

Value Creation Story

Staying true to our basic stance to adopt the perspective of customers, the KOITO Group is contributing to materialize a safe and comfort society by providing high-value products and services.

VALUE CREATION STORY

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The KOITO Group's History

The foundation of KOITO began in 1915 with the development and production of the Japan's first fresnel lenses for railway signal lamps. Since then, we have been contributing to the safe and comfortable society by developing lighting equipment for all kinds of transports, including automobiles, railways and even aircraft and ships.

1915 1950 1960 1970 1980 1990 2000 2010 2022 (FY)

Net sales (billion yen)

Founding Period 1915-1945

- 1915** Koito Genrokuro Shoten founded (Kyobashi, Tokyo) Fresnel lenses for railway signal lamps introduced
- 1930** Koito Genrokuro Shoten becomes KOITO MANUFACTURING
- 1935** Shinagawa Plant opens (Tokyo, Japan)
- 1936** KOITO MANUFACTURING CO., LTD. incorporated (capital 2.5 million yen)
- 1943** Shizuoka Plant opens (Shizuoka, Japan)

Post-war Recovery and Developing Period 1946-1980

- 1949** KOITO MANUFACTURING listed on both the Tokyo and Osaka Stock Exchange
- 1955** Enacted **KOITO** trademark
- 1961** Transferred a head office to Minato-ku, Tokyo
- 1968** Chicago Representative Office opens (Illinois, U.S.A.)
- 1970** Headquarters building completed (Minato-ku, Tokyo)
- 1972** Aircraft equipment and electronics plant opens (Shizuoka, Japan)
- 1977** Haibara Plant opens (Shizuoka, Japan)
- 1979** Production and sales of Japan's first aerodynamic-type headlamps begins

Expanding Period 1981-1999

- 1981** Production and sales of the world's first plastic lens headlamps begins
- 1983** North American Lighting, Inc. established (Illinois, U.S.A.)
- 1985** "Innovative ideas and decisive action" corporate slogan introduced
- 1986** THAI KOITO COMPANY LIMITED established (Thailand) Sagara Plant opens (Shizuoka, Japan)
- 1988** Capital interest in Ta Yih Industrial Co., Ltd. acquired (Taiwan)
- 1990** Production and sales of projector headlamps begins
- 1992** Fujikawa Tooling Plant opens (Shizuoka, Japan)
- 1996** Capital interest in Britax Vega Limited acquired (U.K.)
- 1997** Technical Center opens in Shizuoka Plant (Shizuoka, Japan) INDIA JAPAN LIGHTING PRIVATE LIMITED established (India)
- 1999** Britax Vega Limited becomes Koito Europe Limited

To be a "Global No.1 Supplier" 2000-Present

- 2001** Koito Czech s.r.o. established (Czech Republic)
- 2003** Production and sales of the world's first swivel AFS begins
- 2005** Fuzhou Tayih Industrial Co., Ltd. becomes a KOITO subsidiary (China) KOITO KYUSHU LIMITED established (Saga, Japan) GUANGZHOU KOITO AUTOMOTIVE LAMP CO., LTD. established (China)
- 2010** PT. INDONESIA KOITO established (Indonesia)
- 2012** North American Lighting Mexico, S.A. de C.V. established (Mexico)
- 2014** Hubei Koito Automotive Lamp Co., Ltd. established (China)
- 2015** KOITO celebrates its 100th anniversary
- 2017** NAL do Brasil Indústria e Comércio de Componentes de Iluminação Ltda. established (Brazil) KOITO MALAYSIA SDN. BHD. established (Malaysia)
- 2019** Capital interest in BrightWay Vision Ltd. acquired (Israel)
- 2020** Capital interest in Cepton Technologies, Inc. acquired (U.S.A.) KI HOLDINGS CO., LTD. absorbed and merged KOITO Development Center opens (Aichi, Japan)
- 2022** Transitioned to Prime Market following the market reorganization of the Tokyo Stock Exchange

1915

Koito Genrokuro Shoten founded

Founder Genrokuro Koito founded Koito Genrokuro Shoten in Kyobashi-ku, Tokyo (current Kyobashi, Chuo-ku, Tokyo) to sell fresnel lenses for railway signal lamps, which he succeeded in the Japan's first production in 1912.



1957

Production and sales of all-glass sealed beam (SB) headlamps begins

Since 1951, KOITO has been developing all-glass SB headlamps with higher luminous flux than SSB headlamps. As a result of repeated trial manufacture and improvement, KOITO succeeded in its commercialization in 1957. KOITO then started supplying the products to various automotive manufacturers, including Toyota Motor Company (current Toyota Motor Corporation), from October 1957.



1936

Entering the automotive lighting equipment business

Based on KOITO's experience in supplying headlamps to military motorcycle with sidecars called "Kurogane" in 1932 and three-wheeled trucks in 1933, KOITO has started to produce headlamps for four-wheeled vehicles. We have supplied headlamps for the AA passenger cars to the automotive department of Toyoda Automatic Loom Works, Ltd. (current Toyota Motor Corporation) in 1936. This commemorates KOITO's participation in automotive lighting equipment business, which contributes to safe and comfortable automotive society.



1975

Production and sales of jet-type headlamp washers begins

Cleaning dirt on headlamps is crucial for ensuring safety, and relevant regulations were started to be drawn up in Europe. KOITO has developed jet-type headlamp washers, and its installation to export vehicles began in August 1975.



1950

Semi-sealed beam headlamps developed

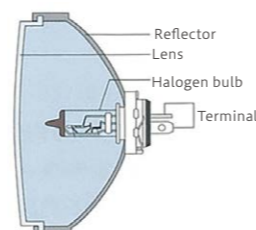
Focusing on the brightness of U.S.-made all-glass sealed beam headlamps, KOITO has developed and succeeded in commercializing semi-sealed beam headlamps in August 1950. Until all-glass SB was developed, semi-sealed beam headlamps were adopted in various domestic automobiles.



1978

Production and sales of halogen headlamps begins

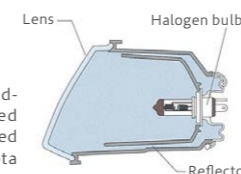
As halogen light bulbs with high luminous flux and excellent antiglare performance can contribute to reduce traffic accidents, they were standardized in Europe in 1971 and in the U.S. in 1978. KOITO has started producing halogen headlamps by incorporating halogen light sources (originally imported products) into SB and SSB headlamps in July 1978.



1979

Production and sales of uniquely shaped headlamps begins

KOITO has begun developing uniquely shaped headlamps (a kind of SSB headlamps), which are shaped to fit individual vehicle designs. These lamps started to be installed in the Nissan Skyline and the Toyota Crown in June 1979.



1985

Production and sales of all-resin aerodynamic-type headlamps begins

As a result of steady efforts on headlamps' resinification to reduce weight and improve design, KOITO has succeeded in developing plastic lenses and a BMC reflector with even higher heat resistance and molding accuracy in 1981. In January 1985, the world's first all-resin aerodynamic-type headlamp was adopted in Toyota Motor "Soara."



1996

Production and sales of discharge headlamps (GDHL) begins

With a light source that utilizes arc discharge between electrodes, discharge headlamps (GDHL) were excellent in increasing light intensity, and has long life and high energy efficiency. As the next-generation lamp contributes to improve vehicle fuel efficiency, KOITO succeeded in developing discharge headlamps as well as a control circuit called ballast, and were installed in the Nissan Terrano and the Toyota Mark II in 1996.



2007

Production and sales of the world's first LED headlamps begins

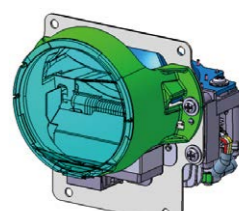
KOITO has developed LED headlamp using white LEDs as a low-beam light sources, which offers improved visibility with higher luminous flux, longer life, and lower power consumption compared to GDHL and halogen headlamps. In May 2007, they were installed in the Lexus LS 600h, as the world's first LED headlamp in the market.



2014

Production and sales of the world's first LED Compact-Bi-function begins

KOITO has started producing and selling the world's first LED Compact-Bi-function, capable of switching high beam and low beam with a single LED and achieved lower power consumption and weight compared to conventional lamp units. In November 2014, it was installed in the Toyota Prius Alpha, and contributed to the worldwide spread of LED headlamps, being adopted by various vehicles.



2019

Production and sales of the world's first BladeScan™ ADB begins

KOITO has developed the world's first BladeScan™ ADB (Adaptive Driving Beam) system, which is expected to further improve safety by enabling high-resolution light distribution than the conventional ADB systems. It was installed in the Lexus RX in August 2019, becoming the world's first system in the market.



Message from Top Management

The KOITO Group will contribute to materialize a sustainable society and resolve social issues through our “Lighting for Your Safety” corporate message.

In April 2022, the Tokyo Stock Exchange has reorganized its market structure into three new market segments, and KOITO chose the “Prime Market” as a listing market. Listed companies in this market are required to establish a high level of sustainability-related systems and promote relevant activities. To meet these expectations and build a management system that can respond to changes in the business climate, KOITO has established its management system to ensure objectivity and transparency. We are striving to further grow the KOITO Group under a new management system established in June 2022.

We are also working to strengthen SDGs and ESG promotion activities in order to contribute to materialize a sustainable society. In order to prevent global warming, we have set the targets of reducing KOITO’s CO₂ emissions by 50% in FY 2031, compared to FY 2014, and achieving carbon neutrality in FY 2051. In addition to accelerating reductions in CO₂ emissions more than ever before, KOITO has signed up to support the “Task Force on Climate-Related Financial Disclosures” (TCFD) in December 2021.

We will continue to promote various activities which contribute to resolve social issues through our business activities.

Review of FY 2022

In FY 2022, despite the expectation of a recovery from COVID-19 pandemic, the domestic and overseas economic recovery was sluggish and the outlook was uncertain due to the impact of the re-expansion of COVID-19 infections, a shortage of semiconductors, and soaring prices for resources and raw materials, as well as geopolitical risks such as the situation in Ukraine.

Domestic automobile production also remained challenging, due in part to sudden production fluctuations caused by supply chain disruptions. Domestic production declined for the third consecutive year, and overseas production also declined for the fourth consecutive year.

KOITO’s domestic net sales declined from the previous fiscal year due to a decrease in automobile production. However, overseas, consolidated net sales increased from the previous fiscal year due to new orders in North America and Asia, progress in the shift of automobile lamps to LED, and the impact of foreign currency exchange.

With regard to profits, despite the increase in net sales, operating income and recurring profit declined from the previous fiscal year due to an increase in fixed costs caused by a sudden fluctuation in production, soaring prices for raw materials and electronic components, and investments in new orders and R&D for the future. However, net income attributable to owners of the parent increased from the previous fiscal year due to gains on sales of investment securities and other factors.

Forecast for FY 2023

Although the outlook for global automobile production is uncertain due to factors such as COVID-19 and semiconductor shortage, it is expected to gradually recover from the second half of the fiscal year, and the full year production volume is expected to increase from the previous year.

The KOITO Group is planning an increase in net sales from the previous fiscal year due to an increase in automotive production, new orders, and an increase in sales of LED headlamps.

With regard to profits, despite R&D investment for the future, and capital investment for carbon neutrality increases, operating income, recurring profit, and profit attributable to owners of parent are expected to increase from the previous fiscal year due to increase in sales, ongoing improvement and rationalization activities.

The KOITO Group will continue our efforts to improve profitability to meet the expectations of all stakeholders.

■ The KOITO Group’s consolidated business results
(ten thousand vehicles, million yen)

	FY 2021 Result	FY 2022 Result	FY 2023 Plan*1
Global automobile production volume*2	7,468	7,425	7,850
Net sales	706,376	760,719	871,000
Operating income	56,707	53,434	67,000
Operating income ratio	8.0%	7.0%	7.7%
Recurring profit	61,107	60,613	69,000
Profit attributable to owners of parent	37,612	38,340	46,000

*1 Announced on April 27, 2022

*2 KOITO’s estimates based on figures from Japan Automobile Manufacturers Association, Marklines and etc.

New Challenge: To Illuminate the World

The KOITO Group aims to materialize a sustainable society and resolve social issues as a leading company of automotive lighting equipment and will strengthen its business activities through our “Lighting for Your Safety” corporate message.

Under our corporate slogan, “New challenge: To illuminate the world,” we will continue to develop the newest and the best technologies, improve performance and quality of our products, promote training for employees to raise their performance and skills, as well as stay true to our basic stance to adopt the perspective of customers to supply products and services that will meet their expectations. We would greatly appreciate your continued understanding and support.



Chairman and CEO
**Masahiro
Otake**



President and COO
**Michiaki
Kato**

Aiming to become a “Global No.1 Supplier,” we are accelerating various activities.

The automotive industry is seeing accelerated movements toward the realization of a next-generation mobility society, including electrification and autonomous driving vehicles. We are facing many social issues as well, including climate change, decarbonization, and growing social inequalities. Companies are required to implement activities related to Sustainable Development Goals (SDGs) throughout their business activities.

During this transformation, the KOITO Group aims to contribute to resolving social issues through its business activities and to achieve medium- to long-term growth by accelerating various initiatives with the goal of becoming a “Global No.1 Supplier” under the keywords of “World-leading Technologies and Ingenuity,” “Sustainable Growth” and “A Trusted Company.”

World-leading Technologies and Ingenuity

The KOITO Group has created technologies and products which have always pioneered each generation and market, and developed its businesses by responding to



customer needs to materialize a safe, reliable society of transportation founded in our “innovative ideas and decisive action” corporate policy.

Technical capabilities are source of the KOITO Group’s competitiveness. Therefore, we have established a global network in all five major regions of the world, centered upon KOITO Technical Center. In September 2022, we plan to open a Technical Center in GUANGZHOU KOITO to expand new orders and strengthen our competitiveness in China.

We are working to expand sales of LED headlamps and Adaptive Driving Beam (ADB) headlamps in order to contribute to the reduction of traffic accidents by providing products that contribute to ensuring the visibility of night drivers. Following the enactment of legislation in the U.S. in February 2022, ADB’s adoption ratio is expected to expand in medium- to long-term. In response to these expectations, the KOITO Group is striving to enhance product variations and lowering prices. In addition, we are taking on challenges of developing sensing technologies that are essential for autonomous driving and are responsible for surrounding detection. We are aiming to launch these technologies to the LiDAR market in 2023.

R&D Network in Five Major Regions of the World



Moreover, the KOITO Group will contribute to materialize a safe and secured next-generation mobility society through promoting development of communication lamps and smart infrastructures based on our lighting and sensing technologies.

Sustainable Growth

The KOITO Group has aggressively invested in future growth-oriented areas, including capital investment and R&D investment, based on the management resources it has cultivated over the years. Although the current business climate is uncertain, we will aim to achieve sustainable growth for the Group as a whole by promoting growth investment, including digital transformation (DX) and carbon neutrality, and improving competitiveness in areas such as operational efficiency, productivity, and added value creation, in order to quickly bring attractive technologies and products to market and contribute to society.

KOITO recognizes that human resource development is crucial to achieving sustainable growth. Based on the idea that “manufacturing is human development” and that employees are the driving force behind corporate growth, with the keyword of “communication and collaboration,” we encourage every employee to share their knowledge, experience, findings, and problem awareness through various means to build energetic worksites where every member can work on tackling problems.

We strive to enhance work-life balance, promote diversity, expand human resource development programs and rebuild systematic human resource development achievement evaluations in an effort to ensure every employee can experience their growth and become motivated to take on new challenges.

The KOITO Group will also strive to strengthen its supply chain, including production and logistics, to prevent disruptions to its product supplies even in the face of global supply network disruptions. At the same time, the Group is striving to achieve sustainable growth throughout the supply chain by promoting procurement activities that incorporate SDGs perspectives, such as strengthening disaster mitigation systems, environmental conservation, respecting human rights, and complying with laws and regulations.

A Trusted Company

To ensure thorough compliance with laws and regulations, social conventions, corporate ethics and internal rules, the KOITO Group is striving to raise compliance awareness in each and every employee and further strengthen our corporate foundation.

In recent years due to the accelerated transition to electric vehicles, higher quality has become even more important as automotive parts become more advanced and complex. The KOITO Group strengthens on-site capabilities and investigates the true causes of defects through information sharing about any problems or challenges discovered, mutual understanding of pre- and post-processes, and assurance of each product with the goal of achieving a level of quality chosen by customers through the quality and trust of being global No. 1.

In terms of the environmental activities, in order to contribute to materialize a carbon-free society, we aim to achieve carbon neutrality by 2050. To this end, we are promoting measures to reduce CO₂ emissions and environmentally hazardous substances, and promote recycle resources. Through these efforts, we are expanding “Eco-friendly Manufacturing for People and the Earth” globally.

In December 2021, KOITO has signed up to support the “Task Force on Climate-Related Financial Disclosures” (TCFD), established by the Financial Stability Board in 2015. Recognizing climate change as one of our key management issues, to enhance climate-related information disclosures based on TCFD recommendations, we are collecting and analyzing the data we need and reflecting it in our business activities.

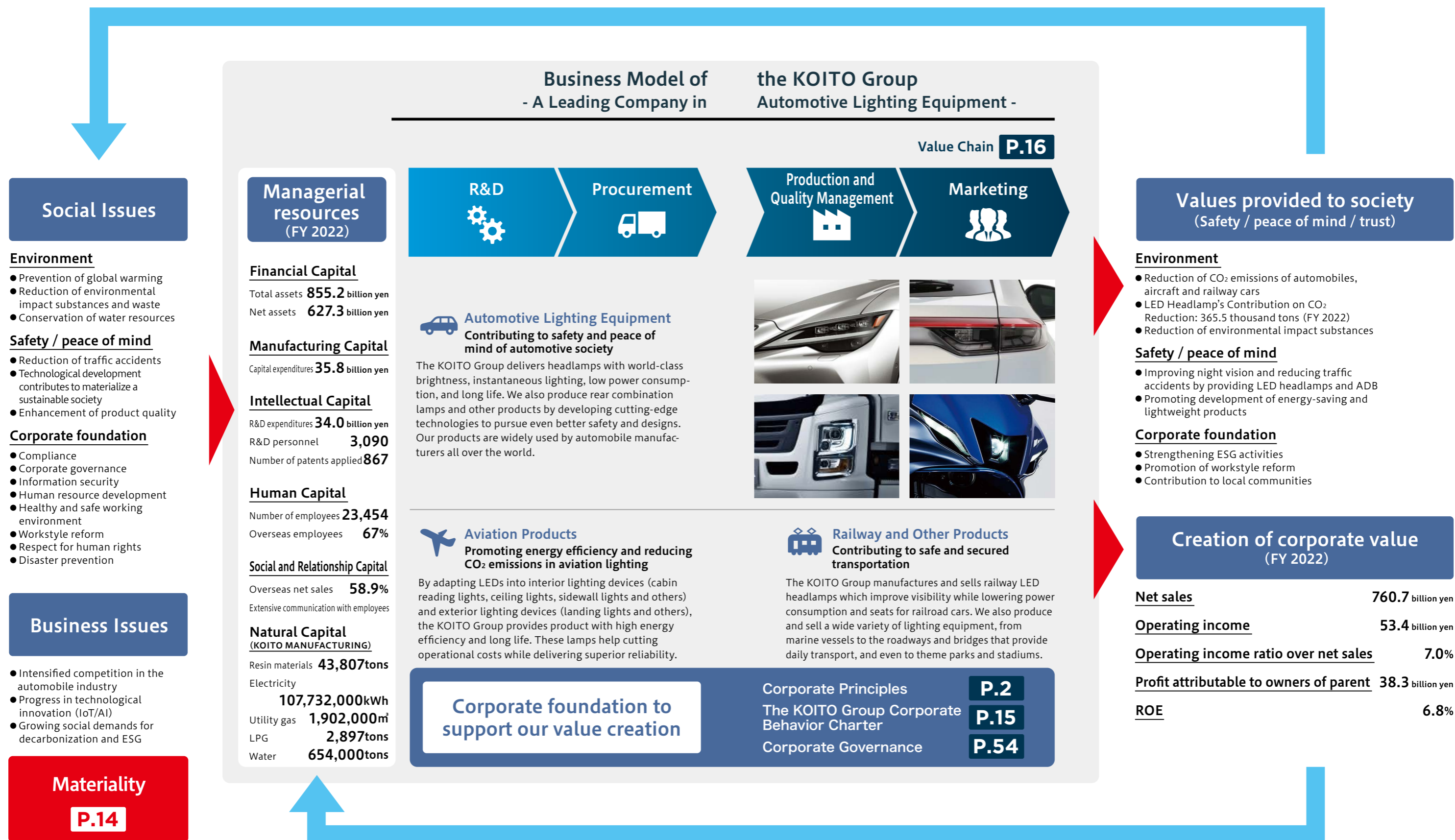
Throughout these activities, the KOITO Group will continue to strive to be a company trusted by all stakeholders.

July 2022



Value Creation Process

Throughout our business activities in the value chain centered on the automotive lighting business, the KOITO Group aims to resolve various social issues to materialize a sustainable society and increase our corporate value.




Materiality

We believe that our business activities are highly compatible with and relevant to Sustainable Development Goals (SDGs) adopted by the United Nations in September 2015, and can contribute to achieve these goals.

In order to accelerate these initiatives, we have referred to the GRI (Global Reporting Initiative) guidelines and identified material issues (materiality) to be focused and SDGs to be solved among the various social issues, and promoting relevant activities.

We will continue to promote our business activities that contribute to materialize a sustainable society.

 For materiality assessment process, please refer to our Materiality website. URL: <https://www.koito.co.jp/english/csr/materiality/>



The KOITO Group Corporate Behavior Charter

The KOITO Group's basic management policy is to create customer needs and contribute to the progress of society, while also fostering mutually beneficial relationships with all stakeholders, including shareholders, customers, employees, and business partners, all guided by the theme of "Light."

In accordance with this policy, we have established the following ten principles. We will comply with domestic and overseas laws and regulations, international rules, and their underlying spirit, and conduct corporate activities in accordance with corporate ethics.

In addition, with the aim of achieving sustainable growth of society, we will strive to resolve social issues through our business activities and fulfill our social responsibilities.

1 Sustainable growth and resolution of social issues	P.18 P.48	6 Work practice and enhancement of workplace environments	P.24
2 Trusted corporate activities	P.49	7 Engagement in environmental issues	P.20 P.38
3 Compliance with social conventions / Global management	P.60	8 Contribution to society	P.53
4 Fair information disclosure and constructive dialogue	P.53	9 Rejection of relations with anti-social forces / Comprehensive risk management engagement	P.60 P.62
5 Respect for human rights	P.52	10 Role of top management and thorough implementation of this Charter	P.54~58

Our Materiality and Initiatives

KOITO has set KPIs (key performance indicators) and targets for FY 2031 for each materiality. We are promoting activities that contribute to solve social issues by incorporating them into specific activity plans.

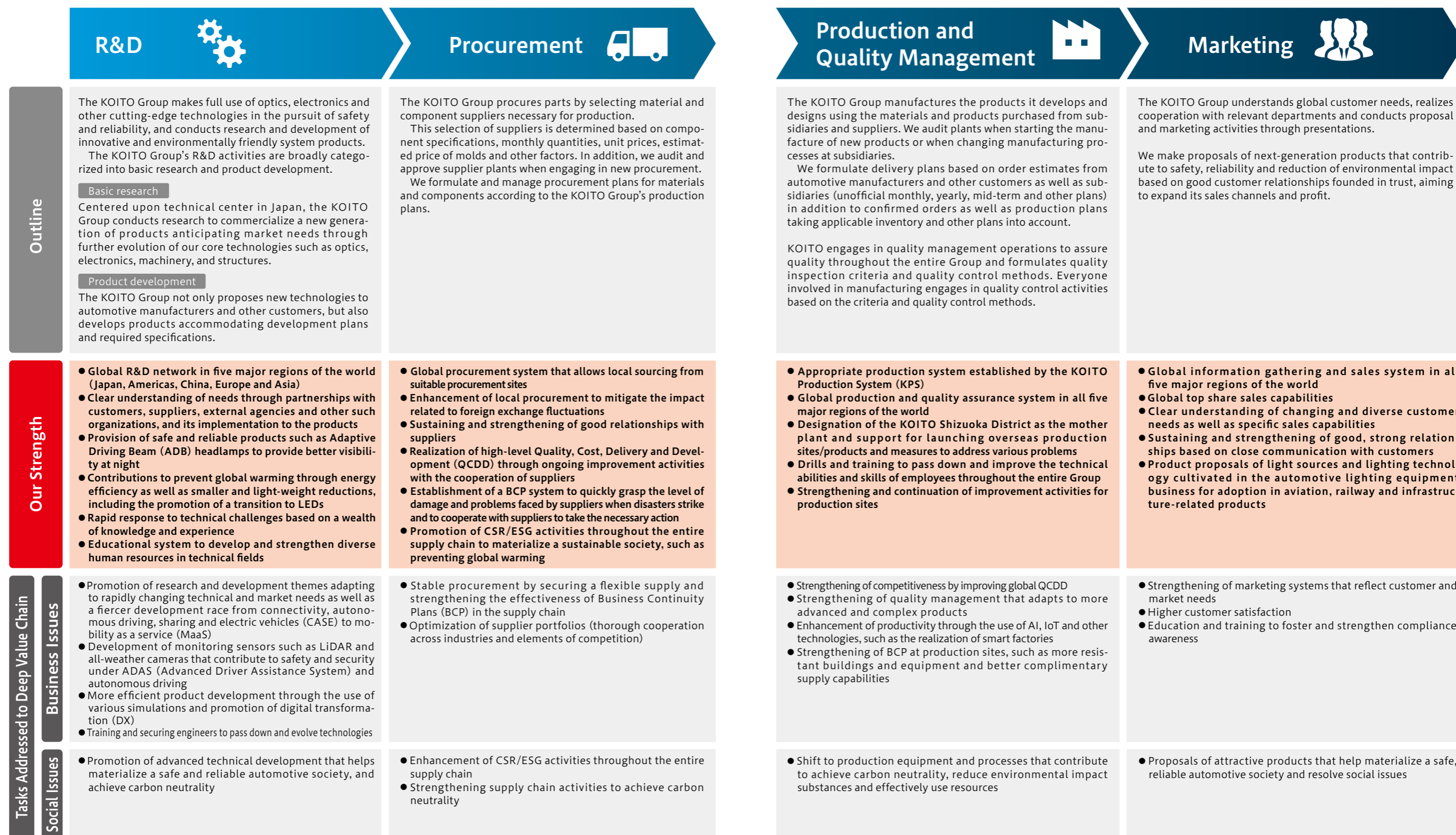
	Materiality	Relevant SDGs	Declaration of KOITO's Initiatives
Environment	<ul style="list-style-type: none"> Prevention of global warming P.20 P.42 Reduction of environmental impact substances and waste P.44 Conservation of water resources P.45 		<ul style="list-style-type: none"> We will promote reduction of CO₂ emissions and environmental impact substances, and resource recycling guided by the theme of "Eco-friendly Manufacturing for People and the Earth." We will contribute to the reduction of CO₂ emissions by further improving the light emission efficiency and reducing the weight of mainstay products.
	<ul style="list-style-type: none"> Reduction of traffic accidents P.48 Technological development contributes to materialize a sustainable society P.18 Enhancement of product quality P.49 		<ul style="list-style-type: none"> We will strive to achieve sustainable growth and resolve social issues by developing and providing socially beneficial and safe products and services. Looking ahead to autonomous driving society, we will promote product development of sensors (LiDARs and cameras). We will gain customers' satisfaction and trust through developing and providing safe and high-quality products and services.
Corporate foundation	<ul style="list-style-type: none"> Compliance P.60 Corporate governance P.54 Information security P.63 Human resource development P.24 Healthy and safe working environment P.52 Workstyle reform P.24 Respect for human rights P.52 Disaster prevention P.62 		<ul style="list-style-type: none"> We will enhance corporate governance and strengthen compliance to establish sound management system. We will strive to protect information assets by preparing for risks on information security. We will strive to provide a healthy and safe workplace environment in which all employees can make the best use of their capabilities and fulfill their potential. We will promote initiatives to respect the human rights of all persons. We will strengthen our disaster prevention system throughout the supply chain.

KPI	FY 2021 Result	FY 2022 Result	FY 2031 Target
CO ₂ emissions	59.8 thousand tons	56.7 thousand tons	36.9 thousand tons (50% reduction from FY 2014)
VOC emissions	220 tons	192 tons	Less than 299 tons (less than the amount in FY 2019) (continuous target by FY 2026)
Waste generated per unit (tons per billion yen)	0.117	0.120	Less than 0.128 (7% reduction from FY 2019) (continuous target by FY 2026)
Water usage per unit (tons per million yen)	3.26	3.41	Less than 3.51 (7% reduction from FY 2019) (continuous target by FY 2026)
LED adoption ratio*	64%	70%	100%
ADB adoption ratio*	5%	5%	20%
Commercialization of LiDAR	—	—	Commercialization (FY 2024) Commercializing next-generation product (FY 2026)
Number of recalls	4 cases	0	0
Awareness of the KOITO Group Corporate Behavior Charter	91%	97%	100%
Number of serious violations of laws and ordinances	0	0	0
Number of serious information security incidents	0	0	0
Training time per employee	9.6 hours	10.2 hours	More than 15 hours
Rate of lost-time injuries	0	0	0
Ratio of women in senior management	1.3%	1.4%	More than 3.0%

*Consolidated

Value Chain

With the aim of enhancing our corporate value and resolving social issues throughout our business activities, the KOITO Group is strengthening initiatives in the respective value chain of R&D, procurement, production, quality management and marketing.



Growth Strategies

Strategy 1 Development of Advanced Technologies

Looking forward the coming autonomous driving society, the KOITO Group aims to materialize a safe and secure automobile society by enhancing the performance of ADB (Adaptive Driving Beam), developing sensing technologies for LiDAR and cameras, products based on our lighting technologies, and smart infrastructure technologies.

Enhancement of ADB's Performance

The KOITO Group commercializes ADB, which can keep the driver's forward visibility in good condition by automatically control the light distribution patterns of high beams and enabling drivers to drive at high beams all times without glaring preceding and oncoming vehicles.

Since our Japan's first production of ADBs in 2012, we have promoted performance improvement, costs and diversification. In 2019, we have commercialized the world's first BladeScan™ ADB. Currently, ADB adoption is expanding in a variety of vehicles, from luxury vehicles to mini vehicles and trucks. In 2022, the use of ADB was legislated in the United States, and expected to accelerate its adoption.

The current BladeScan™ ADB achieves high-resolution light distribution equivalent to using approximately 300 light sources with 12 LED light sources. To further improve performance, reduce weight and costs, we are striving to commercialize a next-generation BladeScan™ ADB that provides light distribution equivalent to using 600 LED light sources. We are also promoting the development of high-resolution ADB, which achieves high-level of light distribution equivalent to several thousand to tens of thousands of light sources. We are working to further expand ADB's adoption ratio within the KOITO Group's headlamps, with the goal of 20% in FY 2031.

Development of Sensing Technologies

By installing sensors such as LiDAR in the headlamps and rear combination lamps located at the four corners of the vehicle, efficient 360° sensing around the vehicle can be achieved.

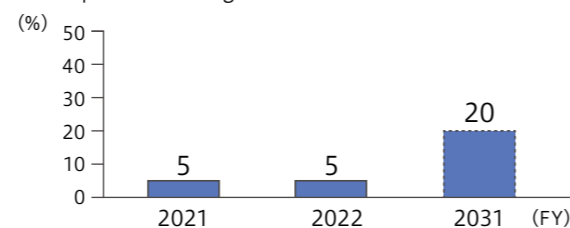
As one of our sensor developments, the KOITO Group is developing a high-precision LiDAR capable of sensing distances of 200 to 300 meters with high resolution. We are also developing all-weather cameras capable of accurately detecting objects in bad weather conditions such as heavy rain and snow.

The market scale for these ADAS, LiDARs and cameras for autonomous driving is forecast to grow by approximately 200 times in LiDAR market and 2.5 times in the camera market over ten years from 2020 to 2030.



Executive Vice President,
Engineering Headquarters
Kenji Arima

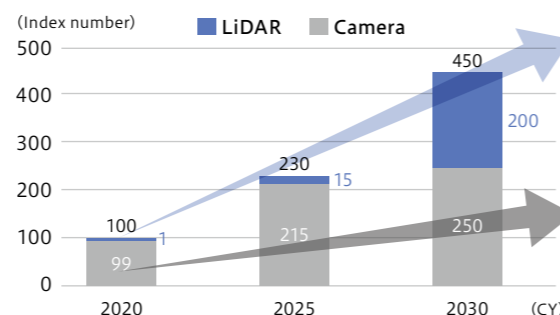
■ ADB penetration targets (Global)



■ Performance of sensors developed by KOITO

	LiDAR	All-weather camera
Distance measurement	200m	150m
Object detection	○	○
Object detection under bad weather condition	△	○
Autonomous driving level	Level 3 and 4	Level 4

■ Market scale of LiDARs and cameras

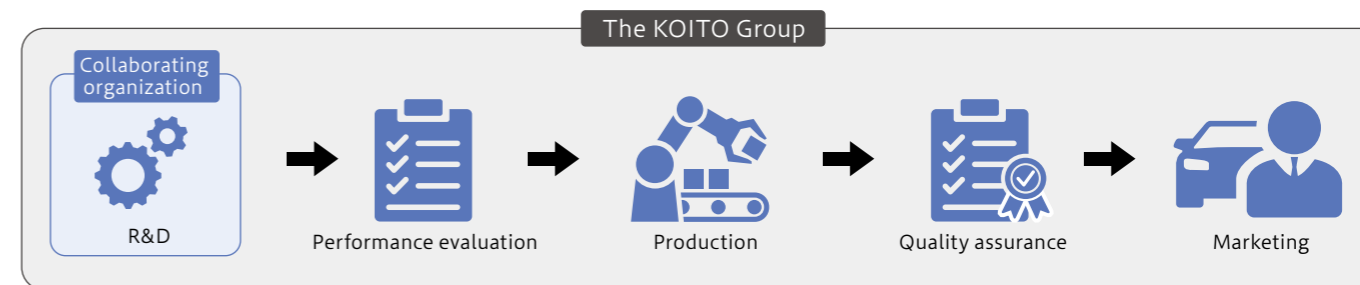


LiDAR

We are promoting product development that combines the KOITO Group's lighting technologies and technologies on product design and mass production that we have cultivated over the years with external collaborative organizations' advanced LiDAR technologies.

KOITO's LiDAR, which uses the MMT™ (Micro Motion Technology) method of Cepton, Inc. (Cepton), achieves superior detection capabilities and is scheduled to be commercialized in 2023. We are currently working to ensure the reliability and improve productivity of products required for automotive sensors.

■ Roles of the KOITO Group and Collaborating Organizations in LiDAR Commercialization



Development of Products Based on Our Lighting Technologies

KOITO is enhancing the added value of lamps by proposing new products with a theme of "Light," by utilizing the technologies cultivated in lamps development to peripheral products. We are aiming to contribute to the safety and security of the society by reducing accidents and etc.

Communication Lamp

Communication lamps contribute to prevent accidents by quickly transit necessary information, such as vehicle movements and warnings, to surrounding vehicles and pedestrians.

■ Communication lamp

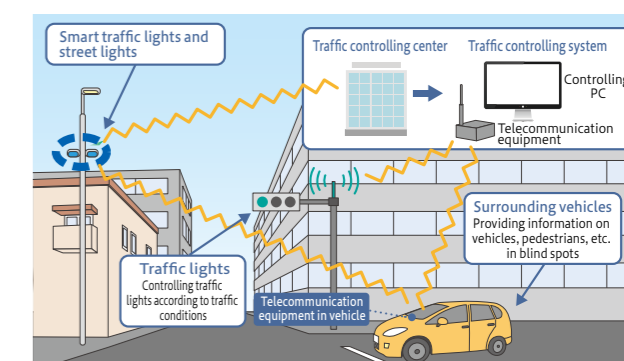


Development of Smart Infrastructure Technologies

KOITO is working with KOITO ELECTRIC INDUSTRIES to develop smart infrastructures. By installing in-vehicle sensors (LiDAR, cameras, etc.) on traffic infrastructures such as traffic lights, those infrastructures enable to detect surrounding traffic conditions and provide information to traffic control systems and surrounding vehicles.

In addition to contributing to safety and security, such as preventing traffic accidents and alleviating traffic congestion, the system is expected to contribute to the environment by reducing CO₂ emissions. We are aiming to commercialize this system in 2024.

■ Telecommunicating image of smart traffic lights



Growth Strategies

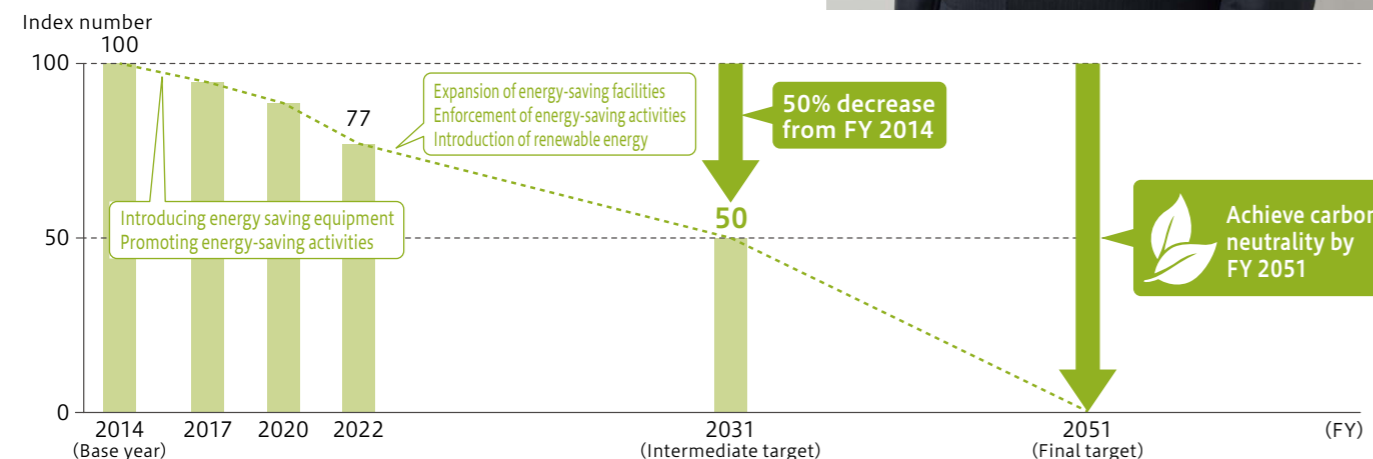
Strategy 2 Initiatives to Achieve Carbon Neutrality

To accelerate our activities on “prevention of global warming,” one of KOITO’s materiality, the entire company is working together on environmental activities to reduce CO₂ emissions in Scope 1 and Scope 2 by 50% in FY 2031 compared to FY 2014, and to achieve net-zero emission, or carbon neutrality by FY 2051.

CO₂ Emissions Results and Targets

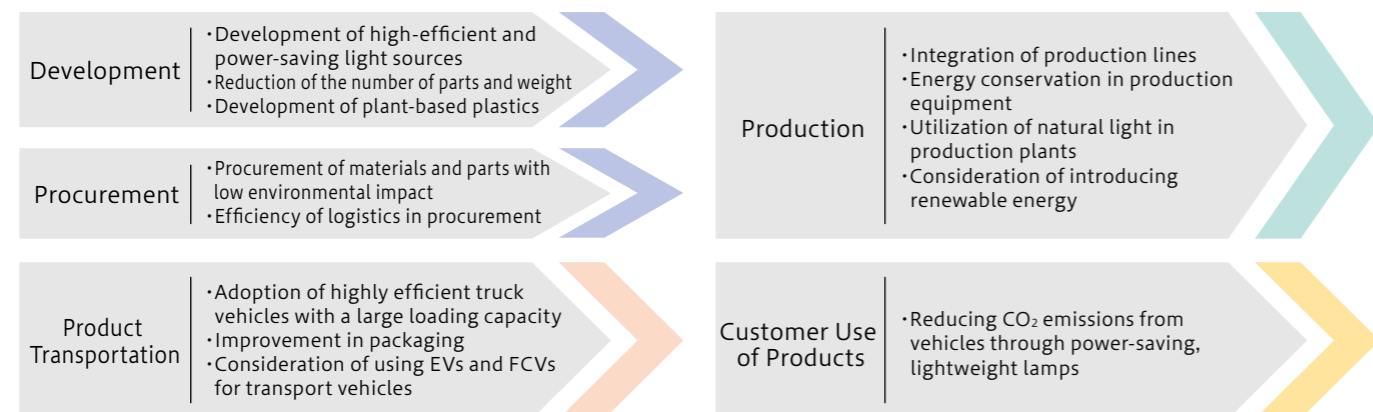
KOITO has promoted the introduction of energy-saving facilities and energy-saving activities, mainly in the manufacturing process, and has worked to reduce CO₂ emissions. As a result, CO₂ emissions in FY 2022 was 23% lower than FY 2014, which is the base year for CO₂ emissions.

We will vigorously promote environmental activities, such as further introducing energy-saving facilities and considering the introduction of renewable energy. With our target of reducing CO₂ emissions by 50% in FY 2031 compared to FY 2014, which exceeds the government target, and achieving carbon neutrality in FY 2051, KOITO will further strengthen our activities to reduce CO₂ emissions.



Reducing CO₂ Emissions Considering Product Life Cycle

In order to contribute to materialize a decarbonized society, KOITO is working to reduce CO₂ emissions from vehicles. We are promoting several company-wide activities by promoting products’ power conservation, size reduction, and weight reduction from the development and design phase, as well as introducing energy-saving facilities at production sites.



Development

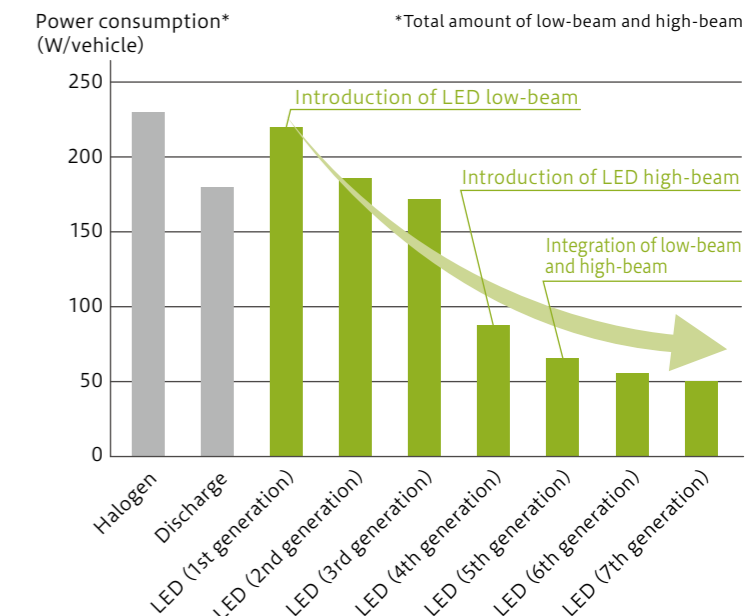
-Reduction of headlamp’s power consumption-

Aiming to reduce CO₂ emissions by improving the fuel efficiency of vehicles, and to respond to the accelerating shift to EVs, KOITO has started to introduce LEDs as the light source for headlamps ahead of its competitors. The latest LED headlamps, consume about 80% less electricity than the conventional halogen headlamps and 70% less electricity than discharge headlamps, contribute to reduce vehicles’ battery load.

Due to their capabilities, the adoption of LED headlamps has expanded to a variety of vehicles, including large-size and compact vehicles, mini vehicles, and motorcycles. In FY 2022, global LED adoption ratio among the KOITO Group’s headlamps was approximately 70%, and is expected to widespread further.

With the aim of commercializing even greater power savings and lighter lamps, we are also working to improve the performance of white LEDs, reduce the number of parts, and use resins efficiently.

Reduction of headlamp’s power consumption



LED Headlamp’s Contribution on CO₂ Reduction

The KOITO Group is contributing to improve vehicle fuel efficiency and reduce CO₂ emissions by providing eco-friendly products.

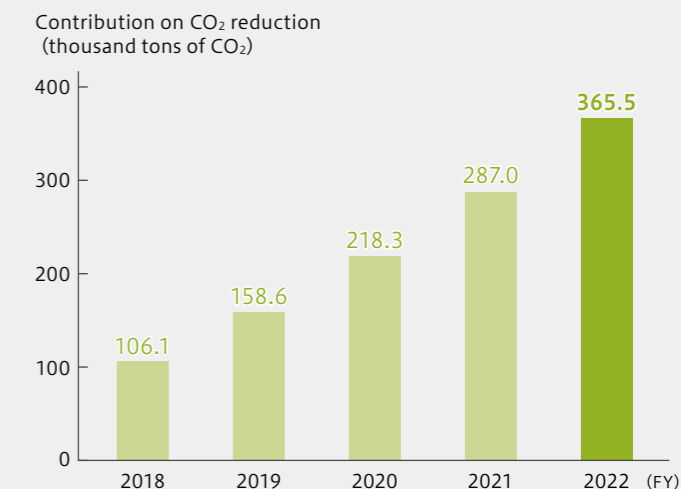
KOITO has evaluated our global environmental contribution of LED headlamps by comparing the amount of CO₂ emissions when using conventional halogen headlamps.

Contributions are increasing year by year due to the evolution of light sources and the spread of LED headlamps.

KOITO has calculated the contribution by referring to the calculation methodologies on the EU’s “Technical Guidelines for the preparation of applications for the approval of innovative technologies pursuant to Regulation (EC) No 443/2009 and Regulation (EU) No 510/2011” and JAPIA’s “Second Version of Regulation 2 of the Guidelines for Calculating LCI (Data Chart for Calculating Environmental Impact at the Stage of Use).”

[Calculation formula]
Energy-saving effect* (W/units) / 1,000 × Consumption of effective power (ℓ/kWh) / Efficiency of alternator × CO₂ emission factor (t-CO₂/ℓ) × Operating hours (hours/year) × Usage factor × the number of vehicles equipped with the KOITO Group’s LED headlamps
*Power consumption differences between LED headlamps and halogen headlamps

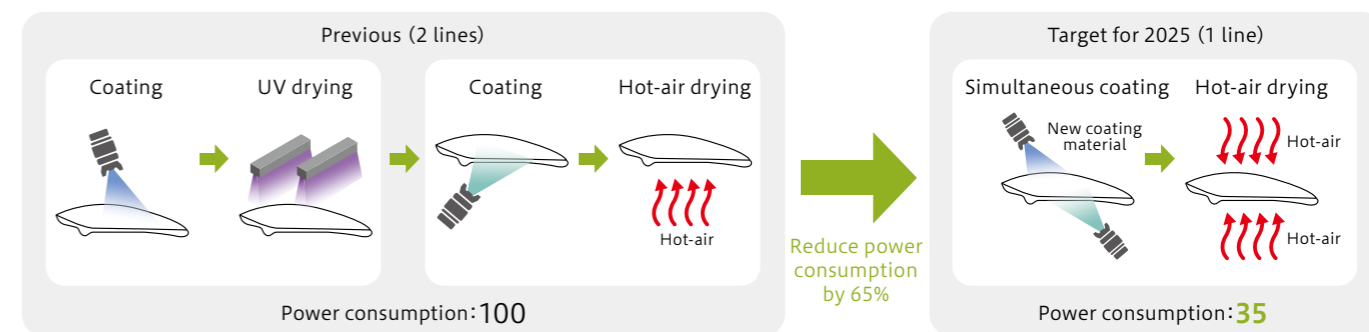
LED headlamp’s contribution on CO₂ reduction



Production -Reduction of CO₂ emissions by integrating surface treatment lines-

The lenses of headlamps are processed in two processes: hard coating and anti-fogging coatings. Previously, hard coating and anti-fogging coating were done on separate processing lines. Aiming to integrate conventional two lines into a single line, KOITO is developing equipment and materials that can be processed with a single line. We are gradually integrating these lines.

Following the integration, we are aiming to reduce power consumption by 65% comparing with conventional lines.



Financial Strategy

Aiming to build foundations for sustainable growth and enhance our corporate value

Capital Policy

KOITO aims to build a foundation for medium- to long-term sustainable growth and increase corporate value throughout management which is mindful of capital costs.

We are striving to strengthen our earnings structure by placing more emphasis on financial indicators such as operating income and recurring profit rather than on net sales. Although we have not set targets for return on equity (ROE) and other factors, we have achieved a consolidated operating income ratio of between 11% and 12% around FY 2018 and 2019, when global automobile production was robust, and we are working to achieve these levels.

The current business climate is challenging due to factors such as COVID-19 and the semiconductor shortage. However, we are working to improve our profitability so that we can first secure an operating profit ratio of 10% and achieve even higher ratio in line with the future recovery in the global automobile production volume.

■ Consolidated business results (million yen)

	FY 2019	FY 2020	FY 2021	FY 2022
Net sales	826,257	800,928	706,376	760,719
Operating income	101,534	82,411	56,707	53,434
Operating income ratio	12.3%	10.3%	8.0%	7.0%
Recurring profit	105,494	85,264	61,107	60,613
Profit attributable to owners of parent	72,895	58,022	37,612	38,340
Total assets	738,175	729,715	782,163	855,237
Cash and time deposits	287,803	271,774	303,887	323,943
Net assets	503,564	513,524	569,438	627,315
Return on equity (ROE)	16.7%	12.3%	7.4%	6.8%

■ Non-consolidated business results (million yen)

	FY 2019	FY 2020	FY 2021	FY 2022
Net sales	364,104	356,505	312,201	294,463
Operating income	38,346	25,574	21,138	17,760
Operating income ratio	10.5%	7.2%	6.8%	6.0%
Recurring profit	56,652	46,713	38,185	38,416
Net income	44,132	41,644	38,048	23,253
Total assets	419,791	430,006	469,849	475,170
Cash and time deposits	188,097	178,200	194,086	203,659
Net assets	303,560	324,311	365,178	379,654
Return on equity (ROE)	15.2%	13.3%	11.0%	6.2%



Shareholder Return Policy

With the aim of returning profits to shareholders and enhancing corporate value over the medium- to long-term, KOITO believes that we should allocate funds to capital investment, R&D investment, and strategic M&A investment that will contribute to future growth of the KOITO Group. In terms of our shareholder composition, in particular, the ratio of shareholders who hold and invest shares over the medium- to long-term is increasing both domestically and overseas, and we are expected to improve total returns over the medium- to long-term, ranging from five to seven years. We intend to continue to invest in capital expenditures in response to the increase in orders and in R&D investments in ADB, sensor-related and other areas.

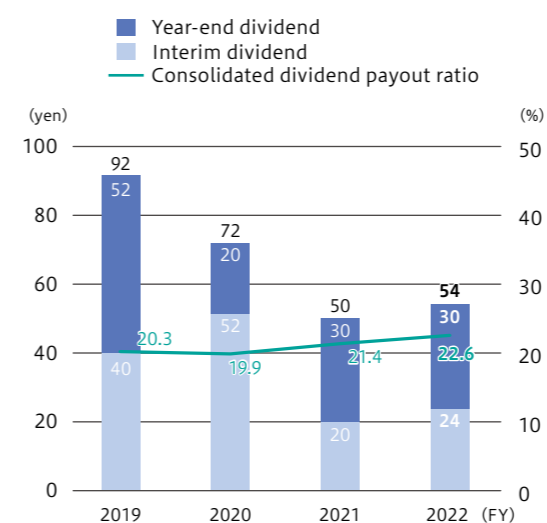
In FY 2022, in addition to initial investment of \$50 million, we have made an additional investment of \$50 million to Cepton, a company that had been developing LiDAR in collaboration with the KOITO Group.

We will continue to invest aggressively in companies that possess technologies that contribute to the medium- to long-term growth of the KOITO Group.

With regard to dividends, based on our basic policy of paying stable and continuous dividends, we comprehensively consider our business performance and the business climate, aiming for a dividend payout ratio of 30%.

Despite our business climate remains uncertain due to issues such as COVID-19 and a shortage of semiconductors, we will work to make steady improvements in consideration of our business performance and the business climate, while being conscious of a 30% dividend payout ratio in the medium- to long-term perspectives.

■ Dividend amounts



(million yen)

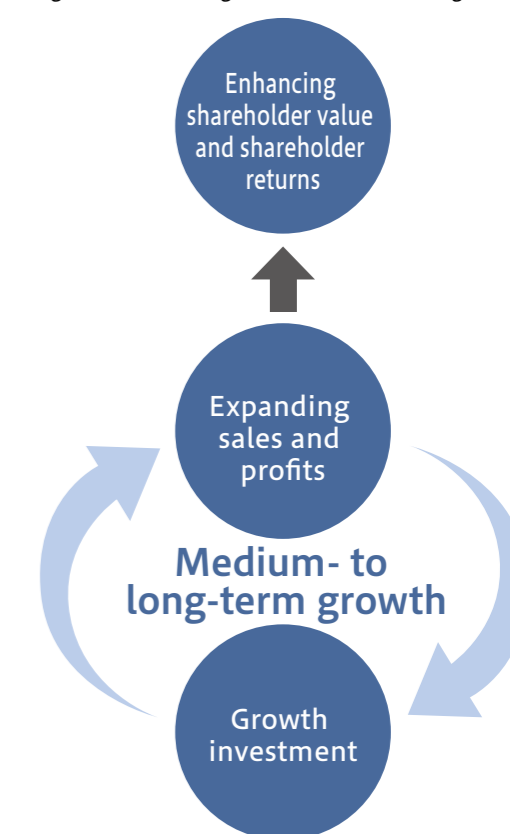
	FY 2019	FY 2020	FY 2021	FY 2022
Net income (consolidated)	72,895	58,022	37,612	38,340
Net income per share	¥453.52	¥360.99	¥234.00	¥238.53
Total amount of dividends	14,787	11,572	8,036	8,679
Dividend per share	¥92	¥72	¥50	¥54
Interim dividend	¥40	¥52	¥20	¥24
Year-end dividend	¥52	¥20	¥30	¥30
Consolidated dividend payout ratio	20.3%	19.9%	21.4%	22.6%

Toward the Medium- to Long-Term Growth of the KOITO Group

Looking forward to the KOITO Group's medium- to long-term growth, we need to accelerate our efforts in digital transformation (DX) and carbon neutrality, in addition to developing advanced technologies for LiDAR, cameras, and other sensors compatible with CASE (connectivity, autonomous driving, sharing and electric vehicles).

In particular, with regard to the development of advanced technologies, we believe that collaboration with other companies are also important in the fields of autonomous driving, next-generation mobility, AI and IoT. Through the Silicon Valley Lab in the U.S. and funds in Israel, we are exploring not only sensors, but also new technologies related to smart street lights and traffic signals on a global basis, and scrutinizing and discussing the information. If there are good technologies or projects that contribute to the growth of the KOITO Group, we will actively consider collaborations and alliances, including M&A.

Going forward, we will continue to use the generated funds to build a foundation for growth that can continue to increase corporate value even in an uncertain business climate, and achieving medium- to long-term and sustainable growth.



Human Resource Strategy

Aiming to secure a diverse range of human resources and promote their active participation

With the keywords of “communication and collaboration,” KOITO encourages every employee to share their knowledge, experience, findings and problem awareness through various means to build energetic worksites where every member can work on tackling problems and can experience their growth and become motivated to take on new challenges.

To achieve the KOITO Group’s further growth, we are working to improve work-life balance. At the same time, we are revamping our human resource systems with the aim of strengthening our efforts to secure a diverse range of human resources, including women, foreign nationals and mid-career hires and promote their active participation in our core human resources.

Improvement of Work-life Balance

KOITO has been improving the work-life balance to create a work environment where every employee can make the best use of their capabilities and fulfill their potential. In addition, we are promoting flexible and diverse working styles. KOITO has introduced teleworking system as one of “New Normal” ways to work, following the COVID-19 pandemic.

[Reduction of long working hours]

- Overtime working hours in each department is reported at the monthly Managing Committee, and work processes are being streamlined to reduce it

[Acquisition of paid leaves]

- The Committee for the Acquisition of Paid Leaves promotes employees to take paid leaves of 15 or more days per year and confirms the acquisition status by each department

[Introduction of teleworking system]

- Applicants in administrative divisions can work from home

[Support for childcare, nursing care and others]

- Child-care leave can be taken up to the end of April after the child reaches three years old
- Employees and junior employees raising children under the age of nine can work under shortened working hours
- Employees can voluntarily choose their attendance and leaving times under a flexible working system
- Nursing care leave can be taken up to one year
- Implementation of seminars to balance work and nursing care for employees



Human Resource Development

KOITO engages in human resource development through a wide variety of curriculums, and provides job-rank based education, technical education, and global education.

The job-rank based education consists of management training for specific qualifications and positions. The technical education includes 211 lectures in and outside of KOITO, such as advanced education on AI, IoT, and sensors. A total of 6,335 KOITO employees participated in these training and lectures in FY 2022.

The global education focuses on multi-culture training, e-learning and language training.

Promotion of Diversified Human Resources

KOITO recognizes that various perspectives and values can be strengths in securing sustainable growth, and promoting active participation of diverse human resources. We have set KPIs and targets for the promotion of women, foreign nationals, and mid-career hires in core human resources, and are working to provide wide-ranging career support and improve working environment.

■ Targets to secure diversified human resources

	FY 2022 Result	FY 2026 Target
Percentage of women in senior management	1.4%	3.0%
Percentage of foreign nationals in senior management	0.3%	1.0%
Percentage of mid-career hires in senior management	7.5%	10.0%

[Women empowerment]

- Expanding the number of women in regular position, senior management, newly and mid-career hires
- Provide education to women employees and for managers with women staff etc.

[Support for foreign employees]

- Employ foreign candidates to strengthen R&D
- Strengthen the recruitment of exchange students by cooperating with universities etc.

[Support for senior employees]

- Rehiring of all applicants over 60 etc.

[Improve treatment for non-regular employees]

- Promote all non-regular employees as full-time employees (2019) etc.

[Support for staff with a disability]

- Creating a workplace where staff with a disability can play active roles and expanding their employment

Enhancement of Our Member Benefit

KOITO is working to enhance our member benefit and improve the workplace environment to increase our employees’ motivation.

As for benefits, KOITO prepares dormitories, company housing, and cafeteria facilities for employees. We also introduce an employee stock purchase plan (ESPP) to support employees’ property formation and share the company’s medium- to long-term growth.

The improvement of the workplace environment includes the installation of security cameras at entrance gates and dormitories to enhance security, installation of automatic fire extinguishers as a fire safety measure, and replacing lights with LED lamps at work areas in production sites to reduce employees’ workload.



For KOITO member benefit in overseas subsidiaries, please refer to our Human Resource Management website.

URL: <https://www.koito.co.jp/english/csr/social/humanresource.html>

Health and Hygiene

Based on five management elements of occupational health (work environment management, work management, health management, hygiene education, and hygiene management system), KOITO is implementing various activities to provide a healthy and safe workplace environment.

[Activities on health]

- Implementing periodic medical checkups and providing results to employees
- Implementing workplace vaccination of COVID-19
- Influenza vaccination for applicants
- Implementing special health checkups to confirm there are no occupational illness
- Implementing life-saving seminars (including AED seminars and others)

[Efforts to maintain and promote mental health]

To prevent employees from mental health issues, we are providing “self-care” training for new employees and applicants, and “line-care” training for Managers and Chiefs. In FY 2022, a total of 167 employees participated in self-care and 76 in line-care training.

We conduct annual stress checks for all employees to encourage self-care, and support them by having individual counseling.

In addition, we are improving our support system by establishing an external consulting desk where employees can consult on mental health issues over the phone.

[Activities on hygiene]

- Implementing training for hazardous chemical substances
- Preventing accidents and health impairment through special education for organic solvents or powder handlers
- Implementing health lectures during National Occupational Health Week
- Preventing collective infections at dining halls (sanitary inspections, etc.)