions of yen)



RESEARCH AND DEVELOPMENT

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

At present, technology development in the area of automotive lighting equipment is carried out at KOITO MANUFACTURING's Engineering Headquarters and Research Laboratory. Koito Industries, Limited, a consolidated subsidiary, undertakes development in the field of non-automotive electrical equipment.

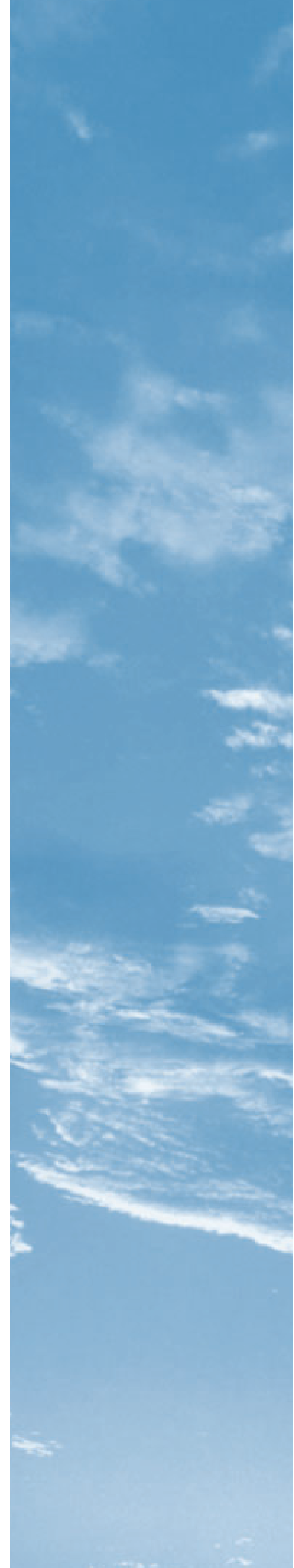
Next-Generation Lighting System: Adaptive Front Lighting System (AFS)

Koito also became the first non-European company to participate in EUREKA, a joint international research endeavor mainly comprising European governments and corporations. As a member of one of EUREKA's programs—the Adaptive Front Lighting System (AFS) project—Koito is at the vanguard of the development of a system that automatically controls the light provided by headlamps in response to weather, traffic and road conditions. The system is slated for regulatory approval in 2002 in both Europe and Japan. New models equipped with AFS are likely to be rolled out in 2003.

The development of technologies for mass production of AFS was completed in 2000. At present, Koito is developing AFS and planning mass production in parallel. Koito has also applied for many patents pertaining to AFS technology. Domestic orders for AFS-equipped vehicles are projected at around 500,000 by 2005.

AFS headlamps comprise elements that vary and control light output and arithmetic and control units, which together function as an integrated system. This aspect is what sets AFS headlamps apart from existing headlamps. With the aim of commercializing this product, AFS is being developed entirely in-house.

The AFS advantage: At crossroads, AFS provides lighting in the direction of the turns, allowing rapid identification of pedestrians on the junction. While driving through city streets and suburbs, AFS provides a wide beam pattern that covers sidewalks and distant areas, thus significantly enhancing the driver's vision of pedestrians and signs. On expressways, the range of the beam increases to improve distance visibility, while providing enhanced close-range visibility, thus contributing to driving safety.



ENVIRONMENTAL ACTIVITIES

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. As a leading player in the automobile industry, Koito must squarely tackle issues such as reducing harmful substances from products and manufacturing processes, and the development and adoption of recycling technologies. To move forward on those issues, Koito instituted the Environmental Committee in September 1998 and has followed a plan of action comprising three distinct phases.

The first phase goal is for all of Koito manufacturing operations to obtain ISO 14001 certification. As of July 2000, all domestic manufacturing plants were ISO14001 certified, providing Koito with a strong foundation for future environmental activities.

The second phase aims for certification at all corporate and non-manufacturing operations. In the third phase, Koito will take its environmental activities to the next level, involving the entire Koito Group, suppliers and affiliates.

The Koito Environmental Management System forms a cycle comprising 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. In fiscal 2001, Koito conducted environmental activities encompassing recycling, energy conservation and elimination of hazardous substances under the banner of "contributing to the recycling society by extensively implementing ISO 14001." Costs for environmental activities totaled ¥558 million, comprising ¥466 million in direct expenditures for reducing the impact of activities on the environment, and indirect expenditures of ¥92 million. The effect of these expenditures was a year-on-year reduction of 5.7% in CO_2 emissions per net sales to 124.8 grams per ¥1,000. The volume of waste sent to landfills declined 42.9% year-on-year to $604m^3$, representing a 90% decrease from a decade earlier. In June 2001, Koito also prepared and published its first ever Environmental Report, which outlines environmental activities and results for the year.

In the years ahead, Koito will be subject to regular ISO 14001 inspections, and will thus endeavor to continually improve environmental management systems. At the same time, the company will clearly define operational procedures in respect to environmental issues. Koito will work to reduce unit energy consumption, eliminate the use of hazardous substances, and reduce the volume of waste sent to landfills with the aim of achieving "zero emissions." The company will also work to design and develop products that are environmentally sound, and enhance recycling activities.

As a leading manufacturer of automobile lighting equipment, the entire Koito Group is committed to shaping light in harmony with the environment, and developing products that are easily recyclable.

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
Shigeo Mine
Takao Sato
Shuichi Goto
Yutaka Furuyama
Koichi Katase
Keiji Kato

Directors
Haruo Ueno
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

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SIX-YEAR SUMMARY

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

	Millions of yen (except per share amounts)						Thousands of U.S. dollars (except per share amounts)
Consolidated	1996	1997	1998	1999	2000	**2001**	**2001**
For the year:							
Net sales	¥212,357	¥220,045	¥226,134	¥275,934	¥279,034	**¥297,280**	**$2,399,354**
Operating income	9,608	10,607	8,540	10,201	9,288	**10,991**	**88,709**
Income before income taxes and minority interests	10,669	10,899	9,771	8,451	7,341	**6,190**	**49,960**
Income taxes	6,427	6,310	5,836	3,486	2,997	**2,476**	**19,984**
Net income	3,917	4,702	4,285	3,846	3,412	**3,072**	**24,764**
Amounts per share: (in yen and U.S. dollars)							
Net income	¥24.39	¥29.24	¥26.65	¥23.92	¥21.23	**¥19.11**	**$0.154**
Cash dividends	8.00	9.00	8.00	8.00	10.00	**8.00**	**0.064**
At year-end:							
Working capital	¥ 64,752	¥ 59,053	¥ 55,348	¥ 40,393	¥ 51,060	**¥ 16,724**	**$ 134,980**
Property, plant and equipment, less accumulated depreciation	49,297	54,742	46,174	65,857	61,448	**64,856**	**523,454**
Total assets	207,104	218,079	217,741	267,783	275,063	**306,084**	**2,470,412**
Total shareholders' equity	75,589	78,881	81,313	90,291	92,848	**102,532**	**827,538**

Note: Amounts in U.S. dollars are translated from yen, for convenience only, at the rate of ¥123.9=$1, the rate prevailing on March 31, 2001.

Operating Results

The Koito Group includes 21 consolidated subsidiaries, three affiliates, and the parent company KOITO MANUFACTURING CO., LTD. Accounting for two of the three affiliates is based on the equity method. Consolidated subsidiaries, KOITO INDUSTRIES, LIMITED, Koito Transport Co., Ltd., Minatsu, Ltd., and India Japan Lighting Ltd., end their fiscal years on March 31. The other 16 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.

Operating Environment

During the fiscal year ended March 31, 2001, Japan's economy showed signs of a recovery in the first half on the back of steady capital expenditures and improvements in corporate performance. However, in the second half, the economy suffered from a drop in exports due to the economic slowdown in the U.S. In addition, the stock market slumped and the yen depreciated. Overseas, the U.S. economy, which had enjoyed steady economic growth for several years, showed signs of faltering. European and Asian economies were also affected by the U.S. slowdown, and saw a slower pace of growth as a result.

In the year under review in the Japanese automobile industry, domestic automobile sales volume climbed 1.2% to 10.04 million vehicles owing to model renewals and the introduction of new models. Although the U.S. automobile market grew over the first half of the previous year, the pace of growth slowed markedly in the year's second half. The European automobile market stayed an even course owing to the launch of new models and other factors. However, the appreciation of the UK pound constrained earnings. Most Asian economies staged recoveries and performed well. Looking ahead, although brisk sales are forecast for the domestic market, exports are likely to decline due to the slowdown in overseas economies. Domestic automobile production is projected to fall under the 10 million mark. The repercussions of the stalling U.S. economy are likely to be felt by overseas economies as well, mandating constant vigilance.

The two pillars of Koito's domestic business are automotive lighting equipment and non-automotive electrical equipment. The latter comprises traffic signals, traffic control systems, sanitary and railroad equipment. During fiscal 2001, the railroad equipment business performed well with Koito recording increases in sales and earnings. In particular, Koito supplied washlet toilets to TOTO, LTD. on an OEM basis, amounting to sales of ¥7,534 million. In this area, TOTO, Koito Industries and Aichi Electric Co., Ltd., all of which manufacture washlet toilets, agreed to establish a new company called Pan Washlet Co., Ltd. as of October 2001 in a move to improve the efficiency of product development and manufacturing. In line with this move, Koito will spin-off its sanitary systems business. Sales derived from this business are to be removed from the scope of consolidation, and accounted for using the equity method.

Net Sales

Consolidated net sales climbed 6.5% year-on-year to ¥297,280 million.

Sales in the automotive lighting equipment segment—Koito's mainstay business—increased 8.6% to ¥215,381 million. This mainly mirrored a group-wide effort to improve product quality, and a growing market. Market growth was driven by several factors, including new demand for larger headlamps, advances in technologies that enable multi-functionality, and the launch of a low-end GDHL employing the two-lamp system. The new low-end GDHL is being mounted on mini-vehicles, boosting the percentage of new models equipped with these headlamps.

	Millions of yen		
	1999/3	2000/3	**2001/3**
Net sales	¥191,334	¥198,381	**¥215,381**
Operating income	8,854	8,883	**10,284**

The non-automotive electrical equipment segment recorded net sales of ¥60,628 million, a year-on-year increase of 2.5%, due to strong performances in lighting and information systems and traffic systems, which countered a decline in sales of railroad car equipment for the Shinkansen.

	Millions of yen		
	1999/3	2000/3	**2001/3**
Net sales	¥60,294	¥59,168	**¥60,628**
Operating income	851	692	**1,307**

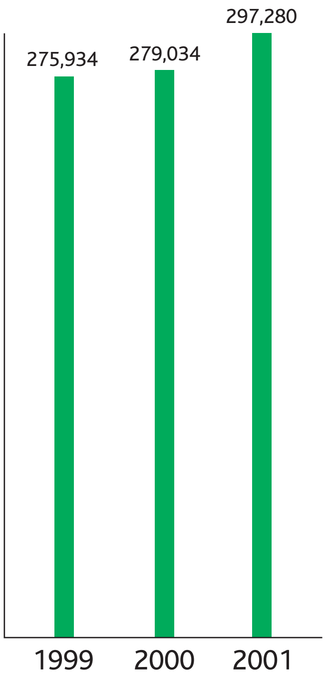
The other products segment posted sales of ¥21,270 million, a decrease of 1.0%. In Koito's environmental systems operations, control systems for incubators performed well. However, in aircraft parts, exports of hydraulic equipment, such as filters and aircraft seats, declined.

	Millions of yen		
	1999/3	2000/3	**2001/3**
Net sales	¥24,305	¥21,483	**¥21,270**
Operating income	2,116	1,748	**854**

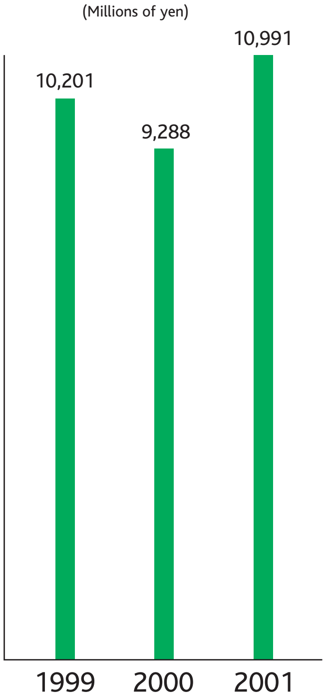
Net Income

Consolidated operating income climbed 18.3% to ¥10,991 million owing to higher sales and efforts to shorten product development periods and streamline operations by reducing fixed costs. However, Koito conducted a one-time write-off of a ¥2.5 billion shortfall in retirement benefit liabilities arising from a change in accounting standards. Additionally, Koito conducted a one-time write off of R&D expenditures carried forward at its U.S. subsidiary North American Lighting, Inc. associated with a change in the accounting method for design expenditures in the automobile industry issued by the U.S. Financial Accounting Standards Board (FASB). As a result, consolidated net income was ¥3,072 million, a decline of 10.0% year on year.

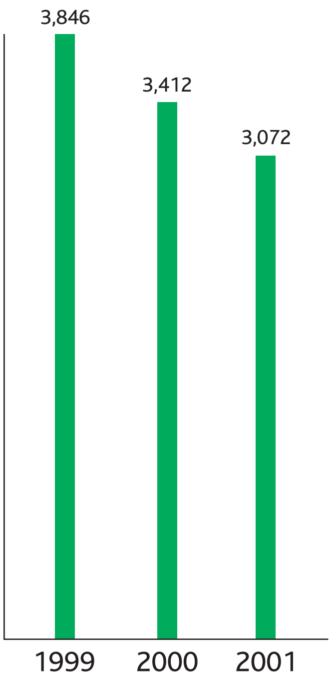
Net Sales
(Millions of yen)



Operating Income
(Millions of yen)



Net Income
(Millions of yen)



Business Results by Geographical Segment

Japan

The automotive lighting equipment segment and the non-automotive electrical equipment segment both performed strongly, elevating net sales 3.1% to ¥220,425 million and lifting operating income 27.6% to ¥11,301 million.

	Millions of yen		
	1999/3	2000/3	**2001/3**
Net sales	¥213,559	¥213,880	**¥220,425**
Operating income	8,703	8,859	**11,301**

North America

The U.S. economy slowed down in the second half of the year, resulting in a decline in automobile production. However, higher sales to Japanese automakers drove a 12.6% year-on-year increase in net sales to ¥39,830 million. Operating income nevertheless declined 85.4% to ¥102 million due to losses on raw materials associated with the launch of new products.

	Millions of yen		
	1999/3	2000/3	**2001/3**
Net sales	¥35,462	¥35,384	**¥39,830**
Operating income	1,670	697	**102**

Asia

Automobile production increased on the back of robust economic growth in China and the Republic of Korea. As a result, net sales climbed 27.9% to ¥32,370 million and operating income increased 2.1% to ¥2,105 million.

	Millions of yen		
	1999/3	2000/3	**2001/3**
Net sales	¥21,862	¥25,302	**¥32,370**
Operating income	1,806	2,062	**2,105**

Europe

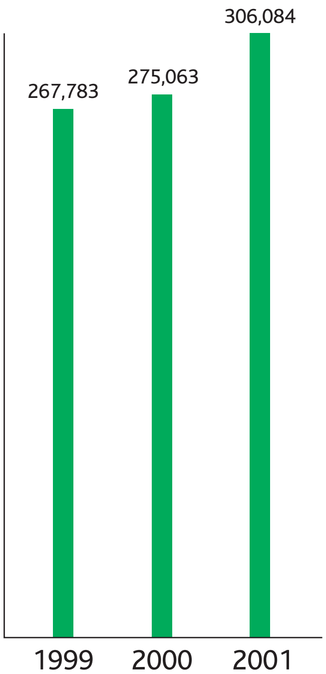
European automobile production remained largely unchanged from the previous fiscal year. Although Koito launched several new products, this was offset by intensified competition and exchange losses arising from the strong pound. As a result, net sales increased 4.2% to ¥4,652 million. This segment recorded an operating loss of ¥1,062 million, a decline of 261.2%.

	Millions of yen		
	1999/3	2000/3	**2001/3**
Net sales	¥5,049	¥4,466	**¥4,652**
Operating income	(358)	(294)	**(1,062)**

Financial Position

As of March 31, 2001, total assets stood at ¥306,084 million, an increase of ¥31,021 million from a year ago, reflecting the introduction of fair value accounting principles. Current assets were ¥144,490 million, down ¥8,493 million from a year earlier. This was attributable to the reclassification of marketable securities of ¥21,454 million as investment securities, following the review of the purpose of holding these securities in accordance with new accounting standards for financial instruments. Property, plant and equipment rose ¥5,501 million to ¥82,309 million. Main components were capital expenditures of ¥10,124 million at the parent company as well as expenditures totaling ¥20,350 million, mainly for updating production facilities and dies at NAL and Koito Europe Limited. Investments and other assets increased ¥37,336 million to ¥79,284 million. Total liabilities were 177,519 million, an increase of ¥21,263 million over a year ago. Interest-bearing debt increased ¥8,606 million to ¥62,656 million, mainly reflecting loans extended to Koito Enterprise Corporation. Total shareholders' equity increased ¥9,684 million to ¥102,532 million, lowering the equity ratio from 33.8% to 33.5%.

Total Assets
(Millions of yen)



Cash Flows

Income before income taxes of ¥6,190 million was partially offset by an increase in accounts receivable and the acquisition of property, plant and equipment. As a result, consolidated cash and cash equivalents (hereafter referred to as net cash) stood at ¥21,956 million, an increase of ¥1,671 million over a year ago.

Factors affecting changes in net cash for the year were as follows:

Net cash provided by operating activities

Net cash provided by operating activities totaled ¥28,396 million, an increase of ¥7,033 million. Major contributors of cash were depreciation of ¥17,513 million, a provision for accrued retirement benefits of ¥6,750 million, an increase in notes and accounts payable of ¥2,692 million, and income before income taxes of ¥6,190 million.

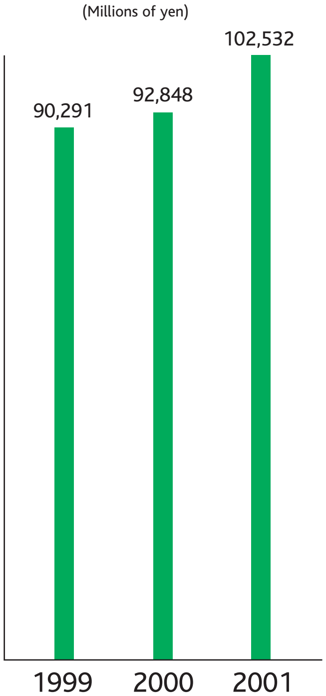
Net cash used in investing activities

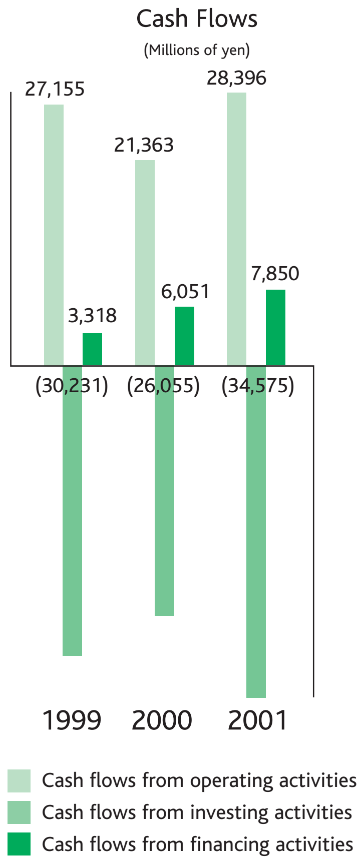
Net cash used in investing activities totaled ¥34,575 million, an increase of ¥8,520 million. This mainly reflected acquisition of property and equipment of ¥20,350 million, increase in investment securities of ¥14,681 million and an increase in long-term loans of ¥549 million.

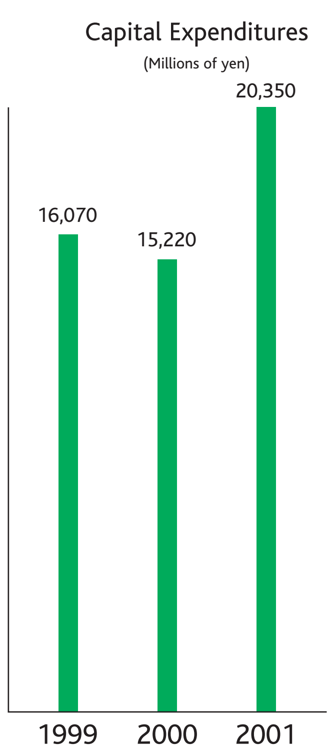
Net cash provided by financing activities

Net cash provided by financing activities increased ¥1,799 million to ¥7,850 million. This primarily reflected a net increase in long-term bank loans of ¥4,806 million, an increase in short-term bank loans of ¥5,163 million, and a payment of cash dividends of ¥2,119 million.

Total Shareholders' Equity
(Millions of yen)







Capital expenditures

Capital expenditures totaled ¥20,350 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. Capital expenditures are projected to come to ¥20,300 million in the current fiscal year as this segment continues to make investments for further improvements in the three areas outlined above, at Koito, NAL and THAI KOITO.

	Millions of yen		
	1999/3	2000/3	**2001/3**
Capital expenditures:			
Automotive lighting equipment	¥13,758	¥13,243	**¥18,720**
Non-automotive electrical equipment . .	782	372	**458**
Others	1,530	1,605	**1,172**

Research and Development

R&D expenditures for the year ended March 31, 2001 totaled ¥16,992 million. The main components of this were ¥13,704 million in the automotive lighting equipment segment, ¥2,269 million in the non-automotive electrical equipment segment and ¥1,109 in the other products segment.

CONSOLIDATED BALANCE SHEETS

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
At March 31,	2000	2001	2001
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 20,285	¥ 21,956	$ 177,207
Trade notes and accounts receivable	72,305	78,961	637,296
Less: Allowance for doubtful accounts	(1,237)	(1,181)	(9,532)
	71,068	77,780	627,764
Marketable securities	28,957	14,244	114,964
Inventories	18,004	18,306	147,748
Deferred income taxes (Note 8)	1,367	3,736	30,153
Prepaid expenses and others	13,302	8,466	68,329
Total current assets	152,983	144,490	1,166,182
Investments:			
Investment securities	22,799	69,924	564,358
Loans	7,928	1,871	15,101
Deferred income taxes (Note 8)	5,224	184	1,485
Other investments	6,018	7,435	60,008
Less: Allowance for doubtful accounts	(22)	(132)	(1,065)
Total investments	41,948	79,284	639,903
Property, plant and equipment, at cost:			
Buildings and structures	62,363	64,380	519,613
Machinery, equipment and tools	131,596	135,262	1,091,703
Less: Accumulated depreciation	(132,510)	(134,786)	(1,087,861)
	61,448	64,856	523,454
Land	13,099	13,392	108,087
Construction in progress	2,259	4,060	32,768
Property, plant and equipment, net	76,808	82,309	664,318
Translation adjustments	3,322	–	–
Total assets	¥275,063	¥306,084	$2,470,412

At March 31,	Millions of yen 2000	Millions of yen 2001	Thousands of U.S. dollars 2001
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade notes and accounts payable	¥ 57,392	¥ 60,952	$ 491,945
Short-term loans (Note 5)	15,968	34,732	280,323
Income taxes payable (Note 8)	1,812	4,284	34,576
Accrued expenses and other current liabilities	26,749	27,796	224,342
Total current liabilities	101,923	127,766	1,031,203
Non-current liabilities:			
Long-term debt (Note 5)	32,560	22,359	180,460
Bonds (Note 6)	5,522	5,565	44,915
Accrued retirement benefits (Note 7)	12,738	19,388	156,481
Other non-current liabilities	3,512	2,439	19,685
Total non-current liabilities	54,333	49,753	401,558
Contingent liabilities (Note 7)			
Minority interests	25,958	26,031	210,097
Shareholders' equity:			
Common stock	14,270	14,270	115,174
320,000,000 shares authorized and 160,789,436 shares of ¥50 par value issued at 31 March, 2000 and 2001			
Additional paid-in capital	17,107	17,107	138,071
Retained earnings	61,469	62,786	506,747
Valuation adjustment on investment securities	–	9,454	76,303
Translation adjustments	–	(1,088)	(8,781)
Treasury common stock, at cost: 50 shares in 2000 and 495 shares in 2001	(0)	(0)	(0)
Total shareholders' equity	92,848	102,532	827,538
Total liabilities and shareholders' equity	¥275,063	¥306,084	$2,470,412

CONSOLIDATED STATEMENTS OF INCOME

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries

For the years ended March 31	Millions of yen 2000	Millions of yen 2001	Thousands of U.S. dollars 2001
Net sales	¥279,034	**¥297,280**	**$2,399,354**
Cost of sales	237,701	**253,840**	**2,048,749**
Gross profit	41,332	**43,440**	**350,605**
Selling, general and administrative expenses	32,044	**32,449**	**261,897**
Operating income	9,288	**10,991**	**88,709**
Other income (expenses):			
Interest income	622	**355**	**2,865**
Interest expenses	(1,267)	**(931)**	**(7,514)**
Loss on sale and disposal of property and equipment	(181)	**(579)**	**(4,673)**
Others, net	(1,122)	**(3,646)**	**(29,427)**
Income before income taxes and minority interests	7,341	**6,190**	**49,960**
Income taxes	2,997	**2,476**	**19,984**
Income before minority interests	4,344	**3,714**	**29,976**
Minority interests in consolidated subsidiaries	(931)	**(642)**	**(5,182)**
Net income	¥ 3,412	**¥ 3,072**	**$ 24,794**

	Yen 2000	Yen 2001	U.S. dollars 2001
Per share:			
Net income	¥ 21.23	**¥ 19.11**	**$ 0.154**
Cash dividends	10.00	**8.00**	**0.064**
Weighted average number of shares (in thousands)	160,789	**160,789**	

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2000	2001	2001
Common stock:			
Beginning balance	¥14,270	¥ 14,270	$115,174
Ending balance	¥14,270	¥ 14,270	$115,174
Additional paid-in capital:			
Beginning balance	¥17,107	¥ 17,107	$138,071
Ending balance	¥17,107	¥ 17,107	$138,071
Retained earnings:			
Beginning balance	¥58,912	¥ 61,469	$496,118
Adjustment for adoption of tax-effect accounting	568	–	–
Beginning balance, as adjusted	¥59,480	¥ 61,469	$496,118
Net income	¥ 3,412	¥ 3,072	$ 24,794
Deductions:			
Cash dividends applicable to the year.	(1,286)	(1,607)	(12,970)
Bonuses to directors and corporate auditors	(138)	(147)	(1,186)
Ending balance.	¥61,469	¥ 62,786	$506,747
Valuation adjustment on investment securities	–	¥ 9,454	$ 76,303
Translation adjustments	–	¥ (1,088)	$ (8,781)
Treasury stock	(0)	(0)	(0)
Total shareholders' equity	¥92,848	¥102,532	$827,538

CONSOLIDATED STATEMENTS OF CASH FLOWS

KOITO MANUFACTURING CO., LTD. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2000	**2001**	**2001**
Cash flows from operating activities:			
Net income	¥ 3,412	**¥ 3,072**	**$ 24,794**
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	17,366	**17,513**	**141,348**
Minority interests in consolidated subsidiaries	931	**642**	**5,182**
Provision for allowance for doubtful accounts	576	**(97)**	**(783)**
Provision for accrued retirement benefits	(473)	**6,750**	**54,479**
Loss and evaluation on marketable securities	88	**176**	**1,421**
Loss on sale and disposal of property and equipment	52	**317**	**2,559**
Change in operating assets and liabilities:			
Trade notes and accounts receivable	(1,160)	**(5,488)**	**(44,294)**
Marketable securities	(277)	**0**	**0**
Inventories	84	**273**	**2,203**
Prepaid expenses and others	452	**3,706**	**29,911**
Trade notes and accounts payable	3,214	**2,692**	**21,727**
Income taxes payable	(1,619)	**(808)**	**(6,521)**
Accrued expenses and other current liabilities	(395)	**(671)**	**(5,416)**
Other—net	(888)	**319**	**2,575**
Net cash provided by operating activities	21,363	**28,396**	**229,185**
Cash flows from investing activities:			
Acquisition of property and equipment	(15,220)	**(20,350)**	**(164,245)**
Proceeds from sales of property and equipment	571	**1,068**	**8,620**
Increase in investment securities	(6,699)	**(14,681)**	**(118,491)**
Increase in long-term loans	(3,897)	**(549)**	**(4,431)**
Increase in other investments and other assets	(810)	**(63)**	**(508)**
Net cash used in investment activities	(26,055)	**(34,575)**	**(279,056)**
Cash flows from financing activities:			
Increase in other long-term liabilities	1,471	**–**	**–**
Decrease in short-term bank loans	(698)	**5,163**	**41,671**
Increase in long-term bank loans	11,941	**4,806**	**38,789**
Issuance of bonds	5,543	**–**	**–**
Repayment of bonds	(10,000)	**–**	**–**
Cash dividends	(2,205)	**(2,119)**	**(17,103)**
Net cash (used in) provided by financing activities	6,051	**7,850**	**63,358**
Change in cash and cash equivalents	1,359	**1,671**	**13,487**
Cash and cash equivalents at beginning of the year	18,926	**20,285**	**163,721**
Cash and cash equivalents at end of the year	¥20,285	**¥21,956**	**$177,207**

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, 2000 and 2001 include the accounts for the Company and the 21 subsidiaries listed below:

Koito Czech s. r. o. was newly established at Zatec, in the Czech Republic in March, 2001 with 100% ownership by the Company.

Names of consolidated subsidiaries	Equity ownership percentage(*) %
KOITO INDUSTRIES, LIMITED	50
Koito Transport Co., Ltd.	100
Koito Enterprise Corporation	100
Aoitec Co., Ltd.	51
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
Kosmotec Co., Ltd.	100
Shizuoka Wire Harness Co., Ltd.	100
North American Lighting, Inc.	94
Ta Yih Industrial Co., Ltd.	33
Shanghai Koito Automotive Lamp Co., Ltd.	45
THAI KOITO COMPANY LIMITED	62
Koito Europe Limited	100
Koito Czech s. r. o.	100
India Japan Lighting Ltd.	50
Inhee Lighting Co., Ltd.	50

(*) Represents ownership at March 31, 2001 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 two 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, which were formerly presented as assets, are included in shareholders' equity in the accompanying consolidated financial statements in accordance with a revised accounting standard for the treatment of foreign currency denominated transactions.

(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

Effective April 1, 2000, the Company adopted a new accounting standard for financial instruments. Valuation for securities for the year has been revised 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.
Due to adoption of a new accounting standard for the recognition of retirement allowances effective from April 1, 2000, 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. The parent company has expensed the under funding of these obligations (¥933 million) which arose with the adoption of the new accounting standard in the current year. A consolidated subsidiary, KOITO INDUSTRIES, LIMITED, will expense its under funding (¥7,859 million) in installments over a period of five years starting from the current 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 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 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 ¥123.90=$1, the approximate rate of March 31, 2001 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. Accounting changes

In 2001, the Company adopted the following new accounting standards that were promulgated in the Business Accounting Deliberation Council.

(1) Accounting for accrued retirement benefits:
The Company records employee retirement benefits based on the estimated amount that would be required if all eligible employees retired at the balance sheet date less the amount funded by plan assets. As a result of this change, retirement expense increased by ¥334 million ($2,696 thousand), operating income decreased by ¥334 million ($2,696 thousand) and income before income taxes and minority interests decreased by ¥2,838 million ($22,906 thousand), respectively. Accruals related to retirement allowances and past service costs of the corporate pension plan are included in accrued retirement benefits.

(2) Accounting for financial instruments:
Effective April 1, 2000, the Company adopted a new accounting standard for financial instruments. The standard requires all applicable securities to be classified and accounted for, depending on management's intent, as follows;

i) Securities classified as trading are reported at fair market value with unrealized gains and losses included in income. Those classified as available-for-sale are reported at fair market value with unrealized gains and losses recorded in a separate component of shareholders' equity. Those classified as held-to-maturity are recorded at amortized cost. Upon this change, the effect was to increase operating income by ¥17 million ($137 thousand) and to decrease income before income taxes and minority interests by ¥188 million.

ii) Securities held for trading, securities held to maturity and other securities due within one year were shown under marketable securities in current assets. Securities falling outside these categories were shown under investment securities. This reclassification reduced marketable securities in current assets by ¥21,454 million ($173,155 thousand) and increased investment securities by the same amount.

(3) Accounting for foreign currency denominated transactions:
Effective April 1, 2000, the Company adopted a revised accounting standard for foreign currency transactions. In accordance with the revised standard, all short term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate in effect at the balance sheet date. Upon adoption of the revised standard, however, the change had only a minimal effect on the Company's earnings for the year.

Due to the revision, foreign currency translation adjustments, which were formerly presented as an asset, are included in shareholders' equity.

5. Short-term loans and long-term debt

At March 31, 2000 and 2001, short-term loans consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Loans, principally from banks			
To the Company	–	–	–
To consolidated subsidiaries	¥15,968	¥34,732	$280,323
Total	¥15,968	¥34,732	$280,323

At March 31, 2000 and 2001, long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Loans, principally from banks			
To the Company	–	–	–
To consolidated subsidiaries	¥32,560	¥22,359	$180,460
Total	¥32,560	¥22,359	$180,460

6. Bonds

At March 31, 2000 and 2001, bonds consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Bonds			
Issued by the Company	¥ –	¥ –	$ –
Issued by consolidated subsidiaries	5,522	5,565	44,915
Total	¥5,522	¥5,565	$44,915
Less: Current maturities	–	–	–
Total	¥5,522	¥5,565	$44,915

7. Employee retirement benefits

The company and its subsidiaries adopted new accounting standards for retirement benefits from the current year ended March 31, 2001.

Retirement benefit obligations at March 31, 2001 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligations—originally	**¥84,419**	**$681,348**
Plan assets	**(58,744)**	**(474,124)**
Funded status	**25,675**	**207,224**
Unrecognized net transition obligation	**(6,287)**	**(50,743)**
Accrued retirement benefits on balance sheet	**19,388**	**156,481**
Net periodic cost for 2001 (from April 1, 2000 to March 31, 2001) consisted of the following:		
Service cost	**4,317**	**34,843**
Interest cost	**2,792**	**22,534**
Expected return on plan assets	**(2,030)**	**(16,384)**
Amortization of transition obligation	**2,505**	**20,218**
Actuarial loss	**(588)**	**(4,746)**
Net periodic cost	**¥ 6,996**	**$ 56,465**

8. 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,	2000	**2001**
Statutory tax rate	42.0%	**42.0%**
Permanently nondeductible expenses	5.4	**6.9**
Permanently nondeductible dividends received	(5.1)	**(6.8)**
Per capita rate on inhabitant tax	1.1	**1.3**
Tax credit on increased research & development cost	(3.4)	**(3.4)**
Effective income tax rate	40.0%	**40.0%**

The significant components of deferred tax assets and liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
At March 31,	2000	**2001**	**2001**
Deferred tax assets:			
Excess accrued bonus	¥ 583	**¥1,105**	**$ 8,918**
Excess accrued severance indemnities	1,289	**–**	**–**
Excess accrued retirement benefits	–	**3,427**	**27,659**
Retirement allowance to directors—disallowed	502	**599**	**4,835**
Excess depreciation	3,415	**3,673**	**29,645**
Accrued qualified pension plan	734	**–**	**–**
Amortization of development cost	–	**920**	**7,425**
Others	657	**1,077**	**8,692**
Deferred tax assets—total	7,182	**10,802**	**87,183**
Deferred tax liabilities:			
Condensed reserve on trade-in assets	(536)	**(578)**	**(4,665)**
Special account of condensed trade-in assets	(55)	**–**	**–**
Valuation adjustment of investment securities	–	**(6,303)**	**(50,872)**
Deferred tax liabilities—total	(591)	**(6,881)**	**(55,537)**
Net deferred tax assets (liabilities)	¥6,591	**¥3,920**	**$31,638**

9. Contingent liabilities

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

	Millions of yen		Thousands of U.S. dollars
As guarantor of employees' housing loans and other from banks and others	¥75	**¥65**	**$525**

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, 2000					
Sales:					
Sales to outside customers	¥198,381	¥59,168	¥21,483	¥ –	¥279,034
Inter-segment sales and transfers	44,043	–	2,767	(46,810)	–
Total	242,424	59,168	24,250	(46,810)	279,034
Operating expenses	233,541	58,475	22,502	(44,773)	269,745
Operating income	¥ 8,883	¥ 692	¥ 1,748	¥ (2,036)	¥ 9,288
Identifiable assets at March 31, 2000	¥138,424	¥61,054	¥47,845	¥27,740	¥275,063
Depreciation	¥ 14,958	¥ 1,355	¥ 997	¥ 56	¥ 17,366
Capital expenditures	¥ 13,243	¥ 372	¥ 1,605	¥ –	¥ 15,220

	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	**261,865**	**60,628**	**24,064**	**(49,278)**	**297,280**
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**

	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, 2001					
Sales:					
Sales to outside customers	**$1,738,345**	**$489,330**	**$171,671**	**$ –**	**$2,399,354**
Inter-segment sales and transfers	**375,173**	**–**	**22,550**	**(397,724)**	**–**
Total	**2,113,518**	**489,330**	**194,221**	**(397,724)**	**2,399,354**
Operating expenses	**2,030,508**	**478,781**	**187,328**	**(385,980)**	**2,310,638**
Operating income	**$ 83,002**	**$ 10,549**	**$ 6,893**	**$ (11,743)**	**$ 88,709**
Identifiable assets at March 31, 2001	**$1,141,969**	**$552,260**	**$473,462**	**$ 302,720**	**$2,470,412**
Depreciation	**$ 123,471**	**$ 10,145**	**$ 7,256**	**$ 476**	**$ 141,347**
Capital expenditures	**$ 151,090**	**$ 3,697**	**$ 9,459**	**$ –**	**$ 164,245**

GEOGRAPHIC SEGMENT INFORMATION

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sales of products in the 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 year ended March 31, 2000 and 2001 is as follows:

	Millions of yen						
	Japan	North America	Asia	Europe	Total	Elimination and other	Consolidated
For the year ended March 31, 2000							
Sales:							
Sales to outside customers	¥213,880	¥35,384	¥25,302	¥ 4,466	¥279,034	¥ –	¥279,034
Inter-area sales and transfers	46,180	–	629	–	46,810	(46,810)	–
Total	260,061	35,384	25,931	4,466	325,844	(46,810)	279,034
Operating expenses	251,201	34,687	23,869	4,760	314,519	(44,773)	269,745
Operating income (loss)	¥ 8,859	¥ 697	¥ 2,062	¥ (294)	¥ 11,325	¥ (2,036)	¥ 9,288
Total assets	¥195,317	¥20,139	¥25,143	¥ 6,722	¥247,323	¥27,740	¥275,063

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

	Thousands of U.S. dollars						
	Japan	North America	Asia	Europe	Total	Elimination and other	Consolidated
For the year ended March 31, 2001							
Sales:							
Sales to outside customers	**$1,779,056**	**$321,469**	**$261,259**	**$37,546**	**$2,399,354**	**$ –**	**$2,399,354**
Inter-area sales and transfers	**392,671**	**–**	**5,052**	**–**	**397,724**	**(397,724)**	**–**
Total	**2,171,727**	**321,469**	**266,311**	**37,546**	**2,797,078**	**(397,724)**	**2,399,354**
Operating expenses	**2,080,516**	**320,645**	**249,313**	**46,118**	**2,696,618**	**(385,981)**	**2,310,637**
Operating income (loss)	**$ 91,211**	**$ 823**	**$ 16,990**	**$ (8,571)**	**$ 100,452**	**$ (11,743)**	**$ 88,709**
Total assets	**$1,708,321**	**$181,348**	**$216,933**	**$61,090**	**$2,167,692**	**$302,720**	**$2,470,411**

11. Subsequent events

At the general shareholders' meeting held by the Company on June 29, 2001, 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)	¥643	$5,190
Bonuses to directors and corporate auditors	120	968

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, 2000 and 2001, and the related consolidated statements of income, shareholders' equity and cash flows for the years ended March 31, 2000 and 2001, 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, 2000 and 2001, and the consolidated results of their operations and their cash flows for the years ended March 31, 2000 and 2001, in conformity with generally accepted accounting principles in Japan applied on a consistent basis.

Tachiji Mizuno Kingo Sakurai Akio Nagasawa

TACHIJI MIZUNO KINGO SAKURAI AKIO NAGASAWA

Certified Public Accountants

June 29, 2001

NETWORK

OVERSEAS SUBSIDIARIES AND AFFILIATES

North American Lighting, Inc.
20 Industrial Park, Flora, Illinois 62839
U.S.A.
Phone: 1-618-662-4483
Facsimile: 1-618-662-8143

Koito Europe Limited
Kingswood Road, Hampton Lovett
Industrial Estate, Droitwich,
Worcestershire WR9 0QH, U.K.
Phone: 44-1905-790-800
Facsimile: 44-1905-794-466

Shanghai Koito Automotive Lamp Co., Ltd.
767 Ye-cheng RD. Jia Ding South Door,
Shanghai, 201800
People's Republic of China
Phone: 86-21-5916-1899
Facsimile: 86-21-5916-2899

THAI KOITO COMPANY LIMITED
370 Moo 17 Tambol Bangsaothong King
Amphur Bangsaothong, Samutprakarn
10540, Thailand
Phone: 66-2-315-3278~80
Facsimile: 66-2-315-3281

Inhee Lighting Co., Ltd.
742-28, Munsan-Ri, Oedong-Eup,
Kyongju-shi, Kyongbuk 780-820, Korea
Phone: 82-54-770-7700
Facsimile: 82-54-770-7770

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

India Japan Lighting Ltd.
No. 1, Puduchathram, (Via) Tirumazhisai,
Tiruvellore High Road, Tamilnadu 602-107,
India
Phone: 91-44-627-4153
Facsimile: 91-44-627-4253

Koito Czech s.r.o.
Zatec, District Loudy, the Czech Republic

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 Limited (U.K.)
Senalizacion y Accesorios del Automovil Yorka, S.L. (Spain)
Bayraktarlar Motorlu Vasitalar Ticaret Ve Sanayii 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)
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

HEAD OFFICE

4-8-3, Takanawa, Minato-ku,
Tokyo 108-8711, Japan
Phone: 81-3-3443-7111
Facsimile: 81-3-3447-1520

INTERNATIONAL OPERATIONS HEADQUARTERS

Administration Dept.—International Ops.
Phone: 81-3-3447-5171 (Tokyo)

Overseas Planning Department
Phone: 81-543-45-4237 (Shizuoka Pref.)

Export Department
Phone: 81-3-3447-5167 (Tokyo)

Pan-Pacific Operations
Phone: 81-3-3447-5172 (Tokyo)

Pan-Pacific Operations
Phone: 81-3-3447-5164 (Tokyo)

Euro-American Operations
Phone: 81-3-3447-5166 (Tokyo)

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.)
Kita Nihon 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.)
Osaka Sales Office (Osaka)
Hiroshima Sales Office (Hiroshima Pref.)
Fukuoka Sales Office (Fukuoka Pref.)

OVERSEAS REPRESENTATIVE OFFICES

Koito Europe Technical Center
Keiberg Business Park, Excelsiorlaan 31 bus
2 B-1930, Zaventem, Belgium
Phone: 32-2-721-4904
Facsimile: 32-2-721-2373

Koito Europe Office
c/o Koito Europe Limited,
Kingswood Road, Hampton Lovett
Industrial Estate, Droitwich,
Worcestershire WR9 0QH, U.K.
Phone: 44-1905-790-983
Facsimile: 44-1905-770-145

Detroit Office
c/o North American Lighting, Inc.
38900 Hills Tech Drive Farmington Hills,
Michigan 48331 U.S.A.
Phone: 1-248-553-6408
Facsimile: 1-248-553-6454

Seattle Office
c/o Nissho Iwai American Corp.
Suite 5900, Gateway Tower 700,
5th Avenue, Seattle, Washington
98104-5059 U.S.A.
Phone: 1-206-386-5624
Facsimile: 1-206-386-5640

INVESTOR REFERENCE

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 (As of March 31, 2001, non-consolidated)
Employees:	4,518 (As of March 31, 2001, non-consolidated)
Common stock (As of March 31, 2001):	
Authorized:	320,000,000 shares
Issued:	160,789,436 shares
Number of shareholders:	9,588
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 Matsushita Electric Industrial Co., Ltd. NIPPON LIFE INSURANCE COMPANY The Bank of Tokyo-Mitsubishi, Ltd. The Sumitomo Bank, Limited* THE DAI-ICHI KANGYO BANK, LIMITED The Dai-ichi Mutual Life Insurance Company

** The Sumitomo Bank, Limited merged with the The Sakura Bank, Limited on April 1, 2001 to form Sumitomo Mitsui Banking Corporation*

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 the Internet at: http://www.koito.co.jp

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