Annual Report 2009

Raito Kogyo Co.,Ltd.

PROFILE

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.

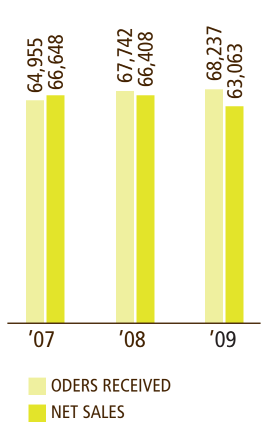
CONTENTS

CONSOLIDATED FINANCIAL HIGHLIGHTS

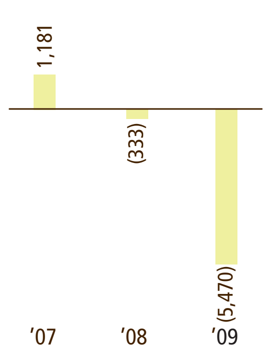
	Millions of yen						Thousands of U.S. dollars
	2009	2008	2007	2006	2005	2004	**2009**
FOR THE YEAR:							
Orders received	¥68,237	¥67,742	¥64,955	¥67,067	¥65,123	¥71,654	$694,666
Net sales	63,063	66,408	66,648	65,519	67,133	70,226	642,003
Income (loss) from operations	(1,729)	111	1,093	(2,763)	702	1,846	(17,597)
Income (loss) before income taxes	(3,896)	61	1,249	(3,097)	292	1,689	(39,661)
Net income (loss)	(5,470)	(333)	1,181	(3,582)	121	1,621	(55,686)
AT YEAR-END:							
Total assets	64,953	66,280	¥66,908	¥63,352	¥68,252	¥68,244	$661,236
Shareholders' equity	27,016	33,676	35,339	35,101	39,527	40,424	275,030
Common stock	6,119	6,119	6,119	6,119	6,119	6,119	62,297
AMOUNTS PER SHARE:							
(in yen and dollars)							
Net income (loss)	(103.86)	(6.32)	¥22.43	¥(68.02)	¥1.88	¥29.59	$(1.06)
Shareholders' equity	512.99	639.43	¥670.98	666.44	750.03	753.55	5.22
PERFORMANCE INDICATORS:							
(%)							
Equity capital ratio	41.6	50.8	52.8	55.4	57.9	59.2	—
Return on equity	—	—	3.4	—	0.3	4.1	—
Number of employees	1,103	1,120	1,129	1,178	1,175	1,203	—

Note: U.S. dollar amounts above and elsewhere in this annual report are converted from Japanese yen, for convenience only, at the rate of ¥98.23=US$1.00, the rate on March 31, 2009 for the readers' convenience only.

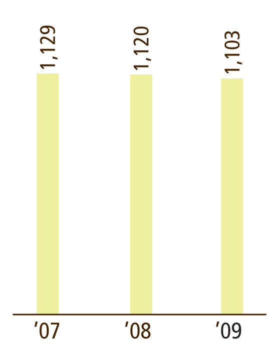
ORDERS RECEIVED, NET SALES
(Millions of yen)



NET INCOME (LOSS)
(Millions of yen)



NUMBER OF EMPLOYEES



President's Message

OPERATING PERFORMANCE

We continued to face harsh operating conditions in the year ended March 31, 2009, making it difficult to secure new orders. Amid clear deterioration in the Japanese economy, levels of public investment in the construction and civil engineering sectors continued to trend downward. Lower corporate earnings also depressed construction-related capital investment in the private sector.

The Raito Kogyo Group recorded consolidated net sales of ¥63,063 million, down 5.0% compared with the previous year. This reflected a greater number of large-scale projects undertaken by the parent company, many of which are not due to be completed until the fiscal year ending March 2010 or later. The net sales contribution from consolidated subsidiaries was actually higher than in the previous year. On the profit side, consolidated earnings were depressed by the decline in net sales and the completion of large, low-margin projects. We also increased the reserve for losses on construction contracts. Gross profit declined 3.9% in year-on-year terms to ¥7,327 million. Higher selling, general and administrative (SG&A) expenses exacerbated the fall in gross profit. SG&A expenses increased due to changes in accounting treatment and losses incurred on bad debts, among other factors. This led to an operating loss of ¥1,728 million, compared with a profit of ¥111 million in the previous year. We recorded a recurring loss of ¥1,767 million, compared with the prior year's profit of ¥223 million.

The net loss for the year under review increased from ¥333 million to ¥5,470 million, due mainly to significant exceptional losses and a reversal of deferred tax assets. The main exceptional items were a loss on valuation of investment securities due to stock market declines; a partial write-down of property and equipment; and charges for structural reforms aimed at creating a sustainable earnings base and reinforcing our competitiveness as an enterprise. These restructuring charges included extra retirement payments as well as costs associated with exiting unprofitable businesses.

BUSINESS SEGMENT REVIEW

Consolidated sales in the construction segment, which is the core business of the Raito Kogyo Group, declined by 5.2% compared with the previous year to ¥62,571 million.

Construction segment orders in the fiscal year under review grew by 0.7% in year-on-year terms to ¥68,237 million. By project category, orders for slope protection projects declined 8.4% to ¥24,416 million. Although construction subsidiaries booked higher orders, a temporary business suspension imposed on the parent company by regulatory authorities for antitrust violations had a negative impact on local government orders. Orders for ground improvement projects increased 14.2% in year-on-year terms to ¥27,159 million. This sector benefited from higher orders received in Japan for anti-liquefaction works for power generation facilities, along with large-scale ground improvement project orders from overseas. Orders for structural repair projects declined 32.9% to ¥4,248 million, due mainly to a drop in orders for large-scale bridge seismic reinforcement projects. In the anti-pollution sector, while demand was up for eco-friendly slope greening projects, orders for large soil remediation projects were lower in year-on-year terms; total orders in this sector declined 20.5% to ¥1,517 million. Elsewhere, a drop in orders from local government authorities resulted in a 31.1% fall to ¥2,258 million in orders for construction works on sewage mains and other public utility conduits. Reflecting the receipt of large project contracts, orders for civil engineering works climbed 86.3% to ¥3,634 million. Orders for architectural contract work rose 116.2% to ¥3,036 million, due mainly to Raito Kogyo securing orders for Private Finance Initiative (PFI) projects. Orders for other projects declined 19.3% to ¥1,967 million.

MEDIUM-TERM BUSINESS STRATEGY AND RELATED ISSUES

Under these conditions, we are pursuing the following business strategy to realize a sustained recovery in performance over the medium-to-long term.

Concentrate operations in three sectors

We plan to ensure that the business is profitable over the long term by exiting unprofitable sectors and concentrating our operations in the three businesses of specialized civil engineering, construction and overseas operations.

Reform business structure

We plan to move to a new organizational structure where our head office is integrated with five regional subsidiaries so that we can optimize usage of key business resources such as project engineers and large equipment. Our aim is to boost our competitiveness and reinforce earnings through better planning and information sharing.

Upgrade safety and quality assurance functions

We are upgrading our safety and quality assurance functions to enhance the degree of trust that customers place in our work. We have made the relevant in-house operations into a full division.

Apply more selective project focus

We will place a greater emphasis on margins when trying to secure contract orders so that we can increase profitability. We are working to reduce our exposure to less profitable projects.

OUTLOOK

We expect operating conditions to remain harsh in the construction industry in the fiscal year ending March 2010. Public-sector investment levels remain on a downward trend, and levels of capital investment in the private sector will be constrained. Under such conditions, we plan to implement structural reforms to create a sustainable earnings base and reinforce our competitiveness as an enterprise. We will exit unprofitable sectors and concentrate our operations in three businesses (specialized civil engineering, construction and overseas operations) to ensure that the business is profitable over the long term. By reforming the structure of our business, we also plan to optimize usage of key business resources such as project engineers and large equipment. Our aim is to boost our competitiveness and reinforce profitability based on better planning and information sharing. At the same time, we are striving to boost competitiveness by upgrading our safety and quality assurance functions to enhance customer trust, while also applying a more selective project focus to raise margins and strengthen earnings capabilities. We forecast consolidated net sales of ¥76 billion for the year to March 2010, operating income of ¥1.2 billion, recurring income of ¥1.2 billion and net income of ¥1.0 billion.

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 their continued support and understanding as we move forward.

August 2009

Toru Tamura

Toru Tamura
President

Corporate Governance

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.

A corporate auditor system based on the Japanese model constitutes the core element of management oversight functions. As of June 2009, 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

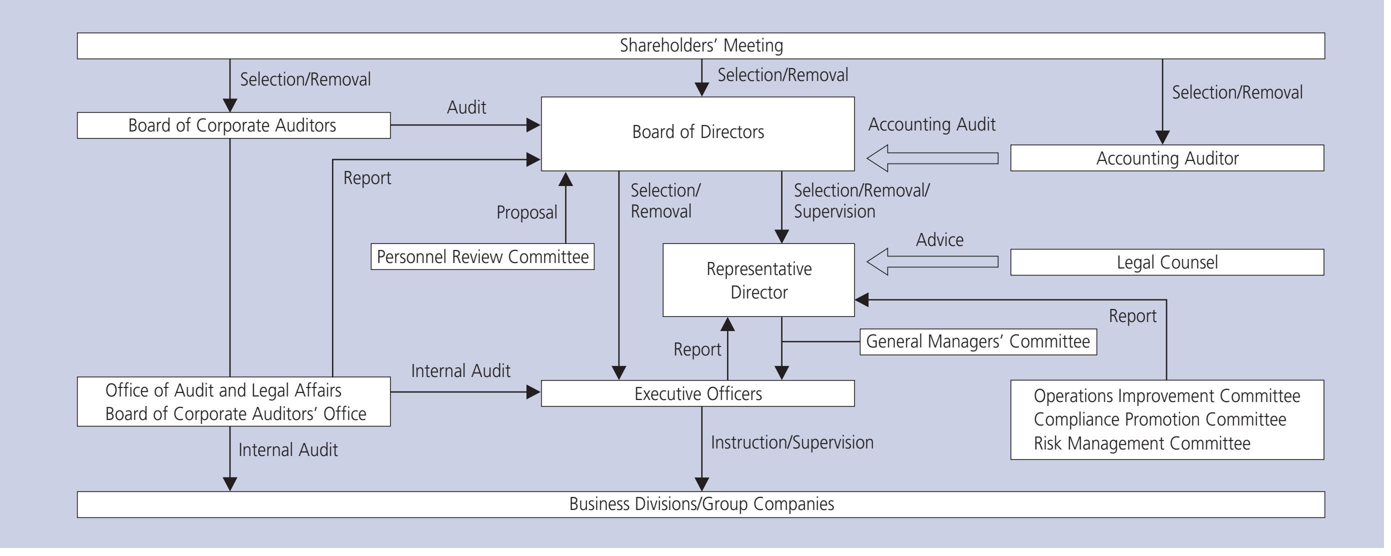
Raito Kogyo recognizes the importance of early disclosure of all relevant information to investors relating to financial results and performance. The Corporate Planning Department oversees the implementation of various IR activities, including financial results announcements, investor presentations and 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

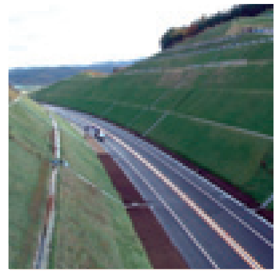
The Internal Audit Office, which comprised three members of staff, fulfills various internal audit functions. Based on annual auditing plans, it reviews the soundness of executive actions and business activities. Internal audit results are reported to the corporate auditors and to the president.



Raito Kogyo At a Glance

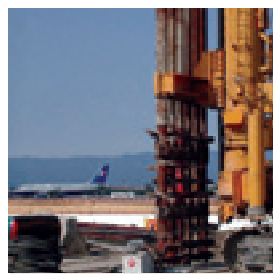
Slope Protection Projects

This sector includes engineering works to protect slopes from degradation or weathering and to prevent disasters due to landslip, landslide, slope failure, mudslide or flooding. Orders received in the fiscal year under review totaled ¥21,937 million and segment revenues from completed projects amounted to ¥23,902 million.



Ground Improvement Projects

Structural foundation and soft-ground stabilization works help to prevent ground subsidence or liquefaction during an earthquake. Orders received in the fiscal year under review totaled ¥20,581 million, while segment revenues from completed projects were ¥18,845 million..

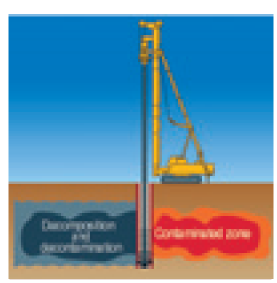


Structural Repair Projects

Activities in this sector 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 ¥4,250 million. Segment revenues from completed projects were ¥3,819 million.

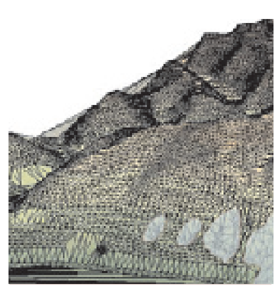
Anti-Pollution Projects

This sector includes surveys of contaminated sites, soil remediation works, and eco-conscious slope greening projects aimed at utilizing recycled wastes or preserving local ecosystems. Orders received during the fiscal year under review totaled ¥1,517 million, while segment revenues from completed projects amounted to ¥1,359 million.

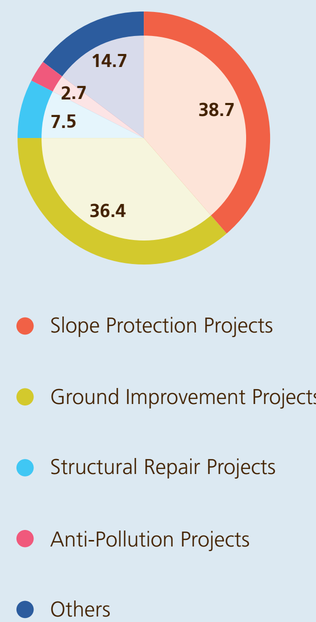


Others

This sector spans a variety of engineering works, including the installation of sewage mains or other public utility conduits and the analysis of digitized data obtained from geological surveys or 3-D imaging. Orders received in the fiscal year under review were ¥8,311 million and segment revenues from completed projects amounted to ¥5,353 million.

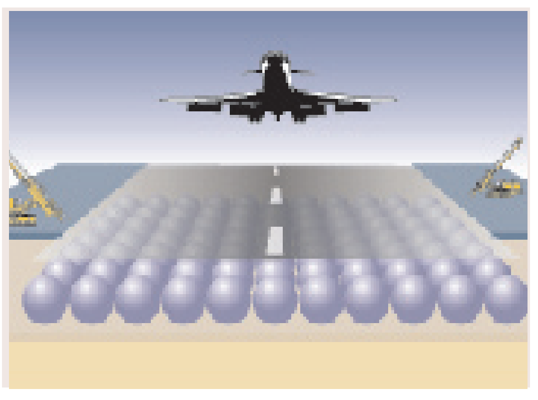


ORDERS RECEIVED BY TYPE OF WORK (%)



Technical Topics

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 ¥249 million.



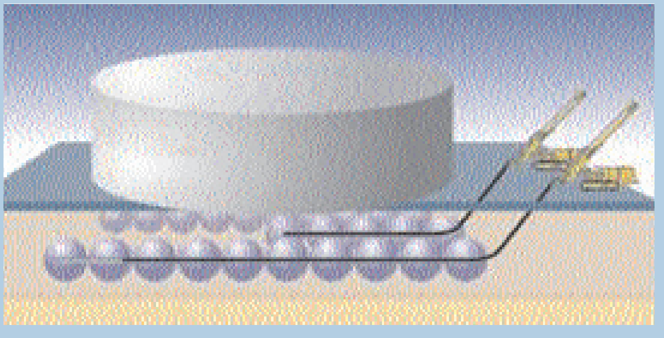
Anti-Liquefaction and Earthquake-Resistant Soil Treatment

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.

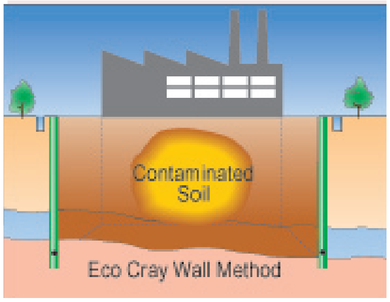
Close-Up!

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.



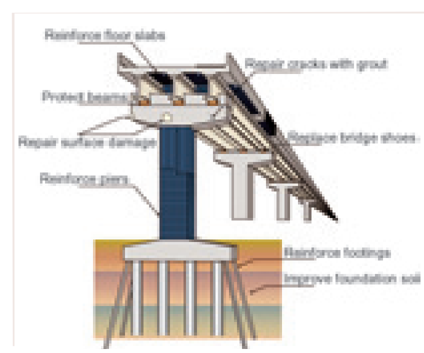
Soil Remediation Technology



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

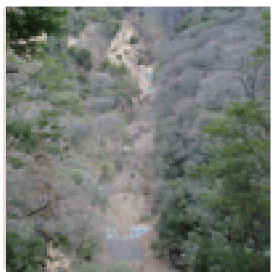
Mt. Takao tunnel grouting construction

Client
TAISEI Corporation

Schedule
March 2007 to March 2009

Project

Ogawadani a side of a mountain construction

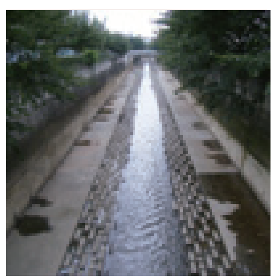


Client
Ministry of Land, Infrastructure and Transport, Kinki Regional Development Bureau

Schedule
March 2005 to December 2008

Project

Shakujii-river bed construction



Client
Tokyo Metropolitan Government Financial Bureau

Schedule
November 2007 to August 2008

Project

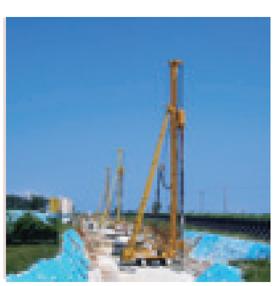
Tono dam Nakagawara-area shifting construction

Client
Ministry of Land, Infrastructure, Transport and Tourism, Chugoku Regional Development Bureau

Schedule
April 2007 to January 2009

Project

Ie underground dam construction of Ie agricultural water utilization project



Client
Hazama Corporation

Schedule
March 2008 to October 2008

Consolidated Balance Sheets

March 31, 2009 and 2008	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars (Note 1) 2009
ASSETS			
Current assets:			
Cash and time deposits (Note 3)	¥ 8,622	¥ 11,087	$ 87,774
Notes and accounts receivable, trade:			
Notes	2,774	3,794	28,241
Accounts	16,497	18,668	167,948
Allowance for doubtful accounts	(261)	(242)	(2,657)
Inventories (Note 4)	15,433	9,694	157,108
Deferred tax assets (Note 12)	—	414	—
Other current assets	2,069	1,487	21,064
Total current assets	45,134	44,901	459,477
Property and equipment:			
Land (Note 6)	9,337	9,661	95,053
Buildings	8,643	8,957	87,991
Machinery and equipment	23,151	24,900	235,679
Construction in progress	12	39	118
	41,143	43,556	418,842
Accumulated depreciation	(26,567)	(27,824)	(270,459)
Net property and equipment	14,576	15,733	148,383
Investment and other assets:			
Investment in securities (Note 5)	2,369	3,225	24,116
Investment in non-consolidated subsidiaries and affiliate	349	252	3,548
Long-term loans to non-consolidated subsidiaries and affiliate	180	0	1,832
Long-term receivable	766	526	7,795
Allowance for doubtful accounts	(861)	(648)	(8,768)
Deferred tax assets (Note 12)	—	919	—
Others	2,441	1,372	24,852
Total investment and other assets	5,243	5,646	53,376
Total assets	¥ 64,953	¥ 66,281	$ 661,236

The accompanying notes are an integral part of this statement.

March 31, 2009 and 2008	Millions of yen 2009	2008	Thousands of U.S. dollars (Note 1) 2009
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans payable (Note 7)	¥ 4,819	¥ 3,203	$ 49,057
Notes and accounts payable, trade:			
Notes	5,884	5,665	59,904
Accounts	11,408	11,254	116,133
Notes and accounts payable, other:			
Notes	129	79	1,311
Accounts	671	846	6,828
Advance received on uncompleted contracts	10,244	7,591	104,290
Allowance for anticipated loss on contract work	590	47	6,010
Accrued expenses	1,557	1,095	15,849
Accrued income taxes	184	143	1,876
Other current liabilities	135	328	1,374
Total current liabilities	35,621	30,250	362,632
Non-current liabilities:			
Deferred tax liabilities for land revaluation	1,394	1,435	14,191
Reserve for retirement benefits	181	190	1,842
Reserve for loss on liabilities for guarantee	137	138	1,397
Long-term accrued amount payable	488	535	4,970
Consolidation adjustment account	11	18	110
Other long-term liabilities	105	37	1,064
Total non-current liabilities	2,316	2,353	23,574
Total liabilities	37,935	32,604	386,206
Capital stock	6,119	6,119	62,297
Capital surplus	6,358	6,358	64,727
Retained earnings	17,719	23,786	180,387
Treasury stock	(1,698)	(1,697)	(17,287)
Total shareholders' equity	28,499	34,566	290,124
Valuation difference on available-for-sale securities	(567)	105	(5,776)
Revaluation reserve for land	(965)	(1,053)	(9,822)
Foreign currency translation adjustment	50	59	504
Total valuation and translation adjustments	(1,483)	(889)	(15,094)
Net assets	27,016	33,677	275,030
Liabilities and net assets	¥64,953	¥66,281	$661,236

The accompanying notes are an integral part of this statement.

Consolidated Statements of Operations

For the years ended March 31, 2009 and 2008	Millions of yen 2009	2008	Thousands of U.S. dollars (Note 1) 2009
Net sales:			
Net sales of completed construction contracts	¥ 62,571	¥ 66,007	$636,989
Net sales of goods	492	401	5,014
Cost of sales:			
Cost of sales of completed construction contracts	(55,347)	(58,446)	(563,448)
Cost of goods sold	(389)	(332)	(3,958)
Gross profit of completed construction contracts	7,224	7,561	73,542
Gross profit-merchandise	104	69	1,056
Selling, general and administrative expenses	(9,056)	(7,518)	(92,194)
Operating income	(1,729)	111	(17,597)
Other income:			
Interest income	15	14	150
Dividends income	46	116	464
Royalty income	18	16	181
Rent income on non-current assets	29	30	293
Amortization of negative goodwill	7	7	74
Other	83	99	849
Total on-operating income	198	282	2,011
Interest expenses	(36)	(34)	(363)
Loss on sales of notes payable	(1)	(1)	(13)
Commission fee	(23)	(25)	(238)
Guarantee commission	(11)	(15)	(117)
Foreign exchange losses	(55)	(61)	(564)
Other	(109)	(33)	(1,110)
Total on-operating expenses	(236)	(170)	(2,405)
Ordinary income	(1,767)	224	(17,991)
Gain on prior period adjustment	10	6	105
Gain on sales of non-current assets	5	8	55
Gain on sales of investment securities	—	34	—
Reversal of allowance for doubtful accounts	10	5	98
Other	2	5	20
Total extraordinary income	27	57	278
Loss on sales of non-current assets	(257)	(30)	(2,614)
Loss on valuation of membership	(9)	(1)	(95)
Loss on valuation of investment securities	(589)	(19)	(5,994)
Special extra retirement payments	(504)	(39)	(5,130)
Impairment loss	(584)	—	(5,943)
Loss on litigation	—	(223)	—
Loss on valuation of subsidiaries stocks	(89)	—	(906)
Other	(125)	(29)	(1,268)
Total extraordinary loss	(2,156)	(342)	(21,949)
Income before income taxes	(3,896)	(61)	(39,661)
Total income taxes	(202)	(165)	(2,061)
Income taxes-deferred	(1,372)	(107)	(13,964)
Net income	¥ (5,470)	¥ (333)	$ (55,686)

Consolidated Statements of Changes in Net Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
For the years ended March 31, 2009 and 2008	**2009**	2008	**2009**
Common stock:			
Balance at beginning of the year	¥ 6,119	¥ 6,119	$ 62,297
Balance at end of year	6,119	6,119	62,297
Additional paid-in capital:			
Balance at beginning of the year	6,358	6,358	64,727
Balance at end of year	6,358	6,358	64,727
Retained earnings:			
Balance at beginning of the year	23,786	24,531	242,146
Net income for the year	(5,470)	(333)	(55,686)
Cash dividends	(421)	(421)	(4,289)
Increase in retained earnings from newly consolidated subsidiary	(87)	10	(884)
Reversal of revaluation reserve for land	(88)	10	(899)
Balance at end of year	17,719	23,786	180,387
Revaluation surplus of land (Note 6):			
Balance at beginning of the year	(1,053)	(1,053)	(10,721)
Sales of revaluated land	88	—	899
Balance at end of year	(965)	(1,053)	(9,822)
Unrealized gain on available-for-sale securities:			
Balance at beginning of the year	105	996	1,068
Net change during the year	(672)	(891)	(6,844)
Balance at end of year	(567)	105	(5,776)
Foreign currency translation adjustments:			
Balance at beginning of the year	59	85	602
Net change during the year	(10)	(26)	(98)
Balance at end of year	50	59	504
Treasury stock (Note 10):			
Balance at beginning of the year	(1,697)	1,697	(17,280)
Increase in treasury stock	(1)	(1)	(7)
Balance at end of year	¥ (1,698)	¥ (1,697)	$ (17,287)

The accompanying notes are an integral part of this statement.

Consolidated Statements of Cash Flows

For the years ended March 31, 2009 and 2008	Millions of yen 2009	2008	Thousands of U.S. dollars (Note 1) 2009
Cash flows from operating activities:			
Income before income taxes	¥ (3,896)	¥ (60)	$ (39,661)
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	1,356	1,257	13,802
Impairment of fixed assets	584	—	5,943
Gain on sales of investment securities	—	(34)	—
Losses on devaluation of investment securities	589	19	5,994
Increase (decrease) in allowance for doubtful accounts	232	2	2,362
Increase (decrease) in reserve for employees' retirement benefits	(9)	(357)	(94)
Increase (decrease) in reserve for loss on construction contracts	544	(278)	5,534
Interest income and dividends received recognized on statement of income	(60)	(130)	(614)
Interest payment recognized on statement of income	36	34	363
Decrease (increase) in notes and accounts receivable	2,989	3,703	30,430
Decrease (increase) in accumulated construction cost in progress	(5,789)	(69)	(58,937)
Decrease (increase) in other inventories	(76)	(30)	(776)
Increase (decrease) in notes and accounts payable	343	(640)	3,496
Increase (decrease) in advance received on uncompleted contracts	2,655	1,721	27,026
Others	(524)	(148)	(5,334)
Subtotal	(1,028)	4,992	(10,467)
Interest income and dividend received (cash basis)	60	130	614
Interest payment (cash basis)	(36)	(34)	(363)
Income taxes paid	(147)	(149)	(1,501)
Others	(1)	(1)	(13)
Net cash provided by operating activities	(1,152)	4,938	(11,730)
Cash flows from investing activities:			
Purchases of fixed assets	(862)	(969)	(8,774)
Proceeds from sales of fixed assets	25	80	252
Purchases of investment securities	(759)	(1,670)	(7,723)
Proceeds from sales of investment securities	5	1,316	52
Purchases of intangible assets	(398)	0	4,049
Payments into time deposits	(400)	(100)	(4,072)
Proceeds from withdrawal of time deposits	600	100	6,108
Proceeds from insurance policy cancellation	—	149	—
Others	(353)	(7)	(3,591)
Net cash used in investing activities	(2,141)	(1,101)	(21,798)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowing	1,624	998	16,532
Payment of finance lease-related obligations	(9)	—	(94)
Purchases of treasury stock	(1)	(1)	(7)
Cash dividends paid	(424)	(422)	(4,319)
Net cash used in financing activities	1,190	575	12,113
Effect of exchange rate change on cash and cash equivalents	(6)	(13)	(57)
Net increase (decrease) in cash and cash equivalents	(2,109)	4,399	(21,472)
Cash and cash equivalents at beginning of the year	10,486	5,979	106,749
Increase in cash and cash equivalents from newly consolidated subsidiary	145	108	1,472
Cash and cash equivalents at end of the year (Note 3)	¥ 8,521	¥ 10,486	$ 86,750

The accompanying notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 ¥98.23 = US$1.00, which was the exchange rate prevailing at March 31, 2009.

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 9 significant subsidiaries. (AURA LUGAR., LTD., ONORYOGUMI CO., LTD., RAITO, INC., C.E. CREATE CO., LTD., MICHINOKU REALIZE., LTD., TOHOKU REALIZE., LTD., KYUSHU REALIZE., LTD., RAITO SHINGAPORE PTE., LTD., and YASASHITE RAITO CO., LTD.), after the elimination of all significant intercompany transactions, balances and unrealized profits.

The consolidated financial statements do not include the accounts of HOKKAIDO REALISE CO., LTD., FUKUSHIMA CIVIL CO., LTD., IMAI KENSETSU CO., LTD., MARUKI KENSETSU CO., LTD., and SHINSAMPEI CONSTRUCTION CO., 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. The equity method is not applied to such investments since the effect of applying the equity method in these subsidiaries is not material.

(iii) 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.

(iv) Debts and Assets of consolidated subsidiaries

Liabilities and assets of consolidated subsidiaries are carried at market value.

(v) Fiscal year of consolidated subsidiaries

The fiscal year of the consolidated subsidiaries are the same as that of the Company.

b) 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, are 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 net realized value by a charge to income.

c) 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.

d) 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 are 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.

e) 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).

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 on collectability.

g) 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.

h) 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.

One of the consolidated subsidiaries, ONORYOGUMI CO., LTD., however, accounted 100% of the required amount of reserve at year end calculated using the simplified method.

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.

i) 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.

j) 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.

k) Amortization of goodwill and negative goodwill

The difference between the cost of an investment and equity in the net assets of a subsidiary at the date of acquisition is expressed in goodwill and negative goodwill.

Goodwill and negative goodwill are amortized using straight line method over reasonable years not more than 20. Amortization length is determined on a case by case basis.

l) Change in cost allocation

The cost incurred at the construction management section at branch offices had been allocated to the cost of sales of construction because its major role was to directly support site operation.

However due to the change in its role, from direct site support to more of administration of the site operation,the Company determined that the cost of construction management at branch offices be carried in general and administrative expenses rather than the cost of sales of construction contract.

As a result of this change, gross profit of completed construction contracts at year end increased by 1,064M JPY whereas operating loss, total extraordinary loss and loss before income tax increased by 190M JPY.

3. Cash and cash equivalents

Reconciliation between cash and time deposits and marketable securities on the consolidated balance sheets as of March 31, 2009 and 2008 and cash and cash equivalents at end of years on the statements of cash flows for the year ended March 31, 2009 and 2008 are as follows

	Millions of yen		U.S. dollars
	2009	2008	**2009**
Cash and time deposits on the consolidated balance sheets	¥8,622	¥11,087	$87,774
Time deposits with terms exceeding 3 months	(101)	(601)	(1,024)
Cash and cash equivalents on the statement of cash flows	¥8,521	¥10,486	$86,750

4. Inventories

Inventories as of March 31, 2009 and 2008 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Accumulated construction cost in progress	¥15,256	¥9,450	$155,309
Materials and supplies	177	(244)	1,799
	¥15,433	¥9,694	$157,108

5. Marketable securities and investment in securities

The market value of listed securities, which are classified as Marketable securities, as of March 31, 2009 and 2008, are as follows:

	Millions of yen		
	Fair Value		
As of March 31, 2009	Cost	(Carrying Amount)	Unrealized Gain (Loss)
Marketable equity securities	¥1,753	¥1,361	¥(392,743)
Fund trust and other	1,090	915	(174,649)
	¥2,843	¥2,276	¥(567,391)

	Thousands of U.S. dollars		
	Fair Value		
As of March 31, 2009	Cost	(Carrying Amount)	Unrealized Gain (Loss)
Marketable equity securities	$18	$18	$(3,998)
Fund trust and other	11	11	(1,778)
	$29	$29	$(5,776)

	Millions of yen		
	Fair Value		
As of March 31, 2008	Cost	(Carrying Amount)	Unrealized Gain (Loss)
Marketable equity securities	¥1,500	¥2,112	¥612
Fund trust and other	1,464	1,028	(436)
	¥2,986	¥3,140	¥176

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, 2009, the carrying amount of the land after one-time revaluation exceed the market value by ¥1,764 million ($17,959 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 severance payment plans for employees.

The liability for employees' retirement benefits obligation at March 31, 2009 and 2008 consists of the followings;

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Projected benefit obligation	¥(10,468)	¥(11,523)	$(106,565)
Plan assets at fair value	6,331	8,441	64,451
Retirement benefit trust	1,380	2,797	14,050
Unrecognized actuarial loss	3,648	1,236	37,134
Unrecognized prior service cost	(841)	(937)	(8,564)
Long-term prepaid expenses	(231)	(203)	(2,349)
Net liability	¥ (181)	¥ (190)	$ (1,842)

The components of net periodic benefit costs for the year ended March 31, 2009 and 2008,are as follows;

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Service cost	¥ 427	¥ 464	$ 4,347
Interest cost	226	238	2,301
Expected return on plan assets	(337)	(394)	(3,431)
Amortization of actuarial loss	(95)	(80)	(967)
Amortization of prior service cost	208	(13)	2,117
Net periodic benefit costs	¥ 428	¥ 215	$ 4,357

Assumptions used for the year ended March 31, 2009 and 2008, are set forth as follows;

	2009	2008
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	4.0%	4.0%
Amortization period of actuarial gain/loss	13 years	15 years
Amortization period of prior service cost	13 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 5,140,631 shares of treasury stock as of March 31, 2009 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, 2009 and 2008 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
	2009	2008	**2009**
Acquisition cost equivalent	¥440	¥579	$4,476
Accumulated depreciation equivalent	275	307	2,804
Net book value equivalent	¥164	¥272	$1,672

Undiscounted future lease payments as of March 31, 2009and 2008, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Due within one year	¥ 77	¥105	$ 781
Thereafter	88	167	891
	¥164	¥272	$1,672

Lease payments for the years ended March 31, 2009 and 2008, are ¥118 million ($1,204 thousand) and ¥128 million, respectively. Depreciation expense equivalent is computed on a straight-line basis over the lease term with no residual value, and amounted to ¥118 million ($1,204 thousand) and ¥128 million for the years ended March 31, 2009 and 2008, respectively.

b) Future payments of operating lease as of March 31, 2009 and 2008,are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Due within one year	¥4	¥2	$36
Thereafter	2	0	18
	¥5	¥2	$54

12. Income taxes

The significant components of the Company's deferred tax assets and liabilities as of March 31, 2009and 2008, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Deferred tax assets:			
Reserve for employees' retirement benefit	¥ 1,145	¥ 1,089	$ 11,654
Reserve for directors retirement benefit			
Long-term accounts payable	102	103	1,039
Amortization of transitional obligation	485	485	4,934
Accrued expenses	135	134	1,371
Net operating loss carryforwards	2,129	1,052	21,670
Allowance for doubtful accounts	455	237	4,629
Loss on support of subsidiaries and affiliates	1,424	0	14,498
Loss on valuation of stocks of subsidiaries and affiliates	654	0	6,653
Net unrealized holding gains on securities	230	0	2,342
Other	1,809	1,086	18,418
Subtotal	8,566	4,185	87,208
Valuation allowance	(8,062)	(2,267)	(82,074)
Total defferred tax assets	¥ 504	¥ 1,917	$ 5,134
Deferred tax liabilities:			
Gain on securities contributed to employees' retirement benefit	(504)	(504)	(5,134)
Special depreciation allowance for tax purposes	(9)	(9)	(87)
Unrealized gain on availableforsale securities	0	(72)	0
Other			
Total deferred tax liabilities	¥ 512	¥ 585	$ 5,221
Total net deferred tax assets	¥ (8)	¥ 1,333	$ (87)

13. Segment information

(1) Industry segments

Summarized financial information by industry segment for the years ended as of March 31, 2009 and 2008 is as follows:

	Millions of yen				
	Year ended March 31, 2009				
	Construction	Goodssales	Total	Elimination	Consolidated
Revenues:					
Customers	¥62,571	¥492	¥63,064	¥ —	$63,064
Inter-segments	94	1,015	1,109	(1,109)	—
Total	62,665	1,507	64,172	(1,109)	63,064
Operating expenses	64,421	1,479	65,901	(1,108)	64,793
Operating income/loss	(1,756)	28	(1,728)	(1)	(1,729)
Assets	52,748	1,044	53,792	11,162	64,953
Depreciation	1,344	13	1,357	(1)	1,356
Capital expenditures	1,363	14	1,377	(5)	1,373

	Thousands of U.S. dollars				
	Year ended March 31, 2009				
	Construction	Goodssales	Total	Elimination	Consolidated
Revenues:					
Customers	$636,989	$ 5,014	$642,003	$ —	$642,004
Inter-segments	957	10,332	11,289	(11,289)	—
Total	637,946	15,346	653,292	(11,289)	642,004
Operating expenses	655,820	15,059	670,880	(11,280)	659,600
Operating income/loss	(17,874)	287	(17,587)	(9)	(17,597)
Assets	536,983	10,625	547,609	113,628	661,237
Depreciation	13,677	133	13,810	(8)	13,802
Capital expenditures	13,876	146	14,021	(46)	13,975

(2) Geographical segment and Overseas sales

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

14. Subsequent event

On June 26, 2008, 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 ($0.08) per share (final for the year ended March 31, 2009)	¥421	$4,289

Board of Directors and Auditors

President

Toru Tamura

Managing Director

Ayumu Yasukawa
Shigeyoshi Kimura
Yoshitaka Mitsuse
Yasumi Irie

Director

Izumi Hasegawa
Nobutaka Suzuki
Koji Sugiyama
Susumu Araki
Kazuo Suzuki
Sigeaki Funayama
Tadashi Shibata
(as of June 26, 2009)

Share Information

Common Stock:

Authorized shares
198,000,000 shares
(as of March 31, 2008)

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

Number of shareholders
10,828
(as of March 31, 2009)

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.

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Corporate Data

Head Office:

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

Capital:

¥6,119,475,000
US$62,297,414
(¥98.23=US$1.00)
(as of March 31, 2009)

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:

1,103 (as of March 31, 2009)