

RAITO KOGYO CO., LTD.

# ANNUAL REPORT



2007

Integrating originality, integrity and a keen sense of responsibility,

**Raito Kogyo Co., LTD** has continued to develop and market proprietary technologies in tune with the needs of each era. Since its foundation in 1943 as a specialist civil engineering contractor, Raito Kogyo has endeavored to expand business operations encompassing tunnel repair and maintenance, disaster-proof slope protection, as well as soft-ground stabilization.

As a **leading company** in its field, Raito Kogyo enjoys significant market acclaim for its technological expertise. Active in the fields of land preservation, local infrastructure and environmental conservation, and based on the wealth of experience and skills cultivated over many years, the Company will consistently create new values and contribute to society in harmony with its natural surroundings.



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	Millions of yen						Thousands of U.S. dollars
	2007	2006	2005	2004	2003	2002	2007
FOR THE YEAR:							
Orders received	¥ 64,955	¥67,067	¥ 65,123	¥71,654	¥ 72,698	¥ 83,010	\$550,046
Net sales	66,648	65,519	67,133	70,226	73,979	87,145	564,386
Income (loss) from operations	1,093	(2,763)	702	1,846	1,550	3,064	9,256
Income (loss) before income taxes	1,249	(3,097)	292	1,689	(5,145)	2,347	10,584
Net income (loss)	1,181	(3,582)	121	1,621	(6,418)	1,035	10,004
AT YEAR-END:							
Total assets	¥ 66,908	¥63,352	¥ 68,252	¥68,244	¥ 68,124	¥ 80,549	\$566,586
Shareholders' equity	35,339	35,101	39,527	40,424	38,810	47,282	299,257
Common stock	6,119	6,119	6,119	6,119	6,119	6,119	51,820
AMOUNTS PER SHARE:							
(in yen and dollars)							
Net income (loss)	¥ 22.43	¥(68.02)	¥ 1.88	¥ 29.59	¥(116.36)	¥ 17.91	\$ 0.19
Shareholders' equity	¥ 670.98	666.44	750.03	753.55	724.08	817.97	5.63
PERFORMANCE INDICATORS:							
(%)							
Equity capital ratio	52.8	55.4	57.9	59.2	57.0	58.7	—
Return on equity	3.4	—	0.3	4.1	—	2.2	—
Number of employees	1,129	1,178	1,175	1,203	1,195	1,387	—

Note: U.S. dollar amounts above and elsewhere in this annual report are converted from Japanese yen, for convenience only, at the rate of ¥118.09=US\$1.00, the rate on March 31, 2007 for the readers' convenience only.





## Operating Performance

The Raito Kogyo Group continued to face difficult conditions in securing new orders in the fiscal year ended March 31, 2007. While the Japanese economy remained on a stable recovery trajectory, public investment in the construction and civil engineering sectors continued to trend downward. While a marked rise in corporate propensity to undertake capital-spending projects helped boost construction-related capital investment in the private sector, general business conditions for the construction industry in Japan remained harsh.

We recorded consolidated net sales of ¥66,648 million, an increase of 1.7% compared with the previous year. This result reflected steady project-related progress on all fronts. In addition, we booked sales on the completion of some large projects that had been carried over from the previous year. On the profit side, the benefit of higher sales was augmented by our successful application of purchasing controls to squeeze base operating costs. Reductions in fixed costs stemming from a review of operational controls, along with other factors, resulted in higher project margins. An additional positive factor was better earnings posted by our US-based operations following the prior year's losses related to the booking of sales on unprofitable projects. Reflecting these factors, gross profit climbed 61.9% in year-on-year terms to ¥8,850 million.

Increased gross profit and our successful efforts to constrain selling, general and administrative expenses produced a major turnaround in performance in terms of key earnings metrics. Income from operations totaled ¥1,093 million, compared with an operating loss of ¥2,763 million in the previous year. At the recurring profit level, the loss of ¥2,844 million recorded in the previous year turned into a profit of ¥1,230 million. Net income for the year under review was ¥1,181 million (compared with the prior year's loss of ¥3,582 million).

## Business Segment Review

Consolidated sales in the construction segment, the mainstay business for the Raito Kogyo Group, increased by 2.2% compared with the previous year to ¥66,425 million. Within this figure, sales by the parent company and Japanese subsidiaries rose 5.9% to ¥64,526 million, but sales by US-based operations declined 53.3% to ¥1,897 million.

Construction segment orders in the fiscal year under review declined by 3.1% to ¥64,955 million. By project category, orders for slope protection projects fell 7.7% to ¥30,109 million, reflecting a drop-off in

large-scale slope protection projects related to recovery operations following earthquakes, typhoons and other natural disasters. Orders for ground improvement projects were only 0.3% down from the previous year at ¥20,485 million. An increase in orders received in Japan for anti-liquefaction works for harbors, private-sector factories and other facilities and for highway-related ground improvement works was offset by a decrease in orders received in the United States following our introduction of revised business policies for operations in that country. Orders for structural repair projects increased 2.4% to ¥2,354 million, reflecting the receipt of orders for tunnel-repair work on agricultural irrigation channels. In the anti-pollution segment, higher demand for soil remediation services from the private sector for factories and other sites along with higher demand for eco-friendly cut-off walls contributed to a 7.4% year-on-year increase in orders, to ¥2,106 million. In the “others” segment, which includes construction works for the installation of sewage mains, overall orders rose by 2.7% to ¥9,900 million, reflecting increased business from sewage main construction projects together with the higher orders posted by consolidated subsidiary ONORYOGUMI CO., LTD.

## Medium-to-Long-Term Business Strategy

The Raito Kogyo Group is pursuing the following business strategy to realize a sustained recovery in performance over the medium-to-long term.

### Strengthen existing businesses

Our aim is to reinforce our competitive advantage in specialized engineering fields by selectively focusing on the marketing and promotion of proprietary techniques and by working to capitalize on the quality guarantees that we can provide based on advanced construction methods. At the same time, we plan to boost productivity by revising and upgrading our operational controls and related systems.

### Expand into new markets

We are devoting increased resources to business development initiatives in the areas of anti-liquefaction soil treatments and disaster-related preventive works such as the reinforcement of harbors and embankments. In the field of environmental restoration, we are applying proprietary ground improvement technologies to various environmental preservation projects. In this area we have developed special technologies, including in-situ soil decontamination methods and earthquake-resistant continuous cutoff walls for containing contaminated zones in an eco-friendly manner.

In the structural repair field, we aim to expand our business by leveraging our existing methods along with the new digital image-processing technologies that we have developed to facilitate site surveys, analysis and simulations using spatial information.

Overseas markets represent another major business expansion opportunity that we are pursuing at the group level.

### **Develop proprietary environment-friendly techniques and equipment**

Plans in this area focus on strengthening the presence of the Raito Kogyo Group in specialized civil engineering fields via the development of original techniques and related equipment to cater to increased demand for recycling within society. Examples include techniques to promote greater on-site re-use of construction by-products such as waste soil and felled trees, and ground excavation technologies that prevent the generation of sludge.

### **Bolster profitability**

We aim to promote qualitative improvements across sales and construction operations by upgrading our capabilities to sell and promote original technical advances and other techniques and by upgrading our project management methods. At the same time, we plan to boost the profitability of our business through further operational restructuring along with productivity improvements.

## **Outlook**

We expect business conditions to remain challenging in the fiscal year ending March 2008. In the construction industry, although we anticipate strong capital investment in the private sector, we expect public-sector investment levels to remain on a downward trend. We forecast consolidated net sales of ¥67,000 million for the year to March 2008, income from operations of ¥1,100 million, recurring income of ¥1,200 million, and net income of ¥800 million.

Management is highly cognizant of the business conditions surrounding the construction industry in Japan in recent years. Going forward, we aim to raise the corporate value of the entire Raito Kogyo Group by developing a presence in new business domains that are relevant to the needs of modern society, centering these efforts on the abundant technical expertise that we have accumulated over the years. In doing so we hope to make a contribution to regional communities as well.

I ask all our shareholders for your continued support and understanding as we move forward.

August 2007

A handwritten signature in black ink, reading "Y. Samaru" with a stylized flourish at the end.

Yuji Samaru  
President

## Fundamental policy

The Raito Kogyo Group's fundamental policy on corporate governance is to strive "to enhance the prosperity of all stakeholders, including customers, shareholders and employees." To realize this goal, Raito Kogyo recognizes that development and maintenance of a sound management structure and related systems is a key issue for senior managers.

## Corporate Governance Framework

### Management structure and oversight/supervisory systems

Raito Kogyo has established the General Managers' Committee to strengthen management functions and to facilitate timely and effective decision-making relating to key management policies and any urgent business matters.

The optimization of the number of members of the Board of Directors and the introduction of an executive officer system serve to enhance the management structure and to promote greater efficiency in decision-making and operational execution functions. Outside directors are appointed to reinforce supervision of the Board of Directors.

A corporate auditor system based on the Japanese model constitutes the core element of management oversight functions. As of June 2007, the Board of Corporate Auditors comprised three members, two of whom were external appointments. Corporate auditors attend meetings of the Board of Directors and important management committees. This strengthens oversight, helps to promote sound management and increases transparency.

The independent auditors undertake accounting audits of Raito Kogyo's financial statements on both a consolidated and non-consolidated basis.

## Compliance framework

Raito Kogyo has established the Compliance Promotion Committee, and has also instituted a fundamental policy on

compliance along with the Raito Kogyo Group Corporate Code of Conduct.

## Status of system of internal controls

On May 19, 2006, the Board of Directors decided to develop a fundamental policy on internal controls to guide the development of systems aimed at ensuring that the execution of duties by directors is in compliance with relevant laws, regulations and the articles of association, and that other management practices are consistently proper. Raito Kogyo continues to develop internal controls based on this policy, while making required revisions or improvements in response to any changes in the business environment.

## Timely disclosure

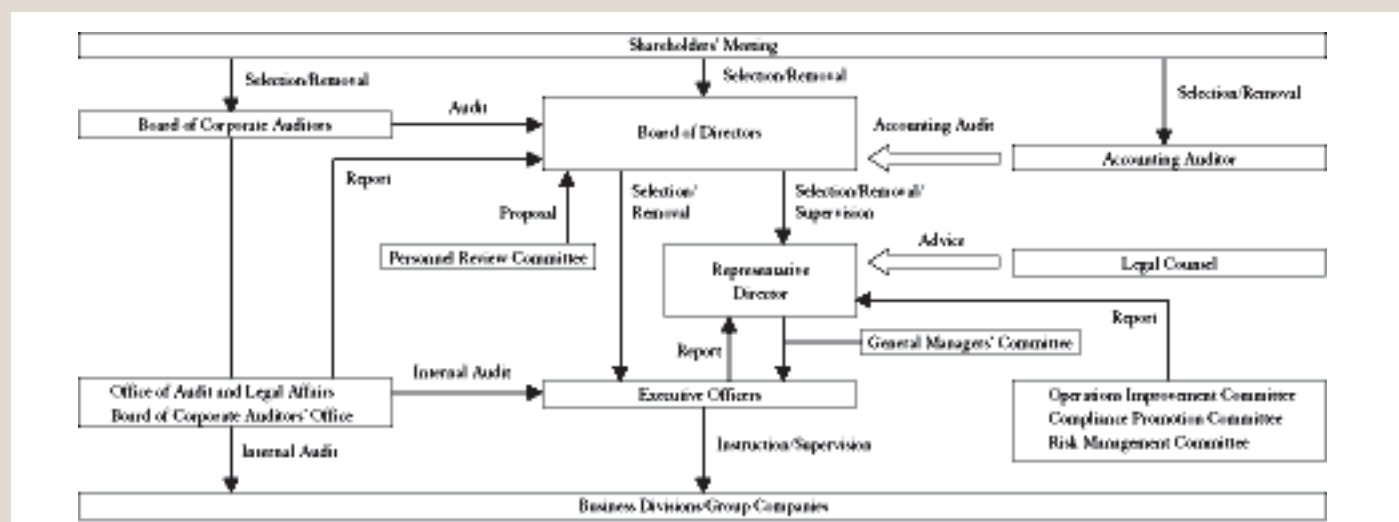
Raito Kogyo recognizes the importance of early disclosure of all relevant information to investors relating to financial results and performance. The Corporate Planning Department oversees the implementation of various IR activities, including financial results announcements, investor presentations and the disclosure of investor-related information through media channels such as the corporate web site.

## Risk management system

The Risk Management Committee coordinates efforts to ensure the early identification of risks, alongside implementation of preventive measures.

## Internal audits

The Internal Audit Office, which comprised four members of staff, fulfills various internal audit functions. Based on annual auditing plans, it reviews the soundness of executive actions and business activities. Internal audit results are reported to the corporate auditors and to the president.





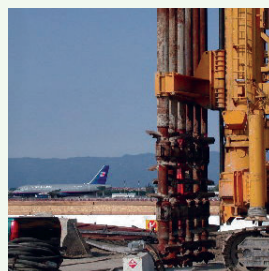


# RAITO KOGYO AT A GLANCE



## Slope Protection Projects

Activities in this field encompass construction works to protect slopes from degradation and weathering, and to prevent landslides, slope failures, debris flows and flooding. Orders received in the fiscal year under review amounted to ¥30,158 million and segment revenues from completed projects totaled ¥34,440 million.



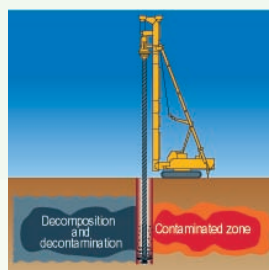
## Ground Improvement Projects

Structural foundation and soft-ground stabilization works serve to prevent liquefaction during earthquake and ground subsidence. Orders received in the fiscal year under review totaled ¥19,409 million, while segment revenues from completed projects were ¥18,369 million.



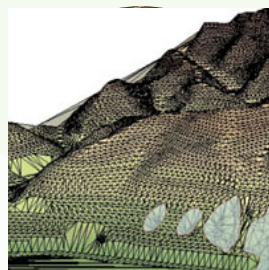
## Structural Repair Projects

Activities in this category include diagnostic survey and structural repair work for tunnels, bridges, sewage systems and other structures. Orders received in the fiscal year under review amounted to ¥2,354 million. Segment revenues from completed projects were ¥2,005 million.



## Anti-Pollution Projects

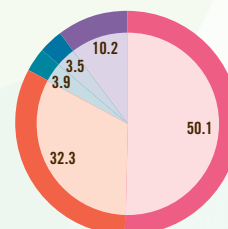
Anti-pollution projects comprise contaminated site characterization and remediation, environment-friendly slope greening works utilizing recycled wastes to harmonize with the local ecology. Orders received in the fiscal year under review totaled ¥2,106 million and segment revenues from completed projects amounted to ¥2,061 million.



## Others

Activities include the installation of sewage mains and public utility conduits. Soil surveys and data analysis of various kinds utilizing digitized three-dimensional images are included in this category. Orders received in the fiscal year under review totaled ¥6,143 million and segment revenues from completed projects amounted to ¥4,835 million.

ORDERS RECEIVED BY TYPE OF WORK (%)



- Slope Protection Projects
- Ground Improvement Projects
- Structural Repair Projects
- Anti-Pollution Projects
- Others

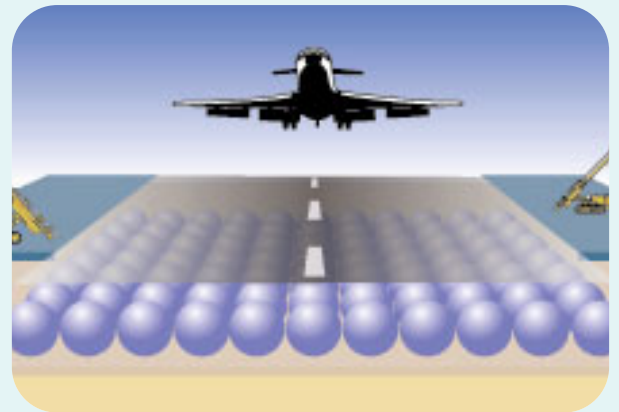


Raito Kogyo is engaged in a broad range of research and development activities in an effort to respond to changes in market trends, expand its scope of business activities and upgrade technologies in each business segment. To this end, the Company is also active in joint R&D, and aggressively pursues joint-development opportunities with institutions in and out of the construction industry, universities and government authorities including the Ministry of Land, Infrastructure and Transport. R&D expenditures for the fiscal year under review were ¥483 million.



## Anti-Liquefaction and Earthquake-Resistant Soil Treatment

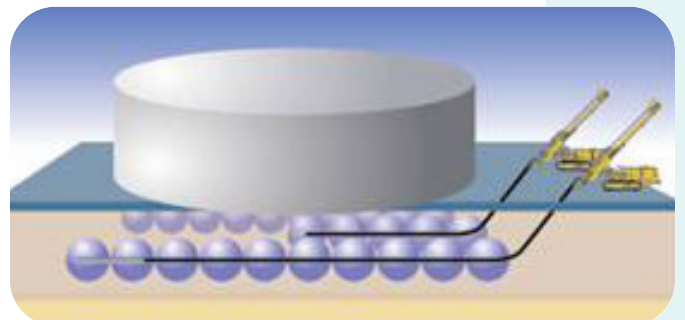
Raito Kogyo continues to actively pursue research and development in the field of anti-liquefaction soil treatment utilizing chemical grouting as a means of stabilization. Maxperm Grouting method facilitates the long-term effects of improvement and stabilization by using a highly durable grout. Utilized in areas such as air and sea ports, this soft-ground stabilization and anti-liquefaction soil treatment is attracting wide acclaim.



### Close-Up!

#### Navigational Drilling System

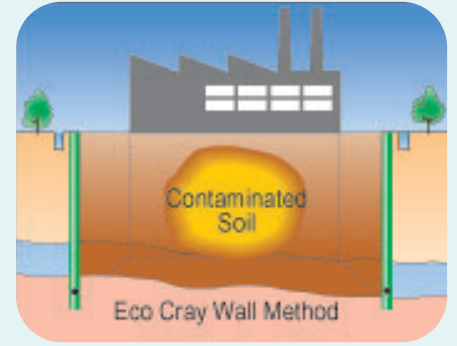
The navigational drilling system enables highly accurate curved drilling utilizing double-wall rod strings. Distinguished by the use of a double-wall system, the navigational drilling can be freely used in conjunction with a variety of existing chemical grouting and soil remediation methods. By applying this method, greater efficiencies can be achieved in soil remediation works. The navigation drilling system is ideal for remediation in areas immediately beneath active plants and factories, condominiums, gas stations and petroleum storage tanks. This system can expand remediation capabilities by allowing the injection of materials that decompose contaminants without being hampered by structures and obstacles.





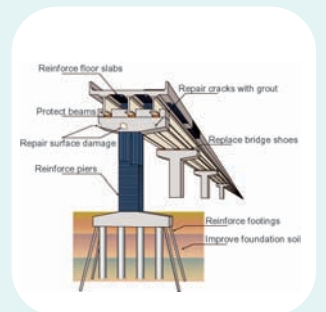
## Soil Remediation Technology

For many years, Raito Kogyo has conducted research and development on soil remediation technology as a long-standing strength of the Company. In particular, Raito Kogyo introduced the Steam Enhanced Remediation (SER) method in an effort to treat soil contaminated by volatile organic compounds and petroleum-derived hydrocarbons. After a series of performance tests, the SER method was proved to be effective with outstanding results. In addition, the Company successfully developed the Eco Clay Wall method. This method serves to contain the contaminated ground by installing cut off walls without producing spoils during excavation. With a clay base material, the wall offers long-term stability and durability. At the same time, the plastic nature of the wall provides protection against cracking in the event of an earthquake.



## Aging Concrete Repair Technology

With the passing of time, newly constructed facilities enter a period of maintenance and repair. Basic infrastructure encompassing tunnels, bridges, roadways and viaducts are not exempt. While new structures continue to be built, adequate maintenance and repair of existing infrastructure plays an important role in safety and stability. In the maintenance and repair of basic structures, Raito Kogyo conducts detailed onsite inspections and analysis. Based on the results, the Company proposes the best method to effectively address structural damage and deterioration.



## Spatial Information Technology (SI)

Utilizing spatial information technology, images taken from devices such as digital cameras, videos and artificial earth satellites are transformed into two- and three-dimensional image data with coordinates. The image data allow to conduct basic image location survey as well as landscape simulation using slope and underground space montages. Raito Kogyo developed the controlled thermal conduction (CTC) based on infrared thermography technology to facilitate slope and cavity inspection. With this technique, frozen carbon dioxide powder is injected into cavities to allow accurate infrared ray analysis. Furthermore the Company established a nationwide network to take aerial video images when a disaster or an emergency occurs and quickly convert the video images to continuous series of still images to ensure prompt investigation and analysis of the damage.



## Construction Results

### Project

Ground improvement works for the Nihonkai-Tohoku Expressway Iwaki Construction



### Client

Japan Highway Public Corporation

### Technique/Objective

PERMANENTLY ANCHOR method to expressways development

### Equipment

Ordered: March 2004 Completed: February 2006

### Project

Pile foundation works for the Osaka station improvement work



### Client

OBUYASHI CORPORATION

### Technique/Objective

BORING HOLE method to groundwork

### Date

Ordered: March 2005 Completed: March 2006

### Project

Ground improvement works for the final disposal site Construction (Phase II)



### Client

SHIMIZU CORPORATION

### Technique/Objective

TRENCH CUTTING RE-MIXING DEEP WALL method to cut off groundwater seepage

### Date

Ordered: September 2005 Completed: August 2006

### Project

Slope protection works for the Moriyoshiyama Dam Construction (Phase II)



### Client

NISHIMATSU CONSTRUCTION CO., LTD.

### Technique/Objective

FREE FRAME shotcrete grid beam installation method to protect from slope failures

### Date

Ordered: February 2006 Completed: December 2006

### Project

Prevent landslide works for the Moriyama area Construction (FY2005-FY2006)



### Client

Ministry of Land, Infrastructure and Transport, Shikoku Regional Development Bureau

### Technique/Objective

PERMANENTLY ANCHOR method to protect from slope failures

### Date

Ordered: November 2005 Completed: June 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31, 2007 and 2006	2007	2006	2007
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and time deposits (Note 3)	¥ 5,979	¥ 5,630	\$ 50,633
Marketable securities (Note 3)		—	
Notes and accounts receivable, trade:			
Notes	4,783	4,630	40,502
Accounts	21,251	18,952	179,958
Allowance for doubtful accounts	(246)	(527)	(2,081)
Inventories (Note 4)	9,587	8,675	81,185
Deferred tax assets (Note 12)	258	268	2,181
Other current assets	1,533	1,251	12,979
Total current assets	43,145	38,879	365,357
<b>Property and equipment:</b>			
Land (Note 6)	9,698	9,869	82,123
Buildings	8,998	8,941	76,198
Machinery and equipment	24,732	24,929	209,433
Construction in progress	19	239	160
	43,447	43,978	367,914
Accumulated depreciation	(27,236)	(27,068)	(230,638)
Net property and equipment	16,211	16,910	137,276
<b>Investment and other assets:</b>			
Investment in securities (Note 5)	4,556	4,783	38,584
Investment in non-consolidated subsidiaries and affiliate	264	305	2,234
Long-term loans to non-consolidated subsidiaries and affiliate	100	80	847
Long-term receivable	738	5,034	6,248
Allowance for doubtful accounts	(688)	(4,538)	(5,830)
Deferred tax assets (Note 12)	574	284	4,865
Others	2,008	1,615	17,005
Total investment and other assets	7,552	7,563	63,953
Total assets	¥ 66,908	¥ 63,352	\$ 566,586

The accompanying notes are an integral part of this statement.

March 31, 2007 and 2006	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities:</b>			
Short-term bank loans payable (Note 7)	¥ 2,259	¥ 1,199	\$ 19,129
Current portion of long-term bank loans payable (Note 7)	—	—	—
Notes and accounts payable, trade:			
Notes	5,471	4,926	46,326
Accounts	12,019	11,472	101,778
Notes and accounts payable, other:			
Notes	138	114	1,166
Accounts	932	516	7,896
Advance received on uncompleted contracts	5,877	5,409	49,768
Allowance for anticipated loss on contract work	335	—	2,838
Accrued expenses	1,206	1,248	10,211
Accrued income taxes	97	190	826
Other current liabilities	235	103	1,986
Total current liabilities	28,569	25,177	241,924
<b>Long-Term Liabilities:</b>			
Provision for loss on guarantees	146	160	1,244
Deferred liabilities (Note 12)	—	—	—
Consolidation adjustment account	25	33	214
Deferred liabilities on revaluation of land (Note 6)	1,435	1,435	12,153
Reserve for employees' retirement benefit (Note 8)	547	483	4,630
Reserve for directors' retirement benefit	—	403	—
Other long-term liabilities	847	559	7,164
Total long-term liabilities	3,000	3,073	25,405
Total liabilities	31,569	28,250	267,329
<b>Shareholders' Equity (Note 9):</b>			
Common stock,			
Authorized — 198,000,000 shares			
Issued, no par, value, 57,804,450 shares as of March 31, 2007 and 2006	6,119	6,119	51,820
Additional paid-in capital	6,358	6,358	53,841
Retained earnings	24,531	23,876	207,728
Revaluation surplus of land (Note 6)	(1,053)	(1,053)	(8,918)
Unrealized gain on available-for-sale securities	996	1,415	8,433
Foreign currency translation adjustments	85	83	722
Total	37,036	36,798	313,626
Treasury stock-at cost, 5,136,021 shares in 2007 and 5,134,609 shares in 2006 (Note 10)	(1,697)	(1,696)	(14,369)
Total shareholders' equity	35,339	35,101	299,257
Total liabilities and shareholders' equity	¥66,908	¥63,352	\$566,586

	Millions of yen		Thousands of U.S. dollars (Note 1)
For the years ended March 31, 2007 and 2006	2007	2006	2007
<b>Net Sales:</b>			
Sales of construction	¥66,425	¥64,976	\$562,494
Sales of goods	223	542	1,892
<b>Cost of sales:</b>			
Cost of construction	57,581	59,566	487,605
Cost of goods sales	217	487	1,837
Gross profit	8,850	5,465	74,944
Selling, general and administrative expenses	7,757	8,228	65,688
Income (loss) from operations	1,093	(2,763)	9,256
<b>Other income (expenses):</b>			
Interest and dividend income	124	115	1,048
Interest expense	(80)	(129)	(682)
Gain on sales of investment securities	110	260	929
Provision for doubtful accounts	—	—	—
Loss on sales or disposal of property and equipment	—	—	—
Additional retirement payment	(42)	(106)	(356)
Losses on devaluation of investment securities	(20)	(92)	(173)
Impairment of Fixed Assets	(40)	(273)	(335)
Write-off of doubtful accounts	—	—	—
Other—net	104	(110)	897
Other expenses—net	156	(335)	1,328
<b>Income (loss) before income taxes</b>	<b>1,249</b>	<b>(3,097)</b>	<b>10,584</b>
<b>Income taxes (Note 12):</b>			
Current	63	200	533
Deferred	5	285	47
	68	485	580
<b>Minority interest in net income</b>			
Net income (loss)	¥ 1,181	¥ (3,582)	\$ 10,004

	Yen		U.S. dollars (Note 1)
<b>Amounts per share:</b>			
Net income (loss)	¥ 22.43	¥ (68.02)	\$ 0.19



	Millions of yen		Thousands of U.S. dollars (Note 1)
For the years ended March 31, 2007 and 2006	2007	2006	2007
<b>Common stock:</b>			
Balance at beginning of the year	¥ 6,119	¥ 6,119	\$ 51,820
Balance at end of year	6,119	6,119	51,820
<b>Additional paid-in capital:</b>			
Balance at beginning of the year	¥ 6,358	¥ 6,358	\$ 53,841
Balance at end of year	6,358	6,358	53,841
<b>Retained earnings:</b>			
Balance at beginning of the year	¥23,876	¥27,900	\$202,184
Transfer from Revaluation surplus of Land	—	106	—
Net income for the year	1,181	(3,582)	10,004
Cash dividends	(526)	(527)	(4,460)
Bonuses to directors and statutory auditors	—	(21)	—
Balance at end of year	24,531	23,876	207,728
<b>Revaluation surplus of land (Note 6):</b>			
Balance at beginning of the year	¥ (1,053)	¥ 333	\$ (8,918)
Sales of revaluated land	—	(1,386)	—
Balance at end of year	(1,053)	(1,053)	(8,918)
<b>Unrealized gain on available-for-sale securities:</b>			
Balance at beginning of the year	¥ 1,415	¥ 538	\$ 11,981
Net change during the year	(419)	877	(3,548)
Balance at end of year	996	1,415	8,433
<b>Foreign currency translation adjustments:</b>			
Balance at beginning of the year	¥ 82	¥ (27)	\$ 698
Net change during the year	3	109	24
Balance at end of year	85	82	722
<b>Treasury stock (Note 10):</b>			
Balance at beginning of the year	¥ (1,696)	¥ (1,695)	\$ (14,365)
Increase in treasury stock	(1)	(1)	(4)
Balance at end of year	(1,697)	(1,696)	(14,369)

The accompanying notes are an integral part of this statement.

	Millions of yen		Thousands of U.S. dollars (Note 1)
For the years ended March 31, 2007 and 2006	2007	2006	2007
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 1,249	¥(3,097)	\$ 10,584
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	1,132	1,298	9,587
Impairment of Fixed Assets	40	273	335
Gain on sales of investment securities	(110)	(260)	(929)
Losses on devaluation of investment securities	20	92	173
Increase (decrease) in allowance for doubtful accounts	55	1,159	466
Increase (decrease) in reserve for employees' retirement benefits	64	(286)	542
Increase (decrease) in reserve for directors' retirement benefits	(403)	34	(3,409)
Interest income and dividends received recognized on statement of income	(124)	(115)	(1,048)
Interest payment recognized on statement of income	80	129	682
Decrease (increase) in notes and accounts receivable	(2,445)	3,119	(20,705)
Decrease (increase) in accumulated construction cost in progress	(888)	(340)	(7,517)
Decrease (increase) in other inventories	(23)	36	(194)
Increase (decrease) in notes and accounts payable	1,088	(1,502)	9,209
Increase (decrease) in advance received on uncompleted contracts	468	1,141	3,959
Others	320	(487)	2,691
Subtotal	523	1,194	4,426
Interest income and dividend received (cash basis)	123	115	1,048
Interest payment (cash basis)	(80)	(129)	(682)
Income taxes paid	(150)	(211)	(1,272)
Others	(2)	(3)	(11)
Net cash provided by operating activities	414	966	3,509
<b>Cash flows from investing activities:</b>			
Purchases of fixed assets	(1,101)	(911)	(9,325)
Proceeds from sales of fixed assets	677	70	5,732
Purchases of investment securities	(2,122)	(4,353)	(17,967)
Proceeds from sales of investment securities	1,760	3,683	14,900
Purchases of stock of affiliated company	—	240	—
Others	193	158	1,639
Net cash used in investing activities	(593)	(1,113)	(5,021)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term borrowing	1,292	(471)	10,936
Proceeds from long-term borrowing	—	940	—
Repayment of long-term borrowing	(236)	(3,340)	(2,000)
Purchases of treasury stock	(1)	(1)	(5)
Cash dividends paid	(527)	(527)	(4,465)
Net cash used in financing activities	528	(3,399)	4,466
Effects of changes in exchange rates on cash and cash equivalents	0	8	3
Net increase (decrease) in cash and cash equivalents	349	(3,537)	2,957
Cash and cash equivalents at beginning of the year	5,630	9,167	47,676
Cash and cash equivalents at end of the year (Note 3)	¥ 5,979	¥ 5,630	\$ 50,633

The accompanying notes are an integral part of this statement.

## 1. Basis of preparation

The accompanying consolidated financial statements of RAITO KOGYO CO., LTD. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

In order to facilitate the understanding of readers outside Japan, certain reclassifications have been made to the consolidated financial statements prepared for domestic purposes and relevant notes and statements of shareholders' equity have been added. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The amounts are rounded to the nearest millions of yen. Therefore, total or subtotal amounts do not correspond with the aggregation of such account balance.

The United States dollar amounts presented in the accompanying financial statements are included solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥118.09=US\$1.00, which was the exchange rate prevailing at March 31, 2007.

## 2. Summary of significant accounting policies

### a) Principles of consolidation

#### (i) Consolidated subsidiaries

The consolidated financial statements include the accounts of the Company and its 3 significant subsidiaries (RAITO, INC., AURA LUGAR CO., LTD. and ONORYO-GUMI CO., LTD.), after the elimination of all significant intercompany transactions, balances and unrealized profits.

The consolidated financial statements do not include the accounts of EDO ENTERPRISE CO., LTD., C.E. CREATE CO., LTD., TOHOKU REALIZE CO., LTD., MICHINOKU REALIZE CO., LTD., KYUSHU REALIZE CO., LTD., Sol Data JAPAN. K.K., YASASHIITE RAITO CO., LTD., RAITO SINGAPORE PTE. LTD. since the combined total assets, sales, net income, and retained earnings of these subsidiaries are not significant and would not have a material impact on the consolidated financial statements.

#### (ii) Equity method

Investments in unconsolidated subsidiaries have been carried at cost.

Investments in unconsolidated subsidiaries above mentioned are not carried using the equity method, since the effect of applying the equity method in these subsidiaries is not material.

#### (iii) Consolidation adjustments

The consolidation difference between the cost of an investment and equity in its net assets at the date of acquisition is amortized practical number of within 20 years.

### b) Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, the Company and its consolidated subsidiaries consider all highly liquid investments with insignificant risk of changes in value and original maturity of three months or less at the date of acquisition to be cash equivalents.

### c) Marketable securities and investments in securities

Securities are classified into three categories: trading, held-to-maturity or available-for-sale securities which are not classified as either trading or held-to-maturity securities.

The Company classifies all of marketable securities and investments in securities as available-for-sale securities.

Marketable available-for-sale securities are carried at fair market value at year end. The cost of securities sold is determined based on the moving average method. Unrealized holding gain or loss on available-for-sale securities, net of the applicable income taxes, is charged to shareholder's equity.

Non-marketable available-for-sale securities are carried at cost by the moving average method.

Impairments of non-marketable securities are reduced to net realized value by a charge to income.

### d) Inventories

Inventories other than materials and supplies are stated at accumulated construction cost for each project. Selling, general and administrative expenses are excluded from such cost.

Materials and supplies are stated at cost determined by the first-in, first-out method.

### e) Recognition of net sales and related costs

Net sales and the related costs of construction contracts are recorded on the completed-contract method regarding the Company and its domestic subsidiaries, and on the percentage-of-completion method regarding the foreign subsidiaries.

In addition, during the construction period, accumulated costs on uncompleted contracts are included as inventories and advances received on uncompleted contracts are stated in current liabilities by the completed contract method.

### f) Allowance for doubtful accounts

Allowance for doubtful accounts of the Company and its consolidated subsidiaries are provided as follows:

For general receivables, allowance is provided at rates derived from historical credit loss experiences.

For doubtful receivables, allowance is provided at the amount considered uncollectible based on respective assessment of collectability.

### g) Property and equipment, depreciation and lease transaction

Property and equipment are carried at cost.

Regarding the Company and its domestic subsidiaries, depreciation for buildings acquired before April 1, 1998, machinery and equipment is mainly computed by the declining balance method, and depreciation for buildings acquired after April 1, 1998 is computed by the straight-line method over the applicable useful lives.

Regarding the foreign subsidiaries, depreciation is mainly computed by the straight-line method over the estimated useful lives.

#### (Impairment of Fixed Assets)

The Company and its consolidated subsidiaries adopted accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standard Board of Japan on October 31, 2003).

Incidentally, as for the current term, it is appropriating impairment of fixed assets in ¥40 million (\$335 thousand).

Finance lease transactions, except for those which meet the condition that the ownership of the leased asset is substantially transferred to the lessee, are accounted for the same as operating lease transactions.

#### **h) Software**

Software used by the Company and its consolidated subsidiaries is depreciated using the straight-line method, based on the useful life as determined by the Company and its consolidated subsidiaries (generally 5 years).

#### **i) Income taxes**

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effects of deferred tax assets and liabilities on a change in tax rates are recognized in income in the period that includes the enacted date.

#### **j) Reserve for retirement benefit**

Accrued retirement benefits are provided for the payment of retirement benefits at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the end of the current fiscal year.

Prior service cost is being amortized as incurred by the straight-line method over periods which are shorter than the average remaining years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over periods which are shorter than the average remaining years of service of the eligible employees.

#### **k) Allowance for anticipated loss on contract work**

For the contract works for which future loss is anticipated at the end of the fiscal year, allowance is provided at the amount based on reasonable estimation.

#### **l) Per share data**

The Company has adopted the new "Financial Accounting Standards for Earnings Per Share" and the new "Implementation Guidance on Financial Accounting Standards for Earnings Per Share" effective from April 1, 2002.

#### **m) Consumption tax**

Consumption tax is taken out from all the revenue and expense items and balance sheet items, and recorded separately, except mainly for receivables and payables.

#### **n) Reclassification**

Certain reclassifications have been made to the accompanying 2006 financial statements to conform to the 2007 presentation.

### **3. Cash and cash equivalents**

Reconciliation between cash and time deposits and marketable securities on the consolidated balance sheets as of March 31, 2006 and 2007 and cash and cash equivalents at end of years on the statements of cash flows for the year ended March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash and time deposits on the consolidated balance sheets	¥5,979	¥5,630	\$50,633
Marketable securities on the consolidated balance sheets	—	—	—
Cash and cash equivalents on the statements of cash flows	¥5,979	¥5,630	\$50,633

### **4. Inventories**

Inventories as of March 31, 2007 and 2006 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Accumulated construction cost in progress	¥9,366	¥8,477	\$79,313
Materials and supplies	221	198	1,872
	¥9,587	¥8,675	\$81,185

### **5. Marketable securities and investment in securities**

The market value of listed securities, which are classified as Marketable securities, as of March 31, 2007 and 2006, are as follows:

	Millions of yen		
	Fair Value		
	Cost	(Carrying Amount)	Unrealized Gain (Loss)
<b>As of March 31, 2007</b>			
Marketable equity securities	¥1,512	¥3,214	¥1,701
Fund trust and other	1,273	1,246	(26)
	¥2,785	¥4,460	¥1,675

	Thousands of U.S. dollars		
	Fair Value		
	Cost	(Carrying Amount)	Unrealized Gain (Loss)
<b>As of March 31, 2007</b>			
Marketable equity securities	\$12,808	\$27,213	\$14,405
Fund trust and other	10,778	10,558	(220)
	\$23,586	\$37,771	\$14,185

	Millions of yen		
	Fair Value		
	Cost	(Carrying Amount)	Unrealized Gain (Loss)
<b>As of March 31, 2006</b>			
Marketable equity securities	¥1,524	¥3,923	¥2,398
Fund trust and other	789	770	(19)
	¥2,313	¥4,693	¥2,379

## 6. Revaluation of land

Under the “Law of Land Revaluation”, promulgated on March 31, 1998 and revised on March 31, 2001, the Company has elected a one-time revaluation of its ownuse land.

The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of shareholders’ equity. There is no effect on the statements of operations. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account and related deferred tax liabilities.

As of March 31, 2007, the carrying amount of the land after one-time revaluation exceed the market value by ¥2,274 million (\$19,265 thousand).

## 7. Short-term bank loans payable

Short-term bank loans payable are mostly unsecured loans bearing interest at market rates.

## 8. Employees’ retirement benefit and pension plan

The Company and its consolidated subsidiaries have severance payment plans for employees.

The liability for employees’ retirement benefits obligation at March 31, 2007 and 2006, consists of the followings;

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligation	¥(12,078)	¥(12,022)	\$(102,286)
Plan assets at fair value	9,851	9,536	83,422
Retirement benefit trust	4,281	5,118	36,253
Unrecognized actuarial loss	(1,265)	(1,819)	(10,713)
Unrecognized prior service cost	(1,017)	(1,097)	(8,612)
Long-term prepaid expenses	(318)	—	(2,694)
Net liability	¥ (546)	¥ (284)	\$ (4,630)

The components of net periodic benefit costs for the year ended March 31, 2007 and 2006, are as follows;

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost	¥ 655	¥ 662	\$ 5,554
Interest cost	62	62	525
Expected return on plan assets	(381)	(326)	(3,230)
Amortization of actuarial loss	(46)	168	(396)
Amortization of prior service cost	(80)	(80)	(677)
Net periodic benefit costs	¥ 210	¥ 456	\$ 1,776

Assumptions used for the year ended March 31, 2007 and 2006, are set forth as follows;

	2007	2006
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	4.0%	4.0%
Amortization period of actuarial gain/loss	15 years	15 years
Amortization period of prior service cost	15 years	15 years

## 9. Shareholders’ equity

Dividends may be approved by the shareholders after the end of each fiscal period. In accordance with the Commercial Code, these dividends and the related appropriations of retained earnings are not reflected in the financial statements at the end of such fiscal year but are recorded at the time they are approved. However, dividends per share shown in the accompanying statements of income and retained earnings are included in the years to which they relate.

## 10. Treasury stock

The Company holds 5,136,021 shares of treasury stock as of March 31, 2007 based on approval by the annual shareholder’s meeting.

The Company has adopted the new “Financial Accounting Standards for Treasury Stock and Reduction of Legal Reserves” effective from April 1, 2002.

## 11. Leases

a) The following is certain information on finance leases accounted for in the same manner as operating leases since ownership of the leased assets is not substantially transferred to the lessee.

The analysis of the leased assets as of March 31, 2007 and 2006 is as follows. The acquisition cost equivalent is computed based on undiscounted lease payments at the inception of the leases.

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Machinery and equipment:			
Acquisition cost equivalent	¥598	¥776	\$5,067
Accumulated depreciation equivalent	326	455	2,763
Net book value equivalent	¥272	¥321	\$2,304

Undiscounted future lease payments as of March 31, 2007 and 2006, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year	¥105	¥128	\$ 890
Thereafter	167	193	1,414
	¥272	¥321	\$2,304

Lease payments for the years ended March 31, 2007 and 2006, are ¥105 million (\$891 thousand) and ¥147 million, respectively. Depreciation expense equivalent is computed on a straight-line basis over the lease term with no residual value, and amounted to ¥105 million (\$891 thousand) and ¥147 million for the years ended March 31, 2007 and 2006, respectively.

b) Future payments of operating lease as of March 31, 2007 and 2006, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year	¥1	¥2	\$15
Thereafter	2	5	18
	¥3	¥7	\$33



## 12. Income taxes

Income taxes applicable to the Company and its consolidated subsidiaries comprise (1) corporation tax, (2) enterprise tax, and (3) inhabitant tax. While the normal statutory tax rates were approximately 40.6 percent in 2007 and 2006, respectively, these income taxes resulted in effective tax rates of approximately 5.5 percent and 15.7 percent for the years ended March 31, 2007 and 2006, respectively.

The following table reconciles above statutory tax rate to the Company's effective tax rate for the years ended March 31, 2007 and 2006.

	2007	2006
Statutory rate	40.6%	40.6%
Non-deductible items	10.3	(3.3)
Non-taxable items	—	—
Inhabitant minimum taxes	6.2	(3.5)
Net operating loss carryforwards	(3.4)	(38.0)
Allowance for doubtful accounts	(57.1)	(14.3)
Allowance for losses on projects	2.9	—
Write-down of inventory	—	—
Write-down of membership	0.6	(1.4)
"Write-down of stock of affiliated company"	0.7	(1.2)
Impairment of Fixed Assets	1.3	(3.6)
Prior year income tax return	(3.1)	—
R&D expenses	6.4	—
Variance of tax rate	—	9.4
Other, net	0.1	(0.4)
Effective tax rate	5.5%	(15.7)%

The significant components of the Company's deferred tax assets and liabilities as of March 31, 2007 and 2006, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Reserve for employees' retirement benefit	¥ 1,109	¥ 1,115	\$ 9,392
Reserve for directors' retirement benefit	—	163	—
Long-term accounts payable	155	—	1,316
Amortization of transitional obligation	485	485	4,104
Accrued expenses	134	134	1,133
Net operating loss carryforwards	3,852	2,048	32,622
Allowance for doubtful accounts	530	1,808	4,488
Other	877	838	7,420
Subtotal	7,142	6,591	60,475
Valuation allowance	(5,069)	(4,489)	(42,921)
Total deferred tax assets	¥ 2,073	¥ 2,102	\$ 17,554
Deferred tax liabilities:			
Gain on securities contributed to employees' retirement benefit	504	504	4,271
Special depreciation allowance for tax purposes	10	34	89
Unrealized gain on available-for-sale securities	679	965	5,752
Other	48	47	396
Total deferred tax liabilities	¥ 1,241	¥ 1,550	\$ 10,508
Total net deferred tax assets	¥ 832	¥ 552	\$ 7,046

## 13. Segment information

### (1) Industry segments

Summarized financial information by industry segment for the years ended as of March 31, 2007 and 2006 is as follows:

Millions of yen					
Year ended March 31, 2007					
	Construction	Goods sales	Total	Elimination	Consolidated
Revenues:					
Customers	¥66,425	¥ 223	¥66,648	¥ —	¥66,648
Inter-segments	36	1,379	1,415	(1,415)	—
Total	66,461	1,602	68,063	(1,415)	66,648
Operating expenses	65,393	1,575	66,968	(1,413)	65,555
Operating income/loss	¥ 1,068	¥ 27	¥ 1,095	¥ (2)	¥ 1,093
Assets	¥55,247	¥1,277	¥56,524	¥10,384	¥66,908
Depreciation	1,120	13	1,133	(0)	1,133
Capital expenditures	912	—	912	—	912

Thousands of U.S. dollars					
Year ended March 31, 2007					
	Construction	Goods sales	Total	Elimination	Consolidated
Revenues:					
Customers	\$562,494	\$ 1,892	\$564,386	\$ —	\$564,386
Inter-segments	306	11,674	11,980	(11,980)	—
Total	562,800	13,566	576,366	(11,980)	564,386
Operating expenses	553,754	13,335	567,089	(11,959)	555,130
Operating income/loss	\$ 9,046	\$ 231	\$ 9,277	\$ (21)	\$ 9,256
Assets	\$467,876	\$10,816	\$478,652	\$87,934	\$566,586
Depreciation	9,486	110	9,596	(5)	9,591
Capital expenditures	7,720	—	7,720	—	7,720

Millions of yen					
Year ended March 31, 2006					
	Construction	Goods sales	Total	Elimination	Consolidated
Revenues:					
Customers	¥64,976	¥ 543	¥65,519	¥ —	¥65,519
Inter-segments	176	1,282	1,458	(1,459)	—
Total	65,152	1,825	66,977	(1,459)	65,519
Operating expenses	67,946	1,783	69,729	(1,447)	68,282
Operating income/loss	¥ (2,794)	¥ 42	¥ (2,752)	¥ (12)	¥ (2,763)
Assets	¥51,059	¥1,364	¥52,423	¥10,929	¥63,352
Depreciation	1,285	14	1,299	(1)	1,298
Capital expenditures	954	8	962	0	962

### (2) Geographical segment and Overseas sales

Disclosure of geographical segment information and overseas sales have been omitted due to immateriality.

## 14. Contingent liabilities

As of March 31, 2007 and 2006, the Company and its consolidated subsidiaries were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Notes receivable discounted	¥—	¥1,398	\$—

## 15. Subsequent event

On June 28, 2007, the following appropriations of retained earnings were approved at the shareholders' meeting of the Company:

	Millions of yen	Thousands of U.S. dollars
Cash dividends of ¥8.0 (\$0.07) per share (final for the year ended March 31, 2007)	¥421	\$3,568



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## Board of Directors and Auditors

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<b>President</b> Yuji Samaru	<b>Senior Managing Directors</b> Nobuyuki Akiyama Katsunori Negishi Fumio Takeda Yoshitaka Mitsuse Ayumu Yasukawa	<b>Directors</b> Izumi Hasegawa Nobutaka Suzuki Koji Sugiyama Hitoshi Kubota Yasumi Irie Susumu Araki Shigeyoshi Kimura Tadashi Shibata* *Outside Director	<b>Standing Auditor</b> Kazuhiko Sonokawa  <b>Auditors</b> Kenichi Kondo* Shuichiro Kobayashi* *Outside Auditors  (as of June 28, 2007)
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## Share Information

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### Common Stock:

Authorized shares  
198,000,000 shares (as of March 31, 2007)

Issued and outstanding shares  
57,804,450 shares (as of June 28, 2007)

Number of shareholders  
10,573 (as of March 31, 2007)

### Fiscal Year-End:

End of March each year

### Annual Meeting:

In June of each year in Tokyo, Japan

### Transfer Agent, Registrar and Dividend Payments:

The Chuo Mitsui Trust and Banking Co., Ltd.  
3-33-1 Shiba, Minato-ku,  
Tokyo 105-8574, Japan  
Phone: 81-3-5232-8618  
Fax: 81-3-5232-8698

### Dividends:

Dividends are normally paid in June.

### Please direct inquiries to:

Publicity Office  
Raito Kogyo Co., Ltd.  
4-2-35 Kudan-kita, Chiyoda-ku,  
Tokyo 102-8236, Japan  
Phone: 81-3-3265-2551  
Fax: 81-3-3265-0879

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## Corporate Data

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### Head Office:

4-2-35 Kudan-kita, Chiyoda-ku,  
Tokyo 102-8236, Japan

### Capital:

¥6,119,475,000  
US\$51,820,434  
(¥118.09=US\$1.00)  
(as of March 31, 2007)

### Date of Establishment:

September 28, 1948

### Stock Trading:

Tokyo Stock Exchange,  
First Section

### Major Shareholders:

Raito Kogyo Co., Ltd.  
TAIYO LIFE INSURANCE COMPANY  
Sumitomo Mitsui Banking Corporation  
State Street Bank and Trust Company  
Morgan Stanley Group  
Nippon Life Insurance Company

### Employees:

1,129 (as of March 31, 2007)